Customers Bancorp, Inc.
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
001-35542
(Commission File number)

(Exact name of registrant as specified in its charter)

Pennsylvania	27-2290659
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1015 Penn Avenue
Suite 103
Wyomissing PA 19610
(Address of principal executive offices)
(610) 933-2000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company ¨
	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

On July 31, 2018, 31,669,839 shares of Voting Common Stock were outstanding.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET — UNAUDITED
(amounts in thousands, except share and per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$22,969	$20,388
Interest-earning deposits	228,757	125,935
Cash and cash equivalents	251,726	146,323
Investment securities, at fair value	1,161,000	471,371
Loans held for sale (includes $1,931,781 and $1,795,294, respectively, at fair value)	1,931,781	1,939,485
Loans receivable	7,181,726	6,768,258
Allowance for loan losses	(38,288)	(38,015)
Total loans receivable, net of allowance for loan losses	7,143,438	6,730,243
FHLB, Federal Reserve Bank, and other restricted stock	136,066	105,918
Accrued interest receivable	33,956	27,021
Bank premises and equipment, net	11,224	11,955
Bank-owned life insurance	261,121	257,720
Other real estate owned	1,705	1,726
Goodwill and other intangibles	17,150	16,295
Other assets	143,679	131,498
Total assets	$11,092,846	$9,839,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$1,090,744	$1,052,115
Interest-bearing	6,205,210	5,748,027
Total deposits	7,295,954	6,800,142
Federal funds purchased	105,000	155,000
FHLB advances	2,389,797	1,611,860
Other borrowings	186,888	186,497
Subordinated debt	108,929	108,880
Accrued interest payable and other liabilities	70,051	56,212
Total liabilities	10,156,619	8,918,591
Shareholders' equity:		
Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of June 30, 2018 and December 31, 2017	217,471	217,471
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 32,199,903 and 31,912,763 shares issued as of June 30, 2018 and December 31, 2017; 31,669,643 and 31,382,503 shares outstanding as of June 30, 2018 and December 31, 2017	32,200	31,913
Additional paid in capital	428,796	422,096
Retained earnings	299,990	258,076
Accumulated other comprehensive loss, net	(33,997)	(359)
Treasury stock, at cost (530,260 shares as of June 30, 2018 and December 31, 2017)	(8,233)	(8,233)
Total shareholders' equity	936,227	920,964
Total liabilities and shareholders' equity	$11,092,846	$9,839,555

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME — UNAUDITED
(amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Loans receivable, including fees	$74,238	$67,036	$141,117	$128,497
Loans held for sale	21,002	17,524	40,054	31,470
Investment securities	9,765	7,823	18,437	13,710
Other	2,634	1,469	4,996	3,269
Total interest income	107,639	93,852	204,604	176,946
Interest expense:				
Deposits	24,182	16,228	43,975	30,551
Other borrowings	3,275	1,993	6,651	3,600
FHLB advances	11,176	5,340	18,256	8,401
Subordinated debt	1,684	1,685	3,369	3,370
Total interest expense	40,317	25,246	72,251	45,922
Net interest income	67,322	68,606	132,353	131,024
Provision for loan losses	(784)	535	1,333	3,585
Net interest income after provision for loan losses	68,106	68,071	131,020	127,439
Non-interest income:				
Interchange and card revenue	6,382	8,648	16,043	22,158
Mortgage warehouse transactional fees	1,967	2,523	3,854	4,743
Bank-owned life insurance	1,869	2,258	3,900	3,624
Deposit fees	1,632	2,133	3,724	5,260
Gain on sale of SBA and other loans	947	573	2,308	1,901
Mortgage banking income	205	291	325	446
Gain on sale of investment securities	—	3,183	—	3,183
Impairment loss on investment securities	—	(2,882)	—	(4,585)
Other	3,125	1,664	6,883	4,414
Total non-interest income	16,127	18,391	37,037	41,144
Non-interest expense:				
Salaries and employee benefits	27,748	23,651	52,673	44,763
Technology, communication and bank operations	11,322	8,910	21,266	18,827
Professional services	3,811	6,227	9,820	13,739
Occupancy	3,141	2,657	5,975	5,371
FDIC assessments, non-income taxes, and regulatory fees	2,135	2,416	4,335	4,141
Provision for operating losses	1,233	1,746	2,759	3,392
Merger and acquisition related expenses	869	—	975	—
Loan workout	648	408	1,307	929
Advertising and promotion	319	378	709	704
Other real estate owned expenses	58	160	98	105
Other	2,466	3,860	6,114	7,807
Total non-interest expense	53,750	50,413	106,031	99,778
Income before income tax expense	30,483	36,049	62,026	68,805
Income tax expense	6,820	12,327	14,222	19,336

Net income	23,663	23,722	47,804	49,469
Preferred stock dividends	3,615	3,615	7,229	7,229
Net income available to common shareholders	$20,048	$20,107	$40,575	$42,240
Basic earnings per common share	$0.64	$0.66	$1.29	$1.38
Diluted earnings per common share	$0.62	$0.62	$1.26	$1.29

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — UNAUDITED
(amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$23,663	$23,722	$47,804	$49,469
Unrealized (losses) gains on available-for-sale debt securities:				
Unrealized (losses) gains arising during the period	(12,190)	19,885	(46,288)	18,762
Income tax effect	3,170	(7,755)	12,035	(7,317)
Reclassification adjustments for gains on securities included in net income	—	(3,183)	—	(3,183)
Income tax effect	—	1,241	—	1,241
Net unrealized (losses) gains on available-for-sale debt securities	(9,020)	10,188	(34,253)	9,503
Unrealized gains on cash flow hedges:				
Unrealized gains (losses) arising during the period	1,895	(689)	2,768	(360)
Income tax effect	(492)	269	(719)	141
Reclassification adjustment for (gains) losses included in net income	(259)	767	(128)	1,594
Income tax effect	67	(299)	33	(622)
Net unrealized gains on cash flow hedges	1,211	48	1,954	753
Other comprehensive (loss) income, net of income tax effect	(7,809)	10,236	(32,299)	10,256
Comprehensive income	$15,854	$33,958	$15,505	$59,725

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY — UNAUDITED
(amounts in thousands, except shares outstanding data)

	Six Months Ended June 30, 2018								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2017	9,000,000	$217,471	31,382,503	$31,913	$422,096	$258,076	$(359)	$(8,233)	$920,964
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive loss	—	—	—	—	—	298	(298)	—	—
Reclassification of net unrealized gains on equity securities from accumulated other comprehensive loss	—	—	—	—	—	1,041	(1,041)	—	—
Net income	—	—	—	—	—	47,804	—	—	47,804
Other comprehensive loss	—	—	—	—	—	—	(32,299)	—	(32,299)
Preferred stock dividends	—	—	—	—	—	(7,229)	—	—	(7,229)
Share-based compensation expense	—	—	—	—	3,661	—	—	—	3,661
Exercise of warrants	—	—	5,242	5	107	—	—	—	112
Issuance of common stock under share-based compensation arrangements	—	—	281,898	282	2,932	—	—	—	3,214
Balance, June 30, 2018	9,000,000	$217,471	31,669,643	$32,200	$428,796	$299,990	$(33,997)	$(8,233)	$936,227

	Six Months Ended June 30, 2017								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, December 31, 2016	9,000,000	$217,471	30,289,917	$30,820	$427,008	$193,698	$(4,892)	$(8,233)	$855,872
Net income	—	—	—	—	—	49,469	—	—	49,469
Other comprehensive income	—	—	—	—	—	—	10,256	—	10,256
Preferred stock dividends	—	—	—	—	—	(7,229)	—		(7,229)
Share-based compensation expense	—	—	—	—	2,934	—	—	—	2,934
Exercise of warrants	—	—	43,974	44	376	—	—	—	420
Issuance of common stock under share-based compensation arrangements	—	—	396,893	397	(1,830)	—	—	—	(1,433)
Balance, June 30, 2017	9,000,000	$217,471	30,730,784	$31,261	$428,488	$235,938	$5,364	$(8,233)	$910,289

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED
(amounts in thousands)

	Six Months Ended June 30, 2018			2017		
Cash Flows from Operating Activities						
Net income	$	47,804		$	49,469	
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Provision for loan losses	1,333			3,585		
Depreciation and amortization	6,716			2,393		
Share-based compensation expense	4,384			3,562		
Deferred taxes	4,172			(2,588		)
Net amortization of investment securities premiums and discounts	813			232		
Unrealized loss recognized on equity securities	296			—		
Gain on sale of investment securities	—			(3,183		)
Impairment loss on investment securities	—			4,585		
Gain on sale of SBA and other loans	(2,572		)	(2,183		)
Origination of loans held for sale	(14,272,175		)	(14,714,280		)
Proceeds from the sale of loans held for sale	14,135,931			14,727,734		
Amortization of fair value discounts and premiums	85			98		
Net gain on sales of other real estate owned	(28		)	(163		)
Valuation and other adjustments to other real estate owned	78			231		
Earnings on investment in bank-owned life insurance	(3,900		)	(3,624		)
Increase in accrued interest receivable and other assets	(7,857		)	(9,003		)
Increase (decrease) in accrued interest payable and	13,061			(29,357		)

other liabilities				
Net Cash (Used In) Provided By Operating Activities	(71,859	)	27,508	
Cash Flows from Investing Activities				
Proceeds from maturities, calls and principal repayments of securities available for sale	26,216		22,843	
Proceeds from sales of investment securities available for sale	—		115,982	
Purchases of investment securities available for sale	(763,242	)	(644,011	)
Net increase in loans	(18,680	)	(572,253	)
Proceeds from sales of loans	29,038		112,927	
Purchase of loans	(278,508	)	(262,641	)
Purchases of bank-owned life insurance	—		(50,000	)
Proceeds from bank-owned life insurance	529		1,418	
Net purchases of FHLB, Federal Reserve Bank, and other restricted stock	(30,148	)	(61,281	)
Purchases of bank premises and equipment	(608	)	(1,732	)
Proceeds from sales of other real estate owned	28		682	
Purchase of leased assets under operating leases	(6,486	)	—	
Net Cash Used In Investing Activities	(1,041,861	)	(1,338,066	)
Cash Flows from Financing Activities				
Net increase in deposits	495,812		171,587	
Net increase in short-term borrowed funds from the FHLB	777,937		1,130,800	
Net (decrease) increase in federal funds purchased	(50,000	)	67,000	
Net proceeds from issuance of long-term debt	—		98,574	
Preferred stock dividends paid	(7,229	)	(7,229	)
Exercise of warrants	112		420	
Payments of employee taxes withheld from share-based awards	(700	)	(3,961	)
Proceeds from issuance of common stock	3,191		1,900	
	1,219,123		1,459,091	

Net Cash Provided By Financing Activities				
Net Increase in Cash and Cash Equivalents	105,403		148,533	
Cash and Cash Equivalents – Beginning	146,323		264,709	
Cash and Cash Equivalents – Ending	$	251,726	$	413,242

(continued)

Supplementary Cash Flows Information:				
Interest paid	$	73,162	$	44,983
Income taxes paid	4,174		21,715	
Non-cash items:				
Transfer of loans to other real estate owned	$	57	$	—
Transfer of loans held for investment to held for sale	—		150,758	
Transfer of loans held for sale to held for investment	129,691		—	
University relationship intangible purchased not settled	1,502		—	

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
NOTE 1 — DESCRIPTION OF THE BUSINESS
Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank (the “Bank”), collectively referred to as “Customers” herein. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).
Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank, and non-bank subsidiaries, serve residents and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; Chicago, Illinois; and nationally for certain loan and deposit products. The Bank has 13 full-service branches and provides commercial banking products, primarily loans and deposits. In addition, Customers Bank also administratively supports loan and other financial products to customers through its limited-purpose offices in Boston, Massachusetts, Providence, Rhode Island, Portsmouth, New Hampshire, Manhattan and Melville, New York, Philadelphia, Pennsylvania, Washington, D.C., and Chicago, Illinois. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies.
Through BankMobile, a division of Customers Bank, Customers offers state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide. In October 2017, Customers announced its intent to spin-off its BankMobile business directly to Customers’ shareholders, to be followed by a merger of BankMobile into Flagship Community Bank ("Flagship"), as the most favorable option for disposition of BankMobile to Customers' shareholders rather than selling the business directly to a third party. Until execution of the spin-off and merger transaction, the assets and liabilities of BankMobile will be reported as held and used for all periods presented. Previously, Customers had stated its intention to sell BankMobile and, accordingly, all BankMobile operating results for the three and six months ended June 30, 2017 and cash flows for the six months ended June 30, 2017 were presented as discontinued operations. All prior period amounts have been reclassified to conform with the current period consolidated financial statement presentation. See NOTE 2 SPIN-OFF AND MERGER for more information regarding the spin-off and merger transaction.
Customers is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities. Customers Bancorp has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.
NOTE 2 – SPIN-OFF AND MERGER

In third quarter 2017, Customers decided that the best strategy for its shareholders to realize the value of the BankMobile business was to divest BankMobile through a spin-off of BankMobile to Customers’ shareholders to be followed by a merger with Flagship Community Bank ("Flagship"). An Amended and Restated Purchase and Assumption Agreement and Plan of Merger (the "Amended Agreement") with Flagship to effect the spin-off and merger and Flagship's related purchase of BankMobile deposits from Customers was executed on November 17, 2017. Per the provisions of the Amended Agreement, the spin-off will be followed by a merger of the BankMobile spin-off subsidiary into Flagship, with Customers' shareholders first receiving shares of the BankMobile spin-off subsidiary as a dividend in the spin-off and then receiving shares of Flagship common stock in the merger of the BankMobile spin-off subsidiary into Flagship in exchange for shares of the BankMobile spin-off subsidiary common stock they receive in the spin-off. Separately, Flagship will assume the deposits and purchase certain associated assets of BankMobile for $10 million. Following completion of the spin-off and merger and other transactions contemplated in the Amended Agreement between Customers and Flagship, the BankMobile spin-off subsidiary shareholders would receive collectively more than 50% of Flagship common stock. The common stock of the merged entities, expected to be called BankMobile, is expected to be listed on a national securities exchange after completion of the transactions. In connection with the signing of the Amended Agreement on November 17, 2017, Customers deposited $1.0 million

in an escrow account with a third party to be reserved for payment to Flagship in the event the Amended Agreement is terminated for reasons described in the Amended Agreement. This $1.0 million is considered restricted cash and is presented in cash and cash equivalents in the accompanying June 30, 2018 consolidated balance sheet. The Amended Agreement provides that completion of the transactions will be subject to the receipt of all necessary closing conditions. Although the possibility still exits that the spin-off and merger could close by September 30, 2018, at this time, no assurance can be given that the spin-off and merger will occur by or shortly after September 30, 2018.

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As of June 30, 2017, BankMobile met the criteria to be classified as held for sale and, accordingly, the operating results of BankMobile for the three and six month periods ended June 30, 2017, along with the associated cash flows of BankMobile for the six months ended June 30, 2017, were presented as "Discontinued operations." However, generally accepted accounting principles require that assets, liabilities, operating results, and cash flows associated with a business to be disposed of through a spin-off/merger transaction should not be reported as held for sale or discontinued operations until execution of the spin-off/merger transaction. As a result, beginning in third quarter 2017, the period in which Customers decided to spin-off BankMobile rather than selling directly to a third party, BankMobile's operating results and cash flows were no longer reported as held for sale or discontinued operations but instead were reported as held and used. At September 30, 2017, Customers measured the business at the lower of its (i) carrying amount before it was classified as held for sale, adjusted for depreciation and amortization expense that would have been recognized had the business been continuously classified as held and used, or (ii) fair value at the date the decision not to sell was made.

Amounts previously reported as discontinued operations for the three and six month periods ended June 30, 2017 have been reclassified to conform with the current period presentation within the accompanying consolidated financial statements as summarized below. Customers will continue reporting the Community Business Banking and BankMobile segment results. See NOTE 12 - BUSINESS SEGMENTS.

The following tables summarize the effect of the reclassification of BankMobile from held for sale to held and used on the previously reported consolidated statements of income for the three and six months ended June 30, 2017:

	Three Months Ended June 30, 2017		
(amounts in thousands)	As Previously Reported	Effect of Reclassification From Held For Sale to Held and Used	After Reclassification
Interest income	$93,852	$ —	$ 93,852
Interest expense	25,236	10	25,246
Net interest income	68,616	(10)	68,606
Provision for loan losses	535	—	535
Non-interest income	6,971	11,420	18,391
Non-interest expense	30,567	19,846	50,413
Income from continuing operations before income taxes	44,485	(8,436)	36,049
Provision for income taxes	15,533	(3,206)	12,327
Net income from continuing operations	28,952	(5,230)	23,722
Loss from discontinued operations before income taxes	(8,436)	8,436	—
Income tax benefit from discontinued operations	(3,206)	3,206	—
Net loss from discontinued operations	(5,230)	5,230	—
Net income	23,722	—	23,722
Preferred stock dividends	3,615	—	3,615
Net income available to common shareholders	$20,107	$ —	$ 20,107

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(amounts in thousands)	Six Months Ended June 30, 2017 As Previously Reported	Effect of Reclassification From Held For Sale to Held and Used	After Reclassification
Interest income	$176,946	$ —	$ 176,946
Interest expense	45,906	16	45,922
Net interest income	131,040	(16)	131,024
Provision for loan losses	3,585	—	3,585
Non-interest income	12,398	28,746	41,144
Non-interest expense	60,714	39,064	99,778
Income from continuing operations before income taxes	79,139	(10,334)	68,805
Provision for income taxes	23,263	(3,927)	19,336
Net income from continuing operations	55,876	(6,407)	49,469
Loss from discontinued operations before income taxes	(10,334)	10,334	—
Income tax benefit from discontinued operations	(3,927)	3,927	—
Net loss from discontinued operations	(6,407)	6,407	—
Net income	49,469	—	49,469
Preferred stock dividends	7,229	—	7,229
Net income available to common shareholders	$42,240	$ —	$ 42,240

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NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited consolidated financial statements of Customers Bancorp and subsidiaries have been prepared pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers Bancorp and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Customers Bancorp's audited 2017 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Customers Bancorp and subsidiaries included in Customers' Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 23, 2018 (the "2017 Form 10-K"). That Form 10-K describes Customers Bancorp's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Restrictions on Cash and Amounts due from Banks; Business Combinations; Investment Securities; Loan Accounting Framework; Loans Held for Sale and Loans at Fair Value; Loans Receivable; Purchased Loans; Allowance for Loan Losses; Goodwill and Other Intangible Assets; Investments in FHLB, Federal Reserve Bank, and Other Restricted Stock; Other Real Estate Owned; Bank-Owned Life Insurance; Bank Premises and Equipment; Operating Leases; Treasury Stock; Income Taxes; Share-Based Compensation; Transfer of Financial Assets; Business Segments; Derivative Instruments and Hedging; Comprehensive Income (Loss); Earnings per Share; and Loss Contingencies. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

Reclassifications

As described in NOTE 2 - SPIN-OFF AND MERGER, beginning in third quarter 2017, Customers reclassified BankMobile, a segment previously classified as held for sale, to held and used as it no longer met the held-for-sale criteria. Certain prior period amounts and note disclosures (including NOTE 4, NOTE 8 and NOTE 10) have been reclassified to conform with the current period presentation. Except for these reclassifications, there have been no material changes to Customers' significant accounting policies as disclosed in Customers' Annual Report on Form 10-K for the year ended December 31, 2017.

Presented below are recently issued accounting standards that Customers has adopted as well as those that the Financial Accounting Standards Board ("FASB") has issued but are not yet effective or that Customers has not yet adopted.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10) Issued February 2018	Clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with ASC 820, Fair Value Measurement. Provides clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date. Effective July 1, 2018 on a prospective basis with early adoption permitted.	Customers adopted on July 1, 2018 on a prospective basis. The adoption did not have a significant impact as Customers currently does not have any significant equity securities without readily determinable fair values.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income/(Loss) ("AOCI") Issued February 2018	Allows for reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cut and Jobs Act. Requires an entity to disclose whether it has elected to reclassify stranded tax effects from AOCI to retained earnings and its policy for releasing income tax effects from AOCI. Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted.	Customers early adopted on January 1, 2018. The adoption resulted in the reclassification of $0.3 million in stranded tax effects in Customers' AOCI related to net unrealized losses on its available-for-sale debt securities and cash flow hedges. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities Issued August 2017	Aligns the entity's risk management activities and financial reporting for hedging relationships. Amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk. Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line item as the hedge item. Changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness.	Customers early adopted on January 1, 2018. With the early adoption, Customers is able to pursue additional hedging strategies including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events. These additional hedging strategies will allow Customers to better align the accounting and financial reporting of its hedging activities with the economic objectives thereby reducing the earnings volatility resulting from these hedging activities. The adoption did not have a significant impact on Customers' financial condition, results of operations and

	Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.	consolidated financial statements. Customers has updated its disclosures in NOTE 11 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES as a result of early adopting this ASU.
ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting Issued May 2017	Clarifies when to account for a change to the terms or conditions of a share-based-payment award as a modification in ASC 718. Provides that modification accounting is only required if the fair value, vesting conditions, or the classification of the award as equity or a liability changes as a result of the change in terms or conditions. Effective January 1, 2018 on a prospective basis for awards modified on or after the adoption date.	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets Issued February 2017	Clarifies the scope and application of the accounting guidance on the sale of nonfinancial assets to non-customers, including partial sales. Clarifies that if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. Effective January 1, 2018 on a prospective basis.	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

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Accounting Standards Adopted in 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2017-01, Clarifying the Definition of a Business Issued January 2017	Narrows the definition of a business and clarifies that to be considered a business, the fair value of gross assets acquired (or disposed of) should not be concentrated in a single identifiable asset or a group of similar identifiable assets. Also clarifies that in order to be considered a business, an acquisition would have to include an input and a substantive process that together will significantly contribute to the ability to create an output. Effective January 1, 2018 on a prospective basis.	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2016-18, Statement of Cash Flows: Restricted Cash Issued November 2016	Requires inclusion of restricted cash in cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. Effective January 1, 2018 and requires retrospective application to all periods presented.	Customers adopted on January 1, 2018. The adoption did not result in any significant impact on Customers' consolidated financial statements, including its consolidated statement of cash flows, and therefore did not result in a retrospective application.
ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory Issued October 2016	Requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use. Effective January 1, 2018 on a modified retrospective basis.	Customers adopted on January 1, 2018. The adoption of the ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2016-15, Statement of Cash Flow: Classification of Certain Cash Receipts and Cash Payments Issued August 2016	Aims to reduce the existing diversity in practice with regards to the classification of the following specific items in the statement of cash flows: 1. Cash payments for debt prepayment or extinguishment costs will be classified as an operating activity, while the portion of the payment attributable to principal will be classified as a financing activity. 2. Cash paid by an acquirer soon after a business combination for the settlement of a contingent consideration liability recognized at the acquisition date will be classified in investing activities. 3. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (i.e., the nature of the	Customers adopted on January 1, 2018. The adoption did not result in any significant impact on Customers' consolidated financial statements, including its consolidated statement of cash flows, and therefore it did not result in a retrospective application.

	loss). 4. Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities. 5. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a non-cash activity, and cash received from beneficial interests will be classified in investing activities. Effective January 1, 2018 and requires retrospective application to all periods presented.	
ASU 2016-04, Liabilities - Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products Issued March 2016	Requires issuers of prepaid stored-value products (such as gift cards, telecommunication cards, and traveler's checks), to derecognize the financial liability related to those products for breakage. Breakage is the value of prepaid stored-value products that is not redeemed by consumers for goods, services or cash. The amendments in this ASU provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistent with the breakage guidance in Topic 606. Effective January 1, 2018 on a modified retrospective basis.	Customers adopted on January 1, 2018. The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

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Accounting Standards Adopted in 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities Issued January 2016	Requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income. Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. Eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. Effective January 1, 2018 on a modified retrospective basis.	Customers adopted on January 1, 2018 using a modified retrospective approach. The adoption of this ASU resulted in a cumulative-effect adjustment that resulted in a $1.0 million reduction in AOCI and a corresponding increase in retained earnings for the same amount. The $1.0 million represented the net unrealized gain on Customers' investment in Religare equity securities at December 31, 2017, as disclosed in NOTE 6 - INVESTMENT SECURITIES. Customers also refined its calculation to determine the fair value of its held-for- investment loan portfolio for disclosure purposes using an exit price notion as part of adopting this ASU. The refined calculation did not have a significant impact on Customers' fair value disclosures.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) Issued May 2014	Supersedes the revenue recognition requirements in ASC 605. Requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	Customers adopted on January 1, 2018 on a modified retrospective basis. Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), Customers concluded that the new guidance did not have a material impact on the elements of its consolidated statements of operations most closely associated with leases and financial instruments (such as

The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605.

Reframed the structure of the indicators of when an entity is acting as an agent and focused on evidence that an entity is acting as the principal or agent in a revenue transaction.

Requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Effective January 1 , 2018 and can be either applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption (modified retrospective approach).

interest income, interest expense and securities gain).

Customers has identified its deposit-related fees, service charges, debit and prepaid card interchange income and university fees to be within the scope of the standard.

Customers has also completed its review of the related contracts and its evaluation of certain costs related to these revenue streams and determined that its debit and prepaid card interchange income, previously reported on a gross basis for periods prior to adoption, will need to be presented on a net basis under this ASU, as Customers is the agent.

The adoption of this ASU, did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Additional discussion related to the adoption and the required quantitative and qualitative disclosures are included in NOTE 13 - NON-INTEREST REVENUES.

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Accounting Standards Issued But Not Yet Adopted

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting Issued June 2018	Expands the scope of Topic 718, Compensation - Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to non-employees for goods and services. Applies to all share-based payment transactions in which a grantor acquires goods or services from non-employees to be used or consumed in a grantor's own operations by issuing share-based payment awards. With the amended guidance from ASU 2018-07, non-employees share-based payments are measured with an estimate of the fair value of the equity the business is obligated to issue at the grant date (the date that the business and the stock award recipient agree to the terms of the award). Compensation would be recognized in the same period and in the same manner as if the entity had paid cash for goods or services instead of stock. Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.	Customers currently does not grant share-based payment awards to non-employees and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.
ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features Issued July 2017	Changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) would no longer be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity-classified financial instruments, the amendments require entities to recognize the effect of the down	Customers currently does not have any equity-linked financial instruments (or embedded features) with down round features and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.

	round feature when it is triggered. That effect is treated as a dividend and as a reduction of net income available to common shareholders in basic earnings per share ("EPS"). Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities Issued March 2017	Requires that premiums for certain callable debt securities held be amortized to their earliest call date. Effective for Customers beginning after December 15, 2018, with early adoption permitted. Adoption of this new guidance must be applied on a modified retrospective approach.	Customers currently has an immaterial amount of callable debt securities purchased at a premium and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact through the adoption date.

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Accounting Standards Issued But Not Yet Adopted (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments Issued June 2016	Requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the financial asset (including HTM securities), presents the net amount expected to be collected on the financial asset. Replaces today's "incurred loss" approach and is expected to result in earlier recognition of credit losses. For available-for-sale debt securities, entities will be required to record allowances for credit losses rather than reduce the carrying amount, as they do today under the OTTI model, and will be allowed to reverse previously established allowances in the event the credit of the issuer improves. Simplifies the accounting model for purchased credit-impaired debt securities and loans. Effective beginning after December 15, 2019 with early adoption permitted. Adoption can be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.	Customers is currently evaluating the impact of this ASU, continuing its implementation efforts across the company and reviewing the loss modeling requirements consistent with lifetime expected loss estimates. Customers expects that the new model will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and will consider expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase to Customers' allowance for loan losses which will depend upon the nature and characteristics of Customers' loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date. Customers currently does not intend to early adopt this new guidance.
ASU 2016-02, Leases Issued February 2016	Supersedes the current lease accounting guidance for both lessees and lessors under ASC 840, Leases. From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. This ASU will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. Effective beginning after December 15, 2018 with early adoption permitted.	Customers is currently evaluating the impact of this ASU on its financial condition and results of operations and expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption. Customers expects to apply the new transition option under ASU 2018-11. Customers does not intend to early adopt this ASU.

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements,” which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date.

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NOTE 4 — EARNINGS PER SHARE

The following are the components and results of Customers' earnings per common share calculations for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(amounts in thousands, except share and per share data)				
Net income available to common shareholders	$20,048	$ 20,107	$40,575	$ 42,240
Weighted-average number of common shares outstanding - basic	31,564,893	30,641,554	31,495,082	30,524,955
Share-based compensation plans	807,258	1,910,634	823,245	2,129,773
Warrants	8,511	17,464	8,566	27,318
Weighted-average number of common shares - diluted	32,380,662	32,569,652	32,326,893	32,682,046
Basic earnings per common share	$0.64	$ 0.66	$1.29	$ 1.38
Diluted earnings per common share	$0.62	$ 0.62	$1.26	$ 1.29

The following is a summary of securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because either the performance conditions for certain of the share-based compensation awards have not been met or to do so would have been anti-dilutive for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Anti-dilutive securities:				
Share-based compensation awards	1,069,225	288,325	1,069,225	282,725
Warrants	—	52,242	—	52,242
Total anti-dilutive securities	1,069,225	340,567	1,069,225	334,967

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NOTE 5 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The following tables present the changes in accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2018 and 2017. All amounts are presented net of tax. Amounts in parentheses indicate reductions to accumulated other comprehensive income.

	Three Months Ended June 30, 2018				
	Available-for-sale debt securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - March 31, 2018	$(26,691)	$ —	$(26,691)	$ 503	$(26,188)
Other comprehensive income (loss) before reclassifications	(9,020)	—	(9,020)	1,403	(7,617)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	—	—	—	(192)	(192)
Net current-period other comprehensive income (loss)	(9,020)	—	(9,020)	1,211	(7,809)
Balance - June 30, 2018	$(35,711)	$ —	$(35,711)	$ 1,714	$(33,997)

	Six Months Ended June 30, 2018				
	Available-for-sale securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - December 31, 2017	$(249)	$ 88	$(161)	$ (198)	$(359)
Reclassification of the income tax effects of the Tax Cuts and Jobs Act (2)	(256)	—	(256)	(42)	(298)
Reclassification of net unrealized gains on equity securities (2)	(953)	(88)	(1,041)	—	(1,041)
Balance after reclassification adjustments on January 1, 2018	(1,458)	—	(1,458)	(240)	(1,698)
Other comprehensive income (loss) before reclassifications	(34,253)	—	(34,253)	2,049	(32,204)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	—	—	—	(95)	(95)
Net current-period other comprehensive income (loss)	(34,253)	—	(34,253)	1,954	(32,299)
Balance - June 30, 2018	$(35,711)	$ —	$(35,711)	$ 1,714	$(33,997)

(1) Reclassification amounts for cash flow hedges are reported as interest expense on FHLB advances on the consolidated statements of income.

(2) Amounts reclassified from accumulated other comprehensive income (loss) on January 1, 2018 as a result of the adoption of ASU 2018-02 and ASU 2016-01 resulted in a decrease in accumulated other comprehensive income of $1.3 million and a corresponding increase in retained earnings for the same amount. See NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for more information.

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(amounts in thousands)	Three Months Ended June 30, 2017		
	Unrealized Gains (Losses) on Available-For-Sale Debt Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - March 31, 2017	$(3,366)	$ (1,506)	$(4,872)
Other comprehensive income (loss) before reclassifications	12,130	(420)	11,710
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	(1,942)	468	(1,474)
Net current-period other comprehensive income	10,188	48	10,236
Balance - June 30, 2017	$6,822	$ (1,458)	$5,364

(amounts in thousands)	Six Months Ended June 30, 2017		
	Unrealized Gains (Losses) on Available-For-Sale Debt Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - December 31, 2016	$(2,681)	$ (2,211)	$(4,892)
Other comprehensive income (loss) before reclassifications	11,445	(219)	11,226
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	(1,942)	972	(970)
Net current-period other comprehensive income	9,503	753	10,256
Balance - June 30, 2017	$6,822	$ (1,458)	$5,364

(1) Reclassification amounts for available-for-sale debt securities are reported as gain on sale of investment securities on the consolidated statements of income. Reclassification amounts for cash flow hedges are reported as interest expense on FHLB advances on the consolidated statements of income.

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NOTE 6 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of June 30, 2018 and December 31, 2017 are summarized in the tables below:

	June 30, 2018			
(amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Debt Securities:				
Agency-guaranteed residential mortgage-backed securities	$490,425	$ —	$(13,862)	$476,563
Agency-guaranteed commercial real estate mortgage-backed securities	334,232	—	(13,859)	320,373
Corporate notes	381,545	798	(21,335)	361,008
Available-for-Sale Debt Securities	$1,206,202	$ 798	$(49,056)	1,157,944
Equity Securities (1)				3,056
Total Investment Securities, at Fair Value				$1,161,000

(1) Includes equity securities issued by a foreign entity that are being measured at fair value with changes in fair value recognized directly in earnings effective January 1, 2018 as a result of adopting ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (see NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of this new standard).

	December 31, 2017			
(amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
Agency-guaranteed residential mortgage-backed securities	$186,221	$ 36	$ (2,799)	$183,458
Agency-guaranteed commercial real estate mortgage-backed securities	238,809	432	(769)	238,472
Corporate notes (1)	44,959	1,130	—	46,089
Equity securities (2)	2,311	1,041	—	3,352
Total Available-for-Sale Securities, at Fair Value	$472,300	$ 2,639	$ (3,568)	$471,371

(1) Includes subordinated debt issued by other bank holding companies.
(2) Includes equity securities issued by a foreign entity.

The following table presents proceeds from the sale of investment securities and gross gains and gross losses realized on those sales for the three and six month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands)	2018	2017	2018	2017
Proceeds from sale of available-for-sale securities	$—	$115,982	$—	$115,982
Gross gains	$—	$3,183	$—	$3,183
Gross losses	—	—	—	—
Net gains (losses)	$—	$3,183	$—	$3,183

These gains were determined using the specific identification method and were reported as gains on sale of investment securities included in non-interest income on the consolidated statements of income.

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The following table shows debt investment securities by stated maturity. Investment securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and, therefore, these debt securities are classified separately with no specific maturity date:

	June 30, 2018	
	Amortized Cost	Fair Value
(amounts in thousands)		
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	179,413	171,214
Due after ten years	202,132	189,794
Agency-guaranteed residential mortgage-backed securities	490,425	476,563
Agency-guaranteed commercial real estate mortgage-backed securities	334,232	320,373
Total debt securities	$1,206,202	$1,157,944

Gross unrealized losses and fair value of Customers' available for sale debt investment securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available-for-Sale Debt Securities:						
Agency-guaranteed residential mortgage-backed securities	$416,002	$(10,256)	$60,561	$(3,606)	$476,563	$(13,862)
Agency-guaranteed commercial real estate mortgage-backed securities	314,525	(13,532)	5,848	(327)	320,373	(13,859)
Corporate notes	315,249	(21,335)	—	—	315,249	(21,335)
Total	$1,045,776	$(45,123)	$66,409	$(3,933)	$1,112,185	$(49,056)

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available-for-Sale Debt Securities:						
Agency-guaranteed residential mortgage-backed securities	$104,861	$(656)	$66,579	$(2,143)	$171,440	$(2,799)
Agency-guaranteed commercial real estate mortgage-backed securities	115,970	(740)	6,151	(29)	122,121	(769)
Total	$220,831	$(1,396)	$72,730	$(2,172)	$293,561	$(3,568)

At June 30, 2018, there were sixty-four available-for-sale debt investment securities in the less-than-twelve-month category and sixteen available-for-sale debt investment securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. The unrealized losses on the corporate notes relate to securities with no company specific concentration. The unrealized losses were due to an upward shift in interest rates that resulted in a

negative impact on the respective notes pricing. All amounts related to the mortgage-backed securities and the corporate notes are expected to be recovered when market prices recover or at maturity. Customers does not intend to sell these securities and it is not more likely than not that Customers will be required to sell the securities before recovery of the amortized cost basis.

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During the three and six month period ended June 30, 2017, Customers recorded other-than-temporary impairment losses of $2.9 million and $4.6 million, respectively, related to its equity holdings in Religare Enterprises Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through June 30, 2017 because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was $3.4 million which resulted in an unrealized gain of $1.0 million being recognized in accumulated other comprehensive income with no adjustment for deferred taxes as Customers currently does not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment.
As described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a $1.0 million reduction in accumulated other comprehensive income and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption were recorded directly in earnings, which resulted in an unrealized loss of $0.3 million being recognized in other non-interest income in the accompanying consolidated statements of income for the three and six months ended June 30, 2018, respectively.
At June 30, 2018 and December 31, 2017, Customers Bank had pledged investment securities aggregating $685.0 million and $16.9 million in fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

NOTE 7 – LOANS HELD FOR SALE

The composition of loans held for sale as of June 30, 2018 and December 31, 2017 was as follows:

(amounts in thousands)	June 30, 2018	December 31, 2017
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,930,738	$1,793,408
Multi-family loans at lower of cost or fair value	—	144,191
Total commercial loans held for sale	1,930,738	1,937,599
Consumer loans:		
Residential mortgage loans, at fair value	1,043	1,886
Loans held for sale	$1,931,781	$1,939,485

Commercial loans held for sale consists predominately of commercial loans to mortgage companies (i.e., mortgage warehouse loans). These mortgage warehouse lending transactions are subject to master repurchase agreements and are designated as held for sale and reported at fair value based on an election made to account for the loans at fair value. Pursuant to the agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded loans (i.e., the purchase event) and receives proceeds directly from third party investors when the loans are sold into the secondary market (i.e., the sale event). The fair value of the mortgage warehouse loans is estimated as the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The interest rates on these loans are variable, and the lending transactions are short-term, with an average life of 20 days from purchase to sale. The primary goal of these lending transactions is to provide liquidity to mortgage companies.

Effective March 31, 2018, Customers Bank transferred $129.7 million of multi-family loans from loans held for sale to loan receivable (held for investment) because the Bank no longer has the intent to sell these loans. Customers Bank transferred these loans at their carrying value, which approximated their fair value at the time of transfer.

On June 30, 2017, Customers Bank transferred $150.6 million of multi-family loans from held for investment to loans held for sale. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer. At December 31, 2017, the carrying value of these loans approximated their fair value. Accordingly, a lower of cost or fair value adjustment was not recorded as of December 31, 2017.

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NOTE 8 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of June 30, 2018 and December 31, 2017.

(amounts in thousands)	June 30, 2018	December 31, 2017
Commercial:		
Multi-family	$3,542,770	$3,502,381
Commercial and industrial (including owner occupied commercial real estate)	1,811,751	1,633,818
Commercial real estate non-owner occupied	1,155,998	1,218,719
Construction	88,141	85,393
Total commercial loans	6,598,660	6,440,311
Consumer:		
Residential real estate	493,222	234,090
Manufactured housing	85,328	90,227
Other	3,874	3,547
Total consumer loans	582,424	327,864
Total loans receivable	7,181,084	6,768,175
Deferred costs and unamortized premiums, net	642	83
Allowance for loan losses	(38,288)	(38,015)
Loans receivable, net of allowance for loan losses	$7,143,438	$6,730,243

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The following tables summarize loans receivable by loan type and performance status as of June 30, 2018 and December 31, 2017:

	June 30, 2018						
	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit-Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Multi-family	$—	$ —	$—	$1,343	$3,539,640	$ 1,787	$3,542,770
Commercial and industrial	1,087	—	1,087	13,683	1,251,148	602	1,266,520
Commercial real estate - owner occupied	—	—	—	718	534,923	9,590	545,231
Commercial real estate - non-owner occupied	—	—	—	2,536	1,148,581	4,881	1,155,998
Construction	—	—	—	—	88,141	—	88,141
Residential real estate	2,174	—	2,174	5,606	480,381	5,061	493,222
Manufactured housing (5)	2,977	2,661	5,638	2,015	75,250	2,425	85,328
Other consumer	56	—	56	94	3,496	228	3,874
Total	$6,294	$ 2,661	$ 8,955	$25,995	$7,121,560	$ 24,574	$7,181,084

	December 31, 2017						
	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit-Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Multi-family	$4,900	$ —	$ 4,900	$—	$3,495,600	$ 1,881	$3,502,381
Commercial and industrial	103	—	103	17,392	1,130,831	764	1,149,090
Commercial real estate - owner occupied	202	—	202	1,453	472,501	10,572	484,728
Commercial real estate - non-owner occupied	93	—	93	160	1,213,216	5,250	1,218,719
Construction	—	—	—	—	85,393	—	85,393
Residential real estate	7,628	—	7,628	5,420	215,361	5,681	234,090
Manufactured housing (5)	4,028	2,743	6,771	1,959	78,946	2,551	90,227
Other consumer	116	—	116	31	3,184	216	3,547
Total	$17,070	$ 2,743	$ 19,813	$26,415	$6,695,032	$ 26,915	$6,768,175

(1) Includes past due loans that are accruing interest because collection is considered probable.

(2) Loans where next payment due is less than 30 days from the report date.

(3) Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing. Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.

(5) Manufactured housing loans purchased in 2010 are supported by cash reserves held at the Bank that are used to fund past-due payments when the loan becomes 90 days or more delinquent. Subsequent purchases are subject to

varying provisions in the event of borrowers' delinquencies.

As of June 30, 2018 and December 31, 2017, the Bank had $0.3 million, respectively, of residential real estate held in other real estate owned. As of June 30, 2018 and December 31, 2017, the Bank had initiated foreclosure proceedings on $2.2 million and $1.6 million, respectively, in loans secured by residential real estate.

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Allowance for loan losses

The changes in the allowance for loan losses for the three and six months ended June 30, 2018 and 2017, and the loans and allowance for loan losses by loan class based on impairment-evaluation method as of June 30, 2018 and December 31, 2017 are presented in the tables below.

Three Months Ended June 30, 2018 (amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Ending Balance, March 31, 2018	$12,545	$11,737	$3,525	$7,233	$921	$3,179	$176	$183	$39,499
Charge-offs	—	(174)	(483)	—	—	(42)	—	(462)	(1,161)
Recoveries	—	140	326	—	209	56	—	3	734
Provision for loan losses	(476)	555	(380)	(535)	(138)	(285)	(27)	502	(784)
Ending Balance, June 30, 2018	$12,069	$12,258	$2,988	$6,698	$992	$2,908	$149	$226	$38,288
Six Months Ended June 30, 2018									
Ending Balance, December 31, 2017	$12,168	$10,918	$3,232	$7,437	$979	$2,929	$180	$172	$38,015
Charge-offs	—	(224)	(501)	—	—	(407)	—	(718)	(1,850)
Recoveries	—	175	326	—	220	63	—	6	790
Provision for loan losses	(99)	1,389	(69)	(739)	(207)	323	(31)	766	1,333
Ending Balance, June 30, 2018	$12,069	$12,258	$2,988	$6,698	$992	$2,908	$149	$226	$38,288
As of June 30, 2018									
Loans:									
Individually evaluated for impairment	$1,343	$13,750	$759	$2,536	$—	$8,775	$10,372	$94	$37,629
Collectively evaluated for impairment	3,539,640	1,252,168	534,882	1,148,581	88,141	479,386	72,531	3,552	7,118,881

Loans acquired with credit deterioration	1,787	602	9,590	4,881	—	5,061	2,425	228	24,574
	$3,542,770	$1,266,520	$545,231	$1,155,998	$88,141	$493,222	$85,328	$3,874	$7,181,084
Allowance for loan losses:									
Individually evaluated for impairment	$—	$1,062	$1	$—	$—	$313	$5	$—	$1,381
Collectively evaluated for impairment	12,069	10,749	2,987	4,334	992	2,106	81	154	33,472
Loans acquired with credit deterioration	—	447	—	2,364	—	489	63	72	3,435
	$12,069	$12,258	$2,988	$6,698	$992	$2,908	$149	$226	$38,288

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Three Months Ended June 30, 2017 (amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Ending Balance, March 31, 2017	$12,283	$13,009	$2,394	$7,847	$885	$3,080	$284	$101	$39,883
Charge-offs	—	(1,849)	—	(4)	—	(69)	—	(226)	(2,148)
Recoveries	—	68	9	—	49	6	—	56	188
Provision for loan losses	(255)	357	573	(57)	(218)	(22)	(16)	173	535
Ending Balance, June 30, 2017	$12,028	$11,585	$2,976	$7,786	$716	$2,995	$268	$104	$38,458
Six Months Ended June 30, 2017									
Ending Balance, December 31, 2016	$11,602	$11,050	$2,183	$7,894	$840	$3,342	$286	$118	$37,315
Charge-offs	—	(2,047)	—	(408)	—	(290)	—	(246)	(2,991)
Recoveries	—	283	9	—	130	27	—	100	549
Provision for loan losses	426	2,299	784	300	(254)	(84)	(18)	132	3,585
Ending Balance, June 30, 2017	$12,028	$11,585	$2,976	$7,786	$716	$2,995	$268	$104	$38,458
As of December 31, 2017									
Loans:									
Individually evaluated for impairment	$—	$17,461	$1,448	$160	$—	$9,247	$10,089	$30	$38,435
Collectively evaluated for impairment	3,500,500	1,130,865	472,708	1,213,309	85,393	219,162	77,587	3,301	6,702,825
Loans acquired with credit deterioration	1,881	764	10,572	5,250	—	5,681	2,551	216	26,915

	$3,502,381	$1,149,090	$484,728	$1,218,719	$85,393	$234,090	$90,227	$3,547	$6,768,175
Allowance for loan losses:									
Individually evaluated for impairment	$—	$650	$642	$—	$—	$155	$4	$—	$1,451
Collectively evaluated for impairment	12,168	9,804	2,580	4,630	979	2,177	82	117	32,537
Loans acquired with credit deterioration	—	464	10	2,807	—	597	94	55	4,027
	$12,168	$10,918	$3,232	$7,437	$979	$2,929	$180	$172	$38,015

Certain manufactured housing loans were purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the purchase agreement for defaults of the underlying borrower and other specified items. At June 30, 2018 and December 31, 2017, funds available for reimbursement, if necessary, were $0.5 million and $0.6 million, respectively. Each quarter, these funds are evaluated to determine if they would be sufficient to absorb the probable incurred losses within the manufactured housing portfolio.

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Impaired Loans - Individually Evaluated for Impairment

The following tables present the recorded investment (net of charge-offs), unpaid principal balance, and related allowance by loan type for impaired loans that were individually evaluated for impairment as of June 30, 2018 and December 31, 2017 and the average recorded investment and interest income recognized for the three and six months ended June 30, 2018 and 2017. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)							
With no recorded allowance:							
Multi-family	$1,343	$1,343	$ —	$672	$ 8	$448	$ 8
Commercial and industrial	5,642	5,889	—	5,736	2	6,870	2
Commercial real estate owner occupied	718	1,201	—	664	—	713	—
Commercial real estate non-owner occupied	2,536	2,648	—	1,390	8	980	8
Other consumer	94	94	—	96	—	74	—
Residential real estate	4,301	4,546	—	3,959	2	3,849	2
Manufactured housing	10,144	10,144	—	10,015	146	9,963	277
With an allowance recorded:							
Commercial and industrial	8,108	8,292	1,062	8,283	11	8,296	12
Commercial real estate owner occupied	41	41	1	455	1	517	2
Residential real estate	4,474	4,479	313	4,550	38	4,906	63
Manufactured housing	228	228	5	225	6	225	6
Total	$37,629	$38,905	$ 1,381	$36,045	$ 222	$36,841	$ 380

	December 31, 2017			Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)							
With no recorded allowance:							
Commercial and industrial	$9,138	$9,287	$ —	$6,678	$ 46	$5,251	$ 96
Commercial real estate owner occupied	806	806	—	1,739	—	1,563	3
Commercial real estate non-owner occupied	160	272	—	884	—	1,257	2
Other consumer	30	30	—	56	—	56	—
Residential real estate	3,628	3,801	—	2,660	—	4,001	1
Manufactured housing	9,865	9,865	—	10,074	152	9,937	293
With an allowance recorded:							
Commercial and industrial	8,323	8,506	650	7,209	—	6,846	22
Commercial real estate - owner occupied	642	642	642	839	1	839	2
Commercial real estate non-owner occupied	—	—	—	114	—	126	—
Residential real estate	5,619	5,656	155	4,953	45	3,399	84
Manufactured housing	224	224	4	216	5	144	8
Total	$38,435	$39,089	$ 1,451	$35,422	$ 249	$33,419	$ 511

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Troubled Debt Restructurings

At June 30, 2018 and December 31, 2017, there were $19.4 million and $20.4 million, respectively, in loans reported as troubled debt restructurings ("TDRs"). TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum performance requirement of six months, however, it will remain classified as impaired. Generally, the Bank requires sustained performance for nine months before returning a TDR to accrual status. Modification of purchased-credit-impaired loans that are accounted for within loan pools in accordance with the accounting standards for purchased-credit-impaired loans do not result in the removal of these loans from the pool even if the modifications would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, modifications of loans within such pools are not considered TDRs.

The following table presents total TDRs based on loan type and accrual status at June 30, 2018 and December 31, 2017. Nonaccrual TDRs are included in the reported amount of total non-accrual loans.

	June 30, 2018			December 31, 2017		
	Accruing TDRs	Nonaccrual TDRs	Total	Accruing TDRs	Nonaccrual TDRs	Total
(amounts in thousands)						
Commercial and industrial	$67	$ 5,415	$5,482	$63	$ 5,939	$6,002
Commercial real estate owner occupied	41	—	41	—	—	—
Manufactured housing	8,357	1,875	10,232	8,130	1,766	9,896
Residential real estate	3,169	485	3,654	3,828	703	4,531
Other consumer	—	13	13	—	—	—
Total TDRs	$11,634	$ 7,788	$19,422	$12,021	$ 8,408	$20,429

The following table presents loans modified in a troubled debt restructuring by type of concession for the three and six months ended June 30, 2018 and 2017. There were no modifications that involved forgiveness of debt.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	1	$ 56	2	$ 5,855
Interest-rate reductions	15	607	9	320
Total	16	$ 663	11	$ 6,175

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	1	$ 56	3	$ 6,203
Interest-rate reductions	24	929	29	1,175
Total	25	$ 985	32	$ 7,378

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The following table provides, by loan type, the number of loans modified in troubled debt restructurings, and the related recorded investment, during the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Commercial and industrial	—	$ —	2	$ 5,855
Manufactured housing	14	450	9	320
Residential real estate	1	200	—	—
Other consumer	1	13	—	—
Total loans	16	$ 663	11	$ 6,175

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Commercial and industrial	—	$ —	3	$ 6,203
Manufactured housing	23	772	29	1,175
Residential real estate	1	200	—	—
Other consumer	1	13	—	—
Total loans	25	$ 985	32	$ 7,378

As of June 30, 2018 and December 31, 2017, except for one commercial and industrial loan with an outstanding commitment of $1.6 million and $2.1 million, respectively, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.
As of June 30, 2018, there were no loans modified in a TDR within the past twelve months that defaulted on payments. As of June 30, 2017, six manufactured housing loans totaling $0.3 million, that were modified in TDRs within the past twelve months, defaulted on payments.

Loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses. There was no allowance recorded as a result of TDR modifications during the three and six months ended June 30, 2018. There was no allowance recorded as a result of TDR modifications during the three months ended June 30, 2017. For the six months ended June 30, 2017, there was one allowance recorded resulting from TDR modifications, totaling $1 thousand for one manufactured housing loan.

Purchased-Credit-Impaired Loans
The changes in accretable yield related to purchased-credit-impaired loans for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Accretable yield balance as of March 31,	$7,663	$9,376
Accretion to interest income	(516)	(465)
Reclassification from nonaccretable difference and disposals, net	256	95

Accretable yield balance as of June 30,	$7,403	$9,006

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(amounts in thousands)	Six Months Ended June 30, 2018	2017
Accretable yield balance as of December 31,	$7,825	$10,202
Accretion to interest income	(854)	(958)
Reclassification from nonaccretable difference and disposals, net	432	(238)
Accretable yield balance as of June 30,	$7,403	$9,006

Credit Quality Indicators

Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic, or on an “as needed” basis. Residential real estate loans, manufactured housing and other consumer loans are evaluated based on the payment activity of the loan.

To facilitate the monitoring of credit quality within the multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loan portfolios, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective loan portfolios, the Bank utilizes the following categories of risk ratings: pass/satisfactory (includes risk rating 1 through 6), special mention, substandard, doubtful, and loss. The risk rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass/satisfactory ratings, which are assigned to those borrowers who do not have identified potential or well-defined weaknesses and for whom there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgment, the risk-rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to manage those loans.

The risk rating grades are defined as follows:

“1” – Pass/Excellent

Loans rated 1 represent a credit extension of the highest quality. The borrower’s historic (at least five years) cash flows manifest extremely large and stable margins of coverage. Balance sheets are conservative, well capitalized, and liquid. After considering debt service for proposed and existing debt, projected cash flows continue to be strong and provide ample coverage. The borrower typically reflects broad geographic and product diversification and has access to alternative financial markets.

“2” – Pass/Superior

Loans rated 2 are those for which the borrower has a strong financial condition, balance sheet, operations, cash flow, debt capacity and coverage with ratios better than industry norms. The borrowers of these loans exhibit a limited leverage position, are virtually immune to local economies, and are in stable growing industries. The management team is well respected and the company has ready access to public markets.

“3” – Pass/Strong

Loans rated 3 are those loans for which the borrowers have above average financial condition and flexibility; more than satisfactory debt service coverage; balance sheet and operating ratios are consistent with or better than industry peers; operate in industries with little risk; move in diversified markets; and are experienced and competent in their industry. These borrowers’ access to capital markets is limited mostly to private sources, often secured, but the borrower typically has access to a wide range of refinancing alternatives.

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"4" – Pass/Good
Loans rated 4 have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher grade borrower. These loans carry a normal level of risk, with very low loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the higher quality loans.
"5" – Satisfactory
Loans rated 5 are extended to borrowers who are considered to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower's historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.
"6" – Satisfactory/Bankable with Care
Loans rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.
"7" – Special Mention
Loans rated 7 are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event potential weaknesses are not corrected or mitigated, deterioration in the ability of the borrower to repay the debt in the future may occur. This grade is not assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loans where significant actual, not potential, weaknesses or problems are clearly evident are graded in the category below.
"8" – Substandard
Loans are rated 8 when the loans are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the company will sustain some loss if the weaknesses are not corrected.
"9" – Doubtful
The Bank assigns a doubtful rating to loans that have all the attributes of a substandard rating 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 and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.
"10" – Loss
The Bank assigns a loss rating to loans considered uncollectible and of such little value that their continuance as an active asset is not warranted. Amounts classified as loss are immediately charged off.
Risk ratings are not established for certain consumer loans, including residential real estate, home equity, manufactured housing, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and non-performing.

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The following tables present the credit ratings of loans receivable as of June 30, 2018 and December 31, 2017.

June 30, 2018									
(amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Pass/Satisfactory	$3,485,669	$1,211,934	$529,898	$1,089,666	$88,141	$—	$—	$—	$6,405,308
Special Mention	31,001	16,979	8,152	60,943	—	—	—	—	117,075
Substandard	26,100	37,607	7,181	5,389	—	—	—	—	76,277
Performing (1)	—	—	—	—	—	485,442	77,675	3,724	566,841
Non-performing (2)	—	—	—	—	—	7,780	7,653	150	15,583
Total	$3,542,770	$1,266,520	$545,231	$1,155,998	$88,141	$493,222	$85,328	$3,874	$7,181,084

December 31, 2017									
(amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Pass/Satisfactory	$3,438,554	$1,118,889	$471,826	$1,185,933	$85,393	$—	$—	$—	$6,300,595
Special Mention	53,873	7,652	5,987	31,767	—	—	—	—	99,279
Substandard	9,954	22,549	6,915	1,019	—	—	—	—	40,437
Performing (1)	—	—	—	—	—	221,042	81,497	3,400	305,939
Non-performing (2)	—	—	—	—	—	13,048	8,730	147	21,925
Total	$3,502,381	$1,149,090	$484,728	$1,218,719	$85,393	$234,090	$90,227	$3,547	$6,768,175

(1) Includes consumer and other installment loans not subject to risk ratings.

(2) Includes loans that are past due and still accruing interest and loans on nonaccrual status.

Loan Purchases and Sales

In second quarter 2018, Customers purchased $277.4 million of thirty-year fixed-rate residential mortgage loans from Third Federal Savings & Loan. The purchase price was 100.4% of loans outstanding. During second quarter 2018, Customers sold $11.7 million of SBA loans resulting in a gain on sale of $0.9 million. In second quarter 2017, Customers purchased an additional $90.0 million of thirty-year fixed-rate residential mortgage loans from Everbank. The purchase price was 101.0% of loans outstanding. In second quarter 2017, Customers sold $7.0 million of SBA loans resulting in a gain on sale of $0.6 million.

Customers did not purchase any loans during first quarter 2018. During first quarter 2018, Customers sold $15.0 million of Small Business Administration (SBA) loans resulting in a gain on sale of $1.4 million. In first quarter 2017, Customers purchased $174.2 million of thirty-year fixed-rate residential mortgage loans from Florida-based Everbank. The purchase price was 98.5% of loans outstanding. In first quarter 2017, Customers sold $94.9 million of multi-family loans for $95.4 million resulting in a gain on sale of $0.5 million and $8.7 million of SBA loans resulting in a gain on sale of $0.8 million.

None of the purchases and sales during the three and six months ended June 30, 2018 and 2017 materially affected the credit profile of Customers' loan portfolio.

Loans Pledged as Collateral

Customers has pledged eligible real estate loans as collateral for potential borrowings from the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $5.6 billion at June 30, 2018 and $5.5 billion at December 31, 2017.

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NOTE 9 — REGULATORY CAPITAL

The Bank and the Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Customers' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and the Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At June 30, 2018 and December 31, 2017, the Bank and the Bancorp satisfied all capital requirements to which they were subject. Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios as set forth in the following table:

			Minimum Capital Levels to be Classified as:					
	Actual		Adequacy Capitalized		Well Capitalized		Basel III Compliant	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2018:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$735,609	8.611 %	$384,418	4.500%	N/A	N/A	$544,591	6.375%
Customers Bank	$1,054,613	12.351%	$384,232	4.500%	$555,002	6.500 %	$544,329	6.375%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$953,025	11.156%	$512,557	6.000%	N/A	N/A	$672,731	7.875%
Customers Bank	$1,054,613	12.351%	$512,309	6.000%	$683,079	8.000 %	$672,406	7.875%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,072,072	12.550%	$683,409	8.000%	N/A	N/A	$843,583	9.875%
Customers Bank	$1,202,070	14.078%	$683,079	8.000%	$853,849	10.000%	$843,176	9.875%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$953,025	8.866 %	$429,963	4.000%	N/A	N/A	$429,963	4.000%
Customers Bank	$1,054,613	9.822 %	$429,471	4.000%	$536,839	5.000 %	$429,471	4.000%
As of December 31, 2017:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$689,494	8.805 %	$352,368	4.500%	N/A	N/A	$450,248	5.750%
Customers Bank	$1,023,564	13.081%	$352,122	4.500%	$508,621	6.500 %	$449,934	5.750%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$906,963	11.583%	$469,824	6.000%	N/A	N/A	$567,704	7.250%
Customers Bank	$1,023,564	13.081%	$469,496	6.000%	$625,994	8.000 %	$567,307	7.250%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,021,601	13.047%	$626,432	8.000%	N/A	N/A	$724,313	9.250%

Customers Bank	$1,170,666	14.961%	$625,994	8.000%	$782,493	10.000%	$723,806	9.250%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$906,963	8.937 %	$405,949	4.000%	N/A	N/A	$405,949	4.000%
Customers Bank	$1,023,564	10.092%	$405,701	4.000%	$507,126	5.000 %	$405,701	4.000%

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The risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio" or certain elective distributions would be limited. The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is being phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter.

Effective January 1, 2018, the capital level required to avoid limitation on elective distributions applicable to the Bancorp and the Bank were as follows:

(i) a common equity Tier 1 risk-based capital ratio of 6.375%;
(ii) a Tier 1 risk-based capital ratio of 7.875%; and
(iii) a Total risk-based capital ratio of 9.875%.

Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

NOTE 10 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Customers uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. ASC Topic 825, Financial Instruments, requires disclosure of the estimated fair value of an entity’s assets and liabilities considered to be financial instruments. For Customers, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. Many of these financial instruments lack an available trading market as characterized by a willing buyer and a willing seller engaging in an exchange transaction. For fair value disclosure purposes, Customers utilized certain fair value measurement criteria under ASC Topic 820, Fair Value Measurements and Disclosures, as explained below.

In accordance with ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for Customers' various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, focusing on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The fair value guidance also establishes a fair value hierarchy and describes the following three levels used to classify fair value measurements.

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require adjustments to inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair values of Customers' financial instruments as of June 30, 2018 and December 31, 2017:

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Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities:

The fair values of equity securities and available for sale debt securities are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are classified as Level 1, 2 or 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The carrying amount of investments in FHLB, Federal Reserve Bank, and other restricted stock approximates fair value, and considers the limited marketability of such securities. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Consumer residential mortgage loans (fair value option):

The Bank generally estimates the fair values of residential mortgage loans held for sale based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Commercial mortgage warehouse loans (fair value option):

The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized because at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 20 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (Assets and Liabilities):

The fair values of interest rate swaps and credit derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Bank and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The fair values of the residential mortgage loan commitments are derived from the estimated fair values that can be generated when the underlying mortgage loan is sold in the secondary market. The Bank generally uses commitments on hand from third- party investors to estimate an exit price and adjusts for the probability of the commitment being exercised based on the Bank's internal experience (i.e., pull-through rate). These assets and liabilities are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.

Financial Instruments Recorded at Fair Value on a Nonrecurring Basis

Impaired loans:

Impaired loans are those loans that are accounted for under ASC 310, Receivables, in which the Bank has measured impairment generally based on the fair value of the loan's collateral or discounted cash flow analysis. Fair value is generally determined based upon independent third-party appraisals of the properties that collateralize the loans or discounted cash flows based upon the expected proceeds. These assets are generally classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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Other real estate owned:
The fair value of other real estate owned ("OREO") is determined by using appraisals, which may be discounted based on management’s review and changes in market conditions or sales agreements with third parties. All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice. Appraisals are certified to the Bank and performed by appraisers on the Bank’s approved list of appraisers. Evaluations are completed by a person independent of management. The content of the appraisal depends on the complexity of the property. Appraisals are completed on a “retail value” and an “as is value”. These assets are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
The following information should not be interpreted as an estimate of Customers' fair value in its entirety because fair value calculations are only provided for a limited portion of Customers' assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making these estimates, comparisons between Customer’s disclosures and those of other companies may not be meaningful.

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The estimated fair values of Customers' financial instruments at June 30, 2018 and December 31, 2017 were as follows.

			Fair Value Measurements at June 30, 2018		
(amounts in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$251,726	$251,726	$251,726	$—	$ —
Debt securities, available for sale	1,157,944	1,157,944	—	1,157,944	—
Equity securities	3,056	3,056	3,056	—	—
Loans held for sale	1,931,781	1,931,781	—	1,931,781	—
Loans receivable, net of allowance for loan losses	7,143,438	7,127,315	—	—	7,127,315
FHLB, Federal Reserve Bank and other restricted stock	136,066	136,066	—	136,066	—
Derivatives	16,247	16,247	—	16,114	133
Liabilities:					
Deposits	$7,295,954	$7,288,828	$5,223,793	$2,065,035	$ —
Federal funds purchased	105,000	105,000	105,000	—	—
FHLB advances	2,389,797	2,389,785	1,504,797	884,988	—
Other borrowings	186,888	185,364	63,554	121,810	—
Subordinated debt	108,929	114,675	—	114,675	—
Derivatives	13,698	13,698	—	13,698	—

			Fair Value Measurements at December 31, 2017		
(amounts in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$146,323	$146,323	$146,323	$—	$ —
Investment securities, available for sale	471,371	471,371	3,352	468,019	—
Loans held for sale	1,939,485	1,939,659	—	1,795,294	144,365
Loans receivable, net of allowance for loan losses	6,730,243	6,676,763	—	—	6,676,763
FHLB, Federal Reserve Bank and other restricted stock	105,918	105,918	—	105,918	—
Derivatives	9,752	9,752	—	9,692	60
Liabilities:					
Deposits	$6,800,142	$6,796,095	$4,894,449	$1,901,646	$ —

Federal funds purchased	155,000	155,000	155,000	—	—
FHLB advances	1,611,860	1,611,603	881,860	729,743	—
Other borrowings	186,497	193,557	65,072	128,485	—
Subordinated debt	108,880	115,775	—	115,775	—
Derivatives	10,074	10,074	—	10,074	—

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For financial assets and liabilities measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018			
	Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale debt securities:				
Agency-guaranteed residential mortgage-backed securities	$—	$ 476,563	$ —	$476,563
Agency-guaranteed commercial mortgage-backed securities	—	320,373	—	320,373
Corporate notes	—	361,008	—	361,008
Equity securities	3,056	—	—	3,056
Derivatives	—	16,114	133	16,247
Loans held for sale – fair value option	—	1,931,781	—	1,931,781
Total assets - recurring fair value measurements	$3,056	$ 3,105,839	$ 133	$3,109,028
Liabilities				
Derivatives	$—	$ 13,698	$ —	$13,698
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,381	$—	$ —	$ 11,929	$11,929
Other real estate owned	—	—	1,027	1,027
Total assets - nonrecurring fair value measurements	$—	$ —	$ 12,956	$12,956

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	December 31, 2017 Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Agency-guaranteed residential mortgage-backed securities	$—	$ 183,458	$ —	$183,458
Agency-guaranteed commercial real estate mortgage-backed securities	—	238,472	—	238,472
Corporate notes	—	46,089	—	46,089
Equity securities	3,352	—	—	3,352
Derivatives	—	9,692	60	9,752
Loans held for sale – fair value option	—	1,795,294	—	1,795,294
Total assets - recurring fair value measurements	$3,352	$ 2,273,005	$ 60	$2,276,417
Liabilities				
Derivatives	$—	$ 10,074	$ —	$10,074
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,451	$—	$ —	$ 13,902	$13,902
Other real estate owned	—	—	1,449	1,449
Total assets - nonrecurring fair value measurements	$—	$ —	$ 15,351	$15,351

The changes in Level 3 assets measured at fair value on a recurring basis for the three and six months ended June 30, 2018 and 2017 are summarized in the tables below. Additional information about residential mortgage loan commitments can be found in NOTE 11 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES.

	Residential Mortgage Loan Commitments Three Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Balance at March 31	$83	$95
Issuances	133	102
Settlements	(83)	(95)
Balance at June 30	$133	$102

Residential
Mortgage

	Loan Commitments Six Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Balance at December 31	$ 60	$ 45
Issuances	216	197
Settlements	(143)	(140)
Balance at June 30	$ 133	$ 102

Customers' policy is to recognize transfers between fair value levels when events or circumstances warrant transfers. There were no transfers between levels during the three and six months ended June 30, 2018 and 2017.

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The following table summarizes financial assets and financial liabilities measured at fair value as of June 30, 2018 and December 31, 2017 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value.

	Quantitative Information about Level 3 Fair Value Measurements			
June 30, 2018	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	$11,929	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	1,027	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	133	Adjusted market bid	Pull-through rate	90%

	Quantitative Information about Level 3 Fair Value Measurements			
December 31, 2017	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	$13,902	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	1,449	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	60	Adjusted market bid	Pull-through rate	90%

(1) Obtained from approved independent appraisers. Appraisals are current and in compliance with credit policy. The Bank does not generally discount appraisals.
(2) Fair value is adjusted for estimated costs to sell based on a percentage of the value as determined by the appraisal.
(3) Presented as a percentage of the value determined by appraisal for impaired loans and other real estate owned.

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NOTE 11 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

Customers is exposed to certain risks arising from both its business operations and economic conditions. Customers manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and durations of its assets and liabilities. Specifically, Customers enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Customers' derivative financial instruments are used to manage differences in the amount, timing, and duration of Customers' known or expected cash receipts and its known or expected cash payments principally related to certain borrowings. Customers also has interest-rate derivatives resulting from a service provided to certain qualifying customers, and therefore, they are not used to manage Customers' interest-rate risk in assets or liabilities. Customers manages a matched book with respect to its derivative instruments used in this customer service in order to minimize its net risk exposure resulting from such transactions.

Cash Flow Hedges of Interest Rate Risk

Customers' objectives in using interest-rate derivatives are to add stability to interest expense and to manage exposure to interest-rate movements. To accomplish this objective, Customers primarily uses interest rate swaps as part of its interest-rate-risk management strategy. Interest-rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for Customers making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To date, such derivatives were used to hedge the variable cash flows associated with the forecasted issuances of debt.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. Customers expects to reclassify $0.5 million from accumulated other comprehensive income to interest expense during the next 12 months.

Customers is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 60 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At June 30, 2018, Customers had thirteen outstanding interest rate derivatives with notional amounts totaling $1.4 billion that were designated as cash flow hedges of interest rate risk. At December 31, 2017, Customers had nine outstanding interest rate derivatives with notional amounts totaling $550.0 million that were designated as cash flow hedges of interest rate risk. The outstanding cash flow hedges at June 30, 2018 expire between July 2018 and June 2023.

Derivatives Not Designated as Hedging Instruments

Customers executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan for a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that Customers executes with a third party in order to minimize interest rate risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting third-party market swaps are recognized directly in earnings. At June 30, 2018, Customers had 82 interest rate swaps with an aggregate notional amount of $779.0 million related to this program. At December 31, 2017, Customers had 76 interest rate swaps with an aggregate notional amount of $800.5 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its consumer mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under the applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At June 30, 2018 and

December 31, 2017, Customers had an outstanding notional balance of residential mortgage loan commitments of $6.0 million and $2.7 million, respectively.

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Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value recorded directly in earnings. At June 30, 2018 and December 31, 2017, Customers had outstanding notional balances of credit derivatives of $92.6 million and $80.5 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

The following tables present the fair value of Customers' derivative financial instruments as well as their presentation on the balance sheet as of June 30, 2018 and December 31, 2017.

	June 30, 2018			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$ 2,732	Other liabilities	$ 416
Total		$ 2,732		$ 416
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 13,334	Other liabilities	$ 13,148
Credit contracts	Other assets	48	Other liabilities	134
Residential mortgage loan commitments	Other assets	133	Other liabilities	—
Total		$ 13,515		$ 13,282

	December 31, 2017			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$816	Other liabilities	$1,140
Total		$816		$1,140
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$8,776	Other liabilities	$8,897
Credit contracts	Other assets	100	Other liabilities	37
Residential mortgage loan commitments	Other assets	60	Other liabilities	—
Total		$8,936		$8,934

Effect of Derivative Instruments on Comprehensive Income

The following tables present the effect of Customers' derivative financial instruments on comprehensive income for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30, 2018	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ (51)
Credit contracts	Other non-interest income	(15)
Residential mortgage loan commitments	Mortgage banking income	50

Total	$	(16)

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	Three Months Ended June 30, 2017	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ (145)
Credit contracts	Other non-interest income	1
Residential mortgage loan commitments	Mortgage banking income	7
Total		$ (137)

	Six Months Ended June 30, 2018	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 334
Credit contracts	Other non-interest income	(38)
Residential mortgage loan commitments	Mortgage banking income	73
Total		$ 369

	Six Months Ended June 30, 2017	
	Income Statement Location	Amount of Income Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 338
Credit contracts	Other non-interest income	1
Residential mortgage loan commitments	Mortgage banking income	57
Total		$ 396

	Three Months Ended June 30, 2018		
	Amount of Gain Recognized in OCI on Derivatives (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain Reclassified from Accumulated OCI into Income
(amounts in thousands)			
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$1,403	Interest expense	$ 259

	Three Months Ended June 30, 2017		
	Amount of Loss	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from

(amounts in thousands)	Recognized in OCI on Derivatives (1)		Accumulated OCI into Income
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$(420)	Interest expense	$ (767)

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	Six Months Ended June 30, 2018		
(amounts in thousands)	Amount of Gain Recognized in OCI on Derivatives (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain Reclassified from Accumulated OCI into Income
Derivative in cash flow hedging relationships:			
Interest rate swaps	$2,049	Interest expense	$ 128

	Six Months Ended June 30, 2017		
(amounts in thousands)	Amount of Loss Recognized in OCI on Derivatives (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income
Derivative in cash flow hedging relationships:			
Interest rate swaps	$(219)	Interest expense	$ (1,594)

(1) Amounts presented are net of taxes. See NOTE 5 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges for the periods presented.

Credit-risk-related Contingent Features

By entering into derivative contracts, Customers is exposed to credit risk. The credit risk associated with derivatives executed with customers is the same as that involved in extending the related loans and is subject to the same standard credit policies. To mitigate the credit-risk exposure to major derivative dealer counterparties, Customers only enters into agreements with those counterparties that maintain credit ratings of high quality.

Agreements with major derivative dealer counterparties contain provisions whereby default on any of Customers' indebtedness would be considered a default on its derivative obligations. Customers also has entered into agreements that contain provisions under which the counterparty could require Customers to settle its obligations if Customers fails to maintain its status as a well/adequately capitalized institution. As of June 30, 2018, all derivatives with major derivative dealer counterparties were in a net asset position.

Disclosures about Offsetting Assets and Liabilities

The following tables present derivative instruments that are subject to enforceable master netting arrangements. Customers' interest rate swaps with institutional counterparties are subject to master netting arrangements and are included in the table below. Interest rate swaps with commercial banking customers and residential mortgage loan commitments are not subject to master netting arrangements and are excluded from the table below. Customers has not made a policy election to offset its derivative positions.

Offsetting of Financial Assets and Derivative Assets

At June 30, 2018

	Gross Amount of Recognized	Gross Amounts	Net Amounts of Assets	Gross Amounts	Net Amount

(amounts in thousands) Description	Assets	Offset in the Consolidated Balance Sheet	Presented in the Consolidated Balance Sheet	Not Offset in the Consolidated Balance Sheet Financial Instruments	Cash Collateral Received	
Interest rate swap derivatives with institutional counterparties	$ 14,921	$ —	$ 14,921	$ —	$ 11,170	$ 3,751

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Offsetting of Financial Liabilities and Derivative Liabilities
At June 30, 2018

(amounts in thousands) Description	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Interest rate swap derivatives with institutional counterparties	$ 1,639	$ —	$ 1,639	$ —	$ 2	$ 1,637

Offsetting of Financial Assets and Derivative Assets
At December 31, 2017

(amounts in thousands) Description	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Interest rate swap derivatives with institutional counterparties	$ 5,930	$ —	$ 5,930	$ —	$ 5,070	$ 860

Offsetting of Financial Liabilities and Derivative Liabilities
At December 31, 2017

(amounts in thousands) Description	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Interest rate swap derivatives with institutional counterparties	$ 5,058	$ —	$ 5,058	$ —	$ 4,872	$ 186

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NOTE 12 — BUSINESS SEGMENTS

Customers' segment financial reporting reflects the manner in which its chief operating decision makers allocate resources and assess performance. Management has determined that Customers' operations consist of two reportable segments - Community Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing, and analysis of these segments vary considerably.

The Community Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington D.C., and Illinois through a single-point-of-contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Lending and deposit gathering activities are focused primarily on privately held businesses, high-net-worth families, selected commercial real estate lending, and commercial mortgage companies. Revenues are generated primarily through net interest income (the difference between interest earned on loans, investments, and other interest earning assets and interest paid on deposits and other borrowed funds) and other non-interest income, such as mortgage warehouse transactional fees and bank owned life insurance.

The BankMobile segment provides state-of-the-art high-tech digital banking and disbursement services to consumers, students, and the "under banked" nationwide. BankMobile, as a division of Customers Bank, is a full-service banking platform that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Revenues are currently being generated primarily through interchange and card revenue, deposit and wire transfer fees and university fees. The majority of revenue and expenses for BankMobile are related to the segment's operation of the ongoing business acquired through the Disbursement business acquisition.

The following tables present the operating results for Customers' reportable business segments for the three and six month periods ended June 30, 2018 and 2017. The segment financial results include directly attributable revenues and expenses. Corporate overhead costs are assigned to the Community Business Banking segment as those expenses are expected to continue following the planned spin-off of BankMobile. Similarly, the preferred stock dividends have been allocated in their entirety to the Community Business Banking segment. The tax benefit assigned to BankMobile was based on an estimated effective tax rate of 24.57% for 2018 and 38.00% for 2017, respectively.

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(amounts in thousands)	Three Months Ended June 30, 2018 Community Business Banking	BankMobile	Consolidated
Interest income [1]	$104,110	$ 3,529	$ 107,639
Interest expense	40,182	135	40,317
Net interest income	63,928	3,394	67,322
Provision for loan losses	(1,247)	463	(784)
Non-interest income	7,465	8,662	16,127
Non-interest expense	37,721	16,029	53,750
Income (loss) before income tax expense (benefit)	34,919	(4,436)	30,483
Income tax expense (benefit)	7,910	(1,090)	6,820
Net income (loss)	27,009	(3,346)	23,663
Preferred stock dividends	3,615	—	3,615
Net income (loss) available to common shareholders	$23,394	$ (3,346)	$ 20,048

(amounts in thousands)	Three Months Ended June 30, 2017 Community Business Banking	BankMobile	Consolidated
Interest income [1]	$91,107	$ 2,745	$ 93,852
Interest expense	25,228	18	25,246
Net interest income	65,879	2,727	68,606
Provision for loan losses	535	—	535
Non-interest income	6,971	11,420	18,391
Non-interest expense	30,567	19,846	50,413
Income (loss) before income tax expense (benefit)	41,748	(5,699)	36,049
Income tax expense (benefit)	14,493	(2,166)	12,327
Net income (loss)	27,255	(3,533)	23,722
Preferred stock dividends	3,615	—	3,615
Net income (loss) available to common shareholders	$23,640	$ (3,533)	$ 20,107

(1) - Amounts reported include funds transfer pricing of $3.5 million and $2.7 million for the three months ended June 30, 2018 and 2017, respectively, credited to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.

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(amounts in thousands)	Six Months Ended June 30, 2018 Community Business Banking	BankMobile	Consolidated
Interest income [1]	$196,664	$7,940	$204,604
Interest expense	72,100	151	72,251
Net interest income	124,564	7,789	132,353
Provision for loan losses	627	706	1,333
Non-interest income	15,904	21,133	37,037
Non-interest expense	72,052	33,979	106,031
Income (loss) before income tax expense (benefit)	67,789	(5,763)	62,026
Income tax expense (benefit)	15,638	(1,416)	14,222
Net income (loss)	52,151	(4,347)	47,804
Preferred stock dividends	7,229	—	7,229
Net income (loss) available to common shareholders	$44,922	$(4,347)	$40,575
As of June 30, 2018			
Goodwill and other intangibles	$3,629	$13,521	$17,150
Total assets	$11,017,272	$75,574	$11,092,846
Total deposits	$6,876,688	$419,266	$7,295,954
Total non-deposit liabilities	$2,843,360	$17,305	$2,860,665

(amounts in thousands)	Six Months Ended June 30, 2017 Community Business Banking	BankMobile	Consolidated
Interest income [1]	$169,938	$7,008	$176,946
Interest expense	45,883	39	45,922
Net interest income	124,055	6,969	131,024
Provision for loan losses	3,585	—	3,585
Non-interest income	12,398	28,746	41,144
Non-interest expense	60,714	39,064	99,778
Income (loss) before income tax expense (benefit)	72,154	(3,349)	68,805
Income tax expense (benefit)	20,609	(1,273)	19,336
Net income (loss)	51,545	(2,076)	49,469
Preferred stock dividends	7,229	—	7,229
Net income (loss) available to common shareholders	$44,316	$(2,076)	$42,240
As of June 30, 2017			
Goodwill and other intangibles	$3,633	$13,982	$17,615
Total assets	$10,815,752	$67,796	$10,883,548
Total deposits	$7,021,922	$453,441	$7,475,363
Total non-deposit liabilities	$2,481,618	$16,278	$2,497,896

(1) - Amounts reported include funds transfer pricing of $7.9 million and $7.0 million for the six months ended June 30, 2018 and 2017, respectively, credited to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.

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NOTE 13 - NON-INTEREST REVENUES

As provided in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, Customers' adoption of ASU 2014-09, Revenue from Contracts with Customers (ASC 606), on January 1, 2018 did not have a significant impact to Customers' consolidated financial statements and, as such, a cumulative effect adjustment to beginning retained earnings was not necessary. Customers determined that its debit and prepaid card interchange income, previously reported on a gross basis for periods prior to adoption will need to be presented on a net basis under this ASU. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous accounting guidance under ASC 605. Debit and prepaid card interchange expense for the three months ended June 30, 2018 and 2017 amounted to $1.2 million and $1.3 million, respectively. Debit and prepaid card interchange expense for the six months ended June 30, 2018 and 2017 amounted to $2.7 million and $3.2 million, respectively.

In addition, as part of the enhanced disclosure requirements under the new guidance, Customers is presenting disaggregated revenue by business segment, nature of the revenue stream, and the pattern or timing of revenue recognition. The accounting treatment for interest-related revenues is covered under ASC-310 and is out of the scope of ASU 2014-09.

The following tables present Customers' non-interest revenues affected by ASU 2014-09 by business segment for the three and six months ended June 30, 2018 and 2017:

(amounts in thousands)	Three Months Ended June 30, 2018		
	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$183	$ 6,199	$ 6,382
Deposit Fees	294	1,338	1,632
University Fees - Card and Disbursement Fees	—	185	185
Total revenue recognized at point in time	477	7,722	8,199
Revenue recognized over time:			
University Fees - Subscription Revenue	—	907	907
Total revenue recognized over time	—	907	907
Total revenue from contracts with customers	$477	$ 8,629	$ 9,106

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	Three Months Ended June 30, 2017		
(amounts in thousands)	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$126	$ 8,522	$ 8,648
Deposit Fees	258	1,875	2,133
University Fees - Card and Disbursement Fees	—	206	206
Total revenue recognized at point in time	384	10,603	10,987
Revenue recognized over time:			
University Fees - Subscription Revenue	—	784	784
Total revenue recognized over time	—	784	784
Total revenue from contracts with customers	$384	$ 11,387	$ 11,771

	Six Months Ended June 30, 2018		
(amounts in thousands)	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$406	$ 15,637	$ 16,043
Deposit Fees	580	3,144	3,724
University Fees - Card and Disbursement Fees	—	512	512
Total revenue recognized at point in time	986	19,293	20,279
Revenue recognized over time:			
University Fees - Subscription Revenue	—	1,777	1,777
Total revenue recognized over time	—	1,777	1,777
Total revenue from contracts with customers	$986	$ 21,070	$ 22,056

	Six Months Ended June 30, 2017		
(amounts in thousands)	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$328	$ 21,830	$ 22,158
Deposit Fees	582	4,678	5,260
University Fees - Card and Disbursement Fees	—	595	595
Total revenue recognized at point in time	910	27,103	28,013
Revenue recognized over time:			
University Fees - Subscription Revenue	—	1,579	1,579
Total revenue recognized over time	—	1,579	1,579
Total revenue from contracts with customers	$910	$ 28,682	$ 29,592

The following is a discussion of revenues within the scope of ASC 606:

Card revenue

Card revenue primarily relates to debit and prepaid card fees earned from interchange and ATM fees. Interchange fees are earned whenever Customers' issued debit and prepaid cards are processed through card payment networks. Interchange fees are recognized concurrent with the processing of the debit or prepaid card transaction.

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Deposit Fees

Deposit fees relate to service charges on deposit accounts for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop-payment charges, wire transfer fees, cashier or money order fees are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly maintenance and account analysis fees, are earned on a monthly basis representing the period over which Customers satisfies its performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the depositor's account balance.

The revenues recognized at a point in time primarily consist of contracts with no specified terms, but which may be terminated at any time by the customer without penalty. Due to the transactional nature and indefinite term of these agreements, there were no related contract balances that were recorded for these revenue streams on Customers' consolidated balance sheets as of June 30, 2018 and December 31, 2017.

University Fees

University fees represent revenues from higher education institutions and is generated from fees charged for the services provided. For higher education institution clients, Customers through BankMobile facilitates the distribution of financial aid and other refunds to students, while simultaneously enhancing the ability of the higher education institutions to comply with the federal regulations applicable to financial aid transactions. For these services, higher education institution clients are charged an annual subscription fee and/or per-transaction fee (e.g., new card or card replacement fees) for certain transactions. The annual subscription fee is recognized ratably over the period of service and the transaction fees are recognized when the transaction is completed. BankMobile also enters into long-term (generally three- or five-year initial term) contracts with higher education institutions to provide these refund management disbursement services. Deferred revenue consists of amounts billed to or received from clients prior to the performance of services. The deferred revenues are earned over the service period on a straight line basis. As of June 30, 2018 and December 31, 2017, Customers recorded deferred revenue of $3.1 million and $2.0 million, respectively, related to these university subscription contracts. At June 30, 2018 and December 31, 2017, Customers had accounts receivable of $2.5 million and $1.1 million, respectively, related to the university fee arrangements.

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Note Regarding Forward-Looking Statements

This report and all attachments hereto, as well as other written or oral communications made from time to time by us, may contain forward-looking information within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “plan,” “intend,” or “anticipate” or the nega thereof or comparable terminology. Forward-looking statements reflect numerous assumptions, estimates and forecasts as to future events. No assurance can be given that the assumptions, estimates and forecasts underlying such forward-looking statements will accurately reflect future conditions, or that any guidance, goals, targets or projected results will be realized. The assumptions, estimates and forecasts underlying such forward-looking statements involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions, which may not be realized and which are inherently subject to significant business, economic, competitive and regulatory uncertainties and known and unknown risks, including the risks described under “Risk Factors” in Customers Bancorp, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “2017 Form 10-K”), as such factors may be updated from time to time in our filings with the SEC, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Our actual results may differ materially from those reflected in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements we make, which speak only as of the date they are made. We do not undertake any obligation to release publicly or otherwise provide any revisions to any forward-looking statements we may make, including any forward-looking financial information, to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable law.
Management’s discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, Inc. (the "Bancorp" or "Customers Bancorp"), a financial holding company, and its wholly owned subsidiaries, including Customers Bank (the "Bank"), collectively referred to as "Customers" herein. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers' financial condition and results of operations as of and for the three and six months ended June 30, 2018. All quarterly information in this Management’s Discussion and Analysis is unaudited. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Customers' 2017 Form 10-K.

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Critical Accounting Policies

Customers has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of its financial statements. Customers' significant accounting policies are described in "NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION" in Customers' audited financial statements included in its 2017 Form 10-K and updated in this Form 10-Q for the quarterly period ended June 30, 2018 in "NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION."

Certain accounting policies involve significant judgments and assumptions by Customers that have a material impact on the carrying value of certain assets and liabilities. Customers considers these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of Customers' assets and liabilities and its results of operations.

Second Quarter Events of Note

Customers reported net income available to common shareholders of $20.0 million, or $0.62 per diluted share, for second quarter 2018. Customers' net income to common shareholders was $40.6 million, or $1.26 per diluted share, for the six months ended June 30, 2018. Total assets were $11.1 billion at June 30, 2018, an increase of $1.3 billion from December 31, 2017, including $405.8 million of total loan growth and $689.6 million of investment securities growth. Customers expects a more moderate pace of growth through the rest of the year with an emphasis on shifting from lower yielding to higher yielding assets, and the development of sustainable deposits to replace short-term borrowings and fund future growth.

Asset quality remained exceptional with non-performing loans of $26.0 million, or 0.29% of total loans, and total non-performing assets (non-performing loans and other real estate owned) only 0.25% of total assets at June 30, 2018, reflecting Customers' conservative lending practices and continued focus on credit risk management. Customers' level of non-performing loans to total loans at June 30, 2018 remained well below industry average non-performing loans to total loans of 1.26% and Customers' peer group non-performing loans to total loans of 0.82%. Customers' capital ratios at the holding company and its bank subsidiary continue to exceed the "well-capitalized" threshold established by regulation at the Bank and exceed the applicable Basel III regulatory threshold ratios for the Bancorp and the Bank at June 30, 2018. Customers Bancorp's Tier 1 leverage ratio was 8.87%, and its total risk-based capital ratio was 12.55%, at June 30, 2018.

Results of Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Net income available to common shareholders decreased $0.1 million, or 0.3%, to $20.0 million for the three months ended June 30, 2018 when compared to net income available to common shareholders of $20.1 million for the three months ended June 30, 2017. The decreased net income available to common shareholders primarily resulted from an increase in non-interest expense of $3.3 million, or 6.6%, a decrease in non-interest income of $2.3 million, or 12.3%, and a decrease in net interest income of $1.3 million, or 1.9%, offset in part by a decrease in income tax expense of $5.5 million and a decrease in the provision for loan losses of $1.3 million.

Net interest income of $67.3 million decreased $1.3 million, or 1.9%, for the three months ended June 30, 2018 when compared to net interest income of $68.6 million for the three months ended June 30, 2017. This decrease resulted primarily from an increase in the cost of funds, primarily in money market deposit accounts, certificates of deposit, and short term borrowings, driving a 16 basis point decline in net interest margin (tax-equivalent) to 2.62% for second quarter 2018 from 2.78% for second quarter 2017. The 58 basis point higher cost of funds was offset in part by an increase in the average balance of interest-earning assets of $0.4 billion over the prior year period and a 37 basis point increase in the yield on loans.

The provision for loan losses decreased $1.3 million for the three months ended June 30, 2018 when compared to the provision for loan losses of $0.5 million for the three months ended June 30, 2017. The second quarter 2018 provision for loan losses included a release of $0.8 million that resulted from continued strong asset quality and lower incurred

losses than previously estimated and a release of $0.3 million for impaired loans, offset in part by $0.3 million of provision for loan growth.

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Non-interest income of $16.1 million decreased $2.3 million, or 12.3%, for the three months ended June 30, 2018 when compared to non-interest income of $18.4 million for the three months ended June 30, 2017. Included within non-interest income for the three months ended June 30, 2018 was $1.2 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of $7.6 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication and bank operations expense. For the three months ended June 30, 2017, debit and prepaid card interchange expense was $1.3 million. If the three months ended June 30, 2017 was presented on a consistent basis with the three months ended June 30, 2018, the reported amount of non-interest income of $18.4 million would have been $17.1 million and the gross interchange and card revenue of $8.6 million would have been presented net of the debit and prepaid card interchange expense of $1.3 million, or $7.4 million. When presented on a consistent basis, the $1.0 million decline in interchange and card revenue was largely the result of lower activity volumes in the BankMobile business segment. Other decreases in total non-interest income for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 included decreases in mortgage warehouse transactional fees and deposit fees of $0.6 million and $0.5 million, respectively, primarily resulting from reduced transaction volumes. For the three months ended June 30, 2017, Customers also realized $3.2 million of gains from the sale of investment securities. The decreases in non-interest income for the three months ended June 30, 2018 were partially offset by an increase in other non-interest income of $1.5 million, primarily from increased income on commercial operating leases of $1.1 million, and a decline in other-than temporary impairment losses from the $2.9 million recognized in second quarter 2017.

Non-interest expense of $53.8 million increased $3.3 million, or 6.6%, for the three months ended June 30, 2018 when compared to non-interest expense of $50.4 million for the three months ended June 30, 2017. This increase resulted from increases in salaries and employee benefits of $4.1 million as Customers continues to hire new team members in the markets that it serves. Total non-interest expense for the three months ended June 30, 2018 excludes $1.2 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the three months ended June 30, 2017 was presented on a consistent basis with the three months ended June 30, 2018, the reported amount of non-interest expense of $50.4 million would have been $49.1 million and technology, communication, and bank operations expense of $8.9 million would have been $7.6 million. When presented on a consistent basis, technology, communication and bank operations expense increased $3.7 million, or 48.7%, to $11.3 million for the three months ended June 30, 2018 from $7.6 million for the three months ended June 30, 2017 given the continued investment in the BankMobile segment infrastructure and Customers' recent system conversion. These increases in non-interest expense were partially offset by a decrease in professional services of $2.4 million, primarily attributable to reductions in consulting, legal and other professional services as management continues its efforts to monitor and control expenses.

Income tax expense of $6.8 million decreased $5.5 million, or 44.7%, for the three months ended June 30, 2018 when compared to income tax expense of $12.3 million for the three months ended June 30, 2017. The decrease in income tax expense was driven primarily by a lower federal income tax rate from the adoption of the Tax Cut and Jobs Act of 2017, as well as by a decrease in pre-tax income of $5.6 million in second quarter 2018 compared to second quarter 2017. Customers' effective tax rate decreased to 22.37% for the three months ended June 30, 2018, compared to 34.20% for the same period in 2017.

Preferred stock dividends were $3.6 million for the three months ended June 30, 2018 and 2017, respectively.

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NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings.

The following table summarizes Customers' net interest income and related interest spread and net interest margin for the periods indicated.

	Three Months Ended June 30,					
	2018			2017		
(dollars in thousands)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)
Assets						
Interest-earning deposits	$188,880	$ 839	1.78 %	$203,460	$ 549	1.08 %
Investment securities (1)	1,213,989	9,765	3.22 %	1,066,277	7,823	2.94 %
Loans:						
Commercial loans to mortgage companies	1,760,519	21,626	4.93 %	1,762,469	18,198	4.14 %
Multi-family loans	3,561,679	34,646	3.90 %	3,508,619	32,762	3.75 %
Commercial and industrial loans (2)	1,713,150	20,303	4.75 %	1,405,150	14,746	4.21 %
Non-owner occupied commercial real estate	1,269,373	12,830	4.05 %	1,299,809	12,964	4.00 %
All other loans	482,098	5,835	4.85 %	542,093	5,890	4.36 %
Total loans (3)	8,786,819	95,240	4.35 %	8,518,140	84,560	3.98 %
Other interest-earning assets	139,842	1,795	5.15 %	105,908	920	3.48 %
Total interest-earning assets	10,329,530	107,639	4.18 %	9,893,785	93,852	3.80 %
Non-interest-earning assets	391,660			371,548		
Total assets	$10,721,190			$10,265,333		
Liabilities						
Interest checking accounts	$554,441	2,183	1.58 %	$346,940	634	0.73 %
Money market deposit accounts	3,310,979	13,444	1.63 %	3,456,638	8,369	0.97 %
Other savings accounts	36,784	25	0.27 %	41,491	30	0.29 %
Certificates of deposit	1,960,007	8,530	1.75 %	2,413,241	7,195	1.20 %
Total interest-bearing deposits	5,862,211	24,182	1.65 %	6,258,310	16,228	1.04 %
Borrowings	2,736,644	16,135	2.36 %	1,951,282	9,018	1.85 %
Total interest-bearing liabilities	8,598,855	40,317	1.88 %	8,209,592	25,246	1.23 %
Non-interest-bearing deposits	1,109,527			1,082,799		
Total deposits and borrowings	9,708,382		1.67 %	9,292,391		1.09 %
Other non-interest-bearing liabilities	84,788			74,429		
Total liabilities	9,793,170			9,366,820		
Shareholders' Equity	928,020			898,513		
Total liabilities and shareholders' equity	$10,721,190			$10,265,333		
Net interest income		67,322			68,606	
Tax-equivalent adjustment (4)		171			104	
Net interest earnings		$ 67,493			$ 68,710	
Interest spread			2.51 %			2.71 %
Net interest margin			2.61 %			2.78 %
Net interest margin tax equivalent (4)			2.62 %			2.78 %

(1) For presentation in this table, average balances and the corresponding average yields for investment securities are based upon historical cost, adjusted for other-than-temporary impairment and amortization of premiums and

accretion of discounts.

(2) Includes owner occupied commercial real estate loans.

(3) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.

(4) Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the three months ended June 30, 2018 and 35% for the three months ended June 30, 2017, presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2018 vs. 2017 Increase (Decrease) due to Change in		
	Rate	Volume	Total
(amounts in thousands)			
Interest income			
Interest-earning deposits	$332	$(42)	$290
Investment securities	797	1,145	1,942
Loans:			
Commercial loans to mortgage companies	3,448	(20)	3,428
Multi-family loans	1,383	501	1,884
Commercial and industrial loans, including owner occupied commercial real estate	2,062	3,495	5,557
Non-owner occupied commercial real estate	172	(306)	(134)
All other loans	634	(689)	(55)
Total loans	7,699	2,981	10,680
Other interest-earning assets	524	351	875
Total interest income	9,352	4,435	13,787
Interest expense			
Interest checking accounts	1,021	528	1,549
Money market deposit accounts	5,442	(367)	5,075
Other savings accounts	(2)	(3)	(5)
Certificates of deposit	2,867	(1,532)	1,335
Total interest-bearing deposits	9,328	(1,374)	7,954
Borrowings	2,894	4,223	7,117
Total interest expense	12,222	2,849	15,071
Net interest income	$(2,870)	$1,586	$(1,284)

Net interest income for the three months ended June 30, 2018 was $67.3 million, a decrease of $1.3 million, or 1.9%, from net interest income of $68.6 million for the three months ended June 30, 2017, as net interest margin (tax equivalent) narrowed by 16 basis points to 2.62% for second quarter 2018 compared to 2.78% for second quarter 2017. The net interest margin (tax equivalent) compression largely resulted from a 61 basis point increase in the cost of interest-bearing deposits, reflecting higher interest rates offered by Customers on its money market deposit accounts and certificates of deposits in order to remain competitive and attract new and retain existing deposit customers, and a 51 basis point increase in borrowing costs, reflecting higher short-term funding rates and a full-quarter effect of the $100 million 3.95% senior debt securities issued on June 30, 2017. The higher cost of funds was offset in part by a 38 basis point increase in the yield on interest-earning assets, primarily resulting from increased yields on commercial loans to mortgage companies, multi-family loans, and commercial and industrial loans, reflecting higher short-term interest rates and increased prepayment fees of $1.0 million in second quarter 2018 compared to second quarter 2017.

Interest expense on borrowings increased $7.1 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. This increase was primarily driven by higher average balances of borrowings, which increased $0.8 billion for the three months ended June 30, 2018 compared to the three months ended June 30, 2017, primarily as a result of increases in the average balances of FHLB advances and senior note borrowings to fund the growth in interest-earning assets.

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PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $1.3 million to a benefit of $0.8 million for the three months ended June 30, 2018, compared to expense of $0.5 million for the same period in 2017. The provision for loan losses in second quarter 2018 included a release of $0.8 million that resulted from improved asset quality and lower incurred losses than previously estimated and a release of $0.3 million for impaired loans, offset in part by $0.3 million of provision for loan growth. The provision for loan losses in second quarter 2017 included a release of $0.5 million from improved asset quality and lower incurred losses than previously estimated, offset by $0.6 million of provision for impaired loans, and $0.4 million of provision for loan growth.

For more information about the provision and allowance for loan losses and our loss experience, see “Credit Risk” and “Asset Quality” herein.

NON-INTEREST INCOME

The table below presents the components of non-interest income for the three months ended June 30, 2018 and 2017.

	Three Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Interchange and card revenue	$6,382	$8,648
Mortgage warehouse transactional fees	1,967	2,523
Bank-owned life insurance	1,869	2,258
Deposit fees	1,632	2,133
Gain on sale of SBA and other loans	947	573
Mortgage banking income	205	291
Gain on sale of investment securities	—	3,183
Impairment loss on investment securities	—	(2,882)
Other	3,125	1,664
Total non-interest income	$16,127	$18,391

Non-interest income of $16.1 million decreased $2.3 million, or 12.3%, for the three months ended June 30, 2018 when compared to non-interest income of $18.4 million for the three months ended June 30, 2017. Included within non-interest income for the three months ended June 30, 2018 was $1.2 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of $7.6 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication and bank operations expense. For the three months ended June 30, 2017, debit and prepaid card interchange expense was $1.3 million. If the three months ended June 30, 2017 was presented on a consistent basis with the three months ended June 30, 2018, the reported amount of non-interest income of $18.4 million would have been $17.1 million and the gross interchange and card revenue of $8.6 million would have been presented net of the debit and prepaid card interchange expense of $1.3 million, or $7.4 million. When presented on a consistent basis, the $1.0 million decline in interchange and card revenue was largely the result of lower activity volumes in the BankMobile business segment. Other decreases in total non-interest income for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 included decreases in mortgage warehouse transactional fees and deposit fees of $0.6 million and $0.5 million, or 22.0% and 23.5%, respectively, primarily resulting from reduced transaction volumes. BankMobile continues to focus on implementing its "Customers for Life" model and decrease its reliance on Disbursement related deposits. For the three months ended June 30, 2017, Customers also realized $3.2 million of gains from the sale of investment securities. The decreases in non-interest income for the three months ended June 30, 2018 were partially offset by an increase in other non-interest income of

$1.5 million, primarily from increased income on commercial operating leases of $1.1 million, and a decline in other-than temporary impairment losses from the $2.9 million recognized in second quarter 2017.

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NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the three months ended June 30, 2018 and 2017.

	Three Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Salaries and employee benefits	$27,748	$23,651
Technology, communication and bank operations	11,322	8,910
Professional services	3,811	6,227
Occupancy	3,141	2,657
FDIC assessments, non-income taxes, and regulatory fees	2,135	2,416
Provision for operating losses	1,233	1,746
Merger and acquisition related expenses	869	—
Loan workout	648	408
Advertising and promotion	319	378
Other real estate owned expenses	58	160
Other	2,466	3,860
Total non-interest expense	$53,750	$50,413

Non-interest expense was $53.8 million for the three months ended June 30, 2018, an increase of $3.3 million, or 6.6% from non-interest expense of $50.4 million for the three months ended June 30, 2017. As described above, total non-interest expense for the three months ended June 30, 2018 excludes $1.2 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the three months ended June 30, 2017 was presented on a consistent basis with the three months ended June 30, 2018, the reported amount of non-interest expense of $50.4 million would have been $49.1 million and technology, communication, and bank operations expense of $8.9 million would have been $7.6 million.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $4.1 million, or 17.3%, to $27.7 million for the three months ended June 30, 2018 from $23.7 million for the three months ended June 30, 2017. The increase was primarily attributable to increases in compensation levels for existing team members, reflecting higher costs to maintain our workforce, and an increase in headcount as Customers continues to hire new team members in the markets it serves.

When presented on a consistent basis, technology, communication and bank operations expense increased $3.7 million, or 48.7%, to $11.3 million for the three months ended June 30, 2018 from $7.6 million for the three months ended June 30, 2017 given the continued investment in the BankMobile segment infrastructure and Customers' recent system conversion.

Merger and acquisition related expenses were $0.9 million for the three months ended June 30, 2018, compared to no similar expenses for the three months ended June 30, 2017. These charges include professional services expenses incurred in connection with the planned spin-off of the BankMobile business as well as a residual expense resulting from the 2016 acquisition of the Disbursements business.

These increases were partially offset by a decrease in professional services expense of $2.4 million, or 38.8%, to $3.8 million for the three months ended June 30, 2018 from $6.2 million for the three months ended June 30, 2017. This decrease was primarily attributable to reductions in consulting, legal and other professional services as management continues its efforts to monitor and control expenses.

INCOME TAXES

Income tax expense of $6.8 million decreased $5.5 million, or 44.7%, resulting in an effective tax rate of 22.4% for the three months ended June 30, 2018 when compared to income tax expense of $12.3 million and an effective tax rate of 34.2% for the three months ended June 30, 2017. The decrease in income tax expense and effective rate was driven by the lower corporate tax rate as a result of the Tax Cuts and Jobs Act enacted in December 2017, as well as a decrease in pre-tax income of $5.6 million in the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

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PREFERRED STOCK DIVIDENDS

Preferred stock dividends were $3.6 million for the three months ended June 30, 2018 and 2017, respectively. There were no changes to the amount of preferred stock outstanding or the dividend rates from second quarter 2017 to second quarter 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net income available to common shareholders decreased $1.7 million, or 3.9%, to $40.6 million for the six months ended June 30, 2018 when compared to net income available to common shareholders of $42.2 million for the six months ended June 30, 2017. The decreased net income available to common shareholders resulted primarily from an increase in non-interest expense of $6.3 million and a decrease in non-interest income of $4.1 million, offset in part by decreases in income tax expense of $5.1 million and the provision for loan losses of $2.3 million and an increase in net interest income of $1.3 million.

Net interest income increased $1.3 million, or 1.0%, for the six months ended June 30, 2018 to $132.4 million when compared to net interest income of $131.0 million for the six months ended June 30, 2017. This increase resulted primarily from an increase in the average balance of loans of $0.5 billion and a 29 basis point increase in the yield on loans. These increases were offset in part by a 53 basis point increase in the cost of interest-bearing deposits and a 30 basis point increase in the cost of borrowings for the first six months of 2018 when compared to the first six months of 2017.

The provision for loan losses decreased $2.3 million to $1.3 million for the six months ended June 30, 2018 when compared to the provision for loan losses of $3.6 million for the same period in 2017. The provision for loan losses of $1.3 million included $1.2 million for loan portfolio growth and $1.1 million for impaired loans, offset in part by a $0.9 million release that resulted from improved asset quality and lower incurred losses than previously estimated.

Non-interest income decreased $4.1 million during the six months ended June 30, 2018 to $37.0 million, compared to $41.1 million for the six months ended June 30, 2017. Included within non-interest income for the six months ended June 30, 2018 was $2.7 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of $18.8 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication and bank operations expense. For the six months ended June 30, 2017, debit and prepaid card interchange expense was $3.2 million. If the six months ended June 30, 2017 was presented on a consistent basis with the six months ended June 30, 2018, the reported amount of non-interest income of $41.1 million would have been $38.0 million and the gross interchange and card revenue of $22.2 million would have been presented net of the debit and prepaid card interchange expense of $3.2 million, or $19.0 million. When presented on a consistent basis, the $3.0 million decline in interchange and card revenue was largely the result of lower activity volumes in the BankMobile business segment. Deposit fees of $3.7 million for the six months ended June 30, 2018 decreased $1.5 million compared to $5.3 million for the six months ended June 30, 2017, mostly driven by lower activity volumes in the BankMobile business segment. There was also a decrease of $3.2 million in gains realized from the sale of investment securities for the six months ended June 30, 2018, compared to the six months ended June 30, 2017. These decreases in non-interest income were offset in part by an increase in other non-interest income of $2.5 million, primarily driven by increased income on commercial operating leases, and a decline in other-than-temporary impairment losses from the $4.6 million recognized during the six months ended June 30, 2017.

Non-interest expense increased $6.3 million, or 6.3%, for the six months ended June 30, 2018 to $106.0 million when compared to non-interest expense of $99.8 million for the six months ended June 30, 2017. The increase was mostly driven by increases in salaries and employee benefits of $7.9 million resulting from salary increases to existing team members as well as an increase in headcount as Customers continues to hire new team members in the markets that it serves. Total non-interest expense for the six months ended June 30, 2018 excludes $2.7 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the six months ended June 30, 2017 was presented on a consistent basis with the six months ended June 30, 2018, the

reported amount of non-interest expense of $99.8 million would have been $96.6 million and technology, communication, and bank operations expense of $18.8 million would have been $15.7 million. When presented on a consistent basis, technology, communication and bank operations expense increased $5.6 million, or 35.7%, to $21.3 million for the six months ended June 30, 2018 from $15.7 million for the six months ended June 30, 2017 given the continued investment in the BankMobile segment infrastructure and Customers' recent system conversion. Merger and acquisition related expenses were $1.0 million for the six months ended June 30, 2018, compared to no similar expenses for the six months ended June 30, 2017. These expenses include professional services expenses incurred in connection with the planned spin-off of the BankMobile business as well as a residual expense resulting from the 2016 acquisition of the Disbursements business. These increases in non-interest expense were partially offset by a

decrease in professional services expense of $3.9 million, primarily attributable to reductions in consulting, legal and other professional services as management continues its efforts to monitor and control expenses.

Income tax expense decreased $5.1 million for the six months ended June 30, 2018 to $14.2 million when compared to income tax expense of $19.3 million for the same period in 2017. The decrease in income tax expense was driven primarily by a decrease in pre-tax income of $6.8 million in the first six months of 2018, as well as a lower federal income tax rate resulting from the Tax Cut and Jobs Act of 2017. Customers' effective tax rate decreased to 22.9% for the six months ended June 30, 2018, compared to 28.1% for the same period in 2017. Income tax expense for the six months ended June 30, 2017 included the recognition of a tax benefit of $4.6 million for the development of tax strategies that would have allowed for the recognition of the tax benefit from losses that had been recorded for impairment charges on the Religare equity securities.

Preferred stock dividends were $7.2 million for the six months ended June 30, 2018 and 2017, respectively.

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NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings.

The following table summarizes Customers' net interest income and related interest spread and net interest margin for the periods indicated.

	Six Months Ended June 30,					
	2018			2017		
(amounts in thousands)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)
Assets						
Interest-earning deposits	$186,470	$1,533	1.66 %	$350,693	$1,523	0.88 %
Investment securities (1)	1,150,064	18,437	3.21 %	948,657	13,710	2.91 %
Loans:						
Commercial loans to mortgage companies	1,676,601	40,021	4.81 %	1,622,182	32,761	4.07 %
Multi-family loans	3,599,593	67,958	3.81 %	3,423,449	63,270	3.73 %
Commercial and industrial loans (2)	1,683,566	37,990	4.55 %	1,378,085	28,241	4.13 %
Non-owner occupied commercial real estate	1,275,404	25,243	3.99 %	1,288,610	24,948	3.90 %
All other loans	406,519	9,959	4.94 %	479,242	10,747	4.52 %
Total loans (3)	8,641,683	181,171	4.23 %	8,191,568	159,967	3.94 %
Other interest-earning assets	128,396	3,463	5.44 %	91,026	1,746	3.87 %
Total interest earning assets	10,106,613	204,604	4.08 %	9,581,944	176,946	3.72 %
Non-interest-earning assets	393,066			356,311		
Total assets	$10,499,679			$9,938,255		
Liabilities						
Interest checking accounts	$526,995	3,615	1.38 %	$332,673	1,131	0.69 %
Money market deposit accounts	3,356,717	24,914	1.50 %	3,306,988	14,595	0.89 %
Other savings accounts	37,138	50	0.27 %	42,383	58	0.28 %
Certificates of deposit	1,916,421	15,396	1.62 %	2,555,488	14,767	1.17 %
Total interest-bearing deposits	5,837,271	43,975	1.52 %	6,237,532	30,551	0.99 %
Borrowings	2,461,085	28,276	2.31 %	1,543,154	15,371	2.01 %
Total interest-bearing liabilities	8,298,356	72,251	1.75 %	7,780,686	45,922	1.19 %
Non-interest-bearing deposits	1,193,769			1,198,355		
Total deposits and borrowings	9,492,125		1.53 %	8,979,041		1.03 %
Other non-interest-bearing liabilities	80,074			75,876		
Total liabilities	9,572,199			9,054,917		
Shareholders’ Equity	927,480			883,338		
Total liabilities and shareholders’ equity	$10,499,679			$9,938,255		
Net interest income		132,353			131,024	
Tax-equivalent adjustment (4)		342			197	
Net interest earnings		$132,695			$131,221	
Interest spread			2.55 %			2.69 %
Net interest margin			2.64 %			2.75 %
Net interest margin tax equivalent (4)			2.64 %			2.76 %

(1) For presentation in this table, average balances and the corresponding average yields for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(2) Includes owner occupied commercial real estate loans.

(3) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.

(4) Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the six months ended June 30, 2018 and 35% for the six months ended June 30, 2017 presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Six Months Ended June 30, 2018 vs. 2017 Increase (Decrease) due to Change in		
(amounts in thousands)	Rate	Volume	Total
Interest income			
Interest-earning deposits	$942	$(932)	$10
Investment securities	1,606	3,121	4,727
Loans:			
Commercial loans to mortgage companies	6,130	1,130	7,260
Multi-family loans	1,383	3,305	4,688
Commercial and industrial loans, including owner occupied commercial real estate	3,054	6,695	9,749
Non-owner occupied commercial real estate	552	(257)	295
All other loans	935	(1,723)	(788)
Total loans	12,054	9,150	21,204
Other interest-earning assets	855	862	1,717
Total interest income	15,457	12,201	27,658
Interest expense			
Interest checking accounts	1,578	906	2,484
Money market deposit accounts	10,096	223	10,319
Other savings accounts	(1)	(7)	(8)
Certificates of deposit	4,884	(4,255)	629
Total interest-bearing deposits	16,557	(3,133)	13,424
Borrowings	2,649	10,256	12,905
Total interest expense	19,206	7,123	26,329
Net interest income	$(3,749)	$5,078	$1,329

Net interest income for the six months ended June 30, 2018 was $132.4 million, an increase of $1.3 million, or 1.0%, when compared to net interest income of $131.0 million for the six months ended June 30, 2017. This increase was primarily driven by increased average loan and security balances of $0.7 billion and higher yields on commercial loans to mortgage companies.

Net interest margin (tax equivalent) narrowed by 12 basis points to 2.64% for the six months ended June 30, 2018, compared to 2.76% for the six months ended June 30, 2017. The net interest margin compression largely resulted from a 53 basis point increase in the cost of interest-bearing deposits, reflecting higher interest rates offered by Customers on its money market deposit accounts and certificates of deposits in order to remain competitive and attract new and retain existing deposit customers. The higher cost of funds was offset in part by a 36 basis point increase in the yield on interest-earning assets, primarily due to an increase in the yield on commercial loans to mortgage companies, reflecting higher short-term interest rates.

Interest expense on total interest-bearing deposits increased $13.4 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This increase primarily resulted from the aforementioned increase in rates offered on money market deposit accounts and certificates of deposit.

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Interest expense on borrowings increased $12.9 million for the six months ended June 30, 2018, compared to the six months ended June 30, 2017. This increase was driven by increased volume as average borrowings increased by $917.9 million when compared to average borrowings for the six months ended June 30, 2017, mostly due to higher average outstanding balances of short-term FHLB advances and senior note borrowings to fund the growth in interest-earning assets.

PROVISION FOR LOAN LOSSES

The provision for loan losses decreased by $2.3 million to $1.3 million for the six months ended June 30, 2018, compared to $3.6 million for the same period in 2017. The provision for loan losses for the six months ended June 30, 2018 included $1.2 million for loan portfolio growth, $1.1 million for impaired loans, offset in part by a release of $0.9 million resulting from improved asset quality and lower incurred losses than previously estimated. The provision for loan losses for the six months ended June 30, 2017 included $3.1 million for impaired loans and $0.9 million for loan portfolio growth, offset in part by a release of $0.5 million resulting from improved asset quality and lower incurred losses than previously estimated.

For more information about the provision and allowance for loan losses and our loss experience, see “Credit Risk” and “Asset Quality” herein.

NON-INTEREST INCOME

The table below presents the components of non-interest income for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Interchange and card revenue	$16,043	$22,158
Bank-owned life insurance	3,900	3,624
Mortgage warehouse transactional fees	3,854	4,743
Deposit fees	3,724	5,260
Gain on sale of SBA and other loans	2,308	1,901
Mortgage banking income	325	446
Gain on sale of investment securities	—	3,183
Impairment loss on investment securities	—	(4,585)
Other	6,883	4,414
Total non-interest income	$37,037	$41,144

Non-interest income decreased $4.1 million during the six months ended June 30, 2018 to $37.0 million, compared to $41.1 million for the six months ended June 30, 2017. Included within non-interest income for the six months ended June 30, 2018 was $2.7 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of $18.8 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication and bank operations expense. For the six months ended June 30, 2017, debit and prepaid card interchange expense was $3.2 million. If the six months ended June 30, 2017 was presented on a consistent basis with the six months ended June 30, 2018, the reported amount of non-interest income of $41.1 million would have been $38.0 million and the gross interchange and card revenue of $22.2 million would have been presented net of the debit and prepaid card interchange expense of $3.2 million, or $19.0 million. When presented on a consistent basis, the $3.0 million decline in interchange and card revenue was largely the result of lower activity volumes in the BankMobile business segment.

Deposit fees of $3.7 million for the six months ended June 30, 2018 decreased $1.5 million compared to $5.3 million for the six months ended June 30, 2017, mostly driven by lower activity volumes in the BankMobile business

segment. There was also a decrease of $3.2 million in gains realized from the sale of investment securities for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. These decreases in non-interest income were offset in part by an increase in other non-interest income of $2.5 million, primarily driven by increased income on commercial operating leases, and a decline in other-than-temporary impairment losses from the $4.6 million recognized during the six months ended June 30, 2017 for the decline in market value of the Religare equity securities.

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NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
(amounts in thousands)		
Salaries and employee benefits	$52,673	$44,763
Technology, communication and bank operations	21,266	18,827
Professional services	9,820	13,739
Occupancy	5,975	5,371
FDIC assessments, non-income taxes, and regulatory fees	4,335	4,141
Provision for operating losses	2,759	3,392
Loan workout	1,307	929
Merger and acquisition related expenses	975	—
Advertising and promotion	709	704
Other real estate owned expenses	98	105
Other	6,114	7,807
Total non-interest expense	$106,031	$99,778

Non-interest expense was $106.0 million for the six months ended June 30, 2018, an increase of $6.3 million from non-interest expense of $99.8 million for the six months ended June 30, 2017. As described above, total non-interest expense for the six months ended June 30, 2018 excludes $2.7 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the six months ended June 30, 2017 was presented on a consistent basis with the six months ended June 30, 2018, the reported amount of non-interest expense of $99.8 million would have been $96.6 million and technology, communication, and bank operations expense of $18.8 million would have been $15.7 million.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $7.9 million, or 17.7%, to $52.7 million for the six months ended June 30, 2018, reflecting salary increases for existing team members and increased headcount as Customers continues to hire new team members in the markets it serves.

When presented on a consistent basis, technology, communication and bank operations expense increased $5.6 million, or 35.7%, to $21.3 million for the six months ended June 30, 2018 from $15.7 million for the six months ended June 30, 2017 given the continued investment in the BankMobile segment infrastructure and Customers' recent system conversion.

Merger and acquisition related expenses were $1.0 million for the six months ended June 30, 2018, compared to no similar expenses for the six months ended June 30, 2017. These expenses include professional services expenses incurred in connection with the planned spin-off of the BankMobile business as well as a residual expense resulting from the 2016 acquisition of the Disbursements business.

Occupancy expense increased $0.6 million, or 11.2%, to $6.0 million for the six months ended June 30, 2018 from $5.4 million for the six months ended June 30, 2017 as Customers expanded into different geographical markets.

Professional services expense decreased by $3.9 million, or 28.5%, to $9.8 million for the six months ended June 30, 2018 from $13.7 million for the six months ended June 30, 2017. This decrease was primarily driven by a reduction in expenses for consulting, legal, and other professional fees as management continues its efforts to monitor and control expenses.

Provision for operating losses decreased by $0.6 million, or 18.7%, to $2.8 million for the six months ended June 30, 2018 from $3.4 million for the six months ended June 30, 2017. The provision for operating losses represents Customers' estimated liability for losses resulting from fraud or theft-based transactions that have generally been disputed by deposit account holders mainly from its BankMobile Disbursements business but where such disputes have not been resolved as of the end of the reporting period. The reserve is based on historical rates of loss on such transactions.

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INCOME TAXES

Income tax expense decreased $5.1 million for the six months ended June 30, 2018 to $14.2 million when compared to income tax expense of $19.3 million for the same period in 2017. The decrease in income tax expense was driven primarily by a decrease in pre-tax income of $6.8 million in the first six months of 2018. Customers' effective tax rate decreased to 22.9% for the six months ended June 30, 2018, compared to 28.1% for the same period in 2017. The decrease in the effective tax rate was primarily driven by lower federal income tax tax rates following the enactment of the Tax Cuts and Jobs Act in December 2017 and a lower taxable income for the six months ended June 30, 2018 compared to the same period in 2017. In the six months ended June 30, 2017, there was a recognition of a tax benefit of $4.6 million for the development of tax strategies that would have allowed for the recognition of the tax benefit from losses that had been recorded for impairment charges on the Religare equity securities.

PREFERRED STOCK DIVIDENDS

Preferred stock dividends were $7.2 million for the six months ended June 30, 2018 and June 30, 2017, respectively. There were no changes to the amount of preferred stock outstanding or the dividend rates for the first six months of 2018 compared to the first six months of 2017.

Financial Condition

General

Customers' total assets were $11.1 billion at June 30, 2018. This represented a $1.3 billion, or 12.7%, increase from total assets of $9.8 billion at December 31, 2017. At December 31, 2017, Customers had strategically reduced total assets to under $10 billion to improve capital ratios and to continue to maintain its small issuer status under the Durbin Amendment to maximize interchange revenue until July 1, 2019. The change in Customers' financial position at June 30, 2018 compared to December 31, 2017 occurred primarily as a result of an increase in total investment securities of $0.7 billion, or 146.3%, to $1.2 billion at June 30, 2018 compared to $0.5 billion at December 31, 2017, primarily driven by growth in agency-guaranteed mortgage-backed securities and corporate bonds. The increase in total assets was also attributable to an increase in total loans outstanding, including loans held for sale, of $405.8 million, or 4.7%, since December 31, 2017, primarily driven by growth in commercial and industrial loans (including owner occupied commercial real estate loans) of $172.5 million, commercial loans to mortgage banking business of $142.7 million, and consumer loans of $253.8 million. These increases were offset in part by a decrease in multi-family loans of $103.8 million.

Total liabilities were $10.2 billion at June 30, 2018. This represented a $1.2 billion, or 13.9%, increase from $8.9 billion at December 31, 2017. The increase in total liabilities resulted primarily from FHLB borrowings, which increased by $0.8 billion, or 48.3%, to $2.4 billion at June 30, 2018 from $1.6 billion at December 31, 2017, and total deposits, which increased $495.8 million, or 7.3%, to $7.3 billion at June 30, 2018 from $6.8 billion at December 31, 2017. These increases were offset in part by a decrease in Federal funds purchased of $50.0 million, or 32.3%, to $105.0 million at June 30, 2018 from $155.0 million at December 31, 2017.

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The following table presents certain key condensed balance sheet data as of June 30, 2018 and December 31, 2017:

(amounts in thousands)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 251,726	$ 146,323
Investment securities, at fair value	1,161,000	471,371
Loans held for sale (includes $1,931,781 and $1,795,294, respectively, at fair value)	1,931,781	1,939,485
Loans receivable	7,181,726	6,768,258
Allowance for loan losses	(38,288)	(38,015)
Total assets	11,092,846	9,839,555
Total deposits	7,295,954	6,800,142
Federal funds purchased	105,000	155,000
FHLB advances	2,389,797	1,611,860
Other borrowings	186,888	186,497
Subordinated debt	108,929	108,880
Total liabilities	10,156,619	8,918,591
Total shareholders’ equity	936,227	920,964
Total liabilities and shareholders’ equity	11,092,846	9,839,555

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and interest-earning deposits. Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled $23.0 million at June 30, 2018. This represented a $2.6 million increase from $20.4 million at December 31, 2017. These balances vary from day to day, primarily due to variations in customers’ deposits with Customers.

Interest-earning deposits consist of cash deposited at other banks, primarily the Federal Reserve Bank of Philadelphia. Interest-earning deposits were $228.8 million and $125.9 million at June 30, 2018 and December 31, 2017, respectively. This balance varies from day to day, depending on several factors, such as fluctuations in customers' deposits with Customers, payment of checks drawn on customers' accounts and strategic investment decisions made to maximize Customers' net interest income, while effectively managing interest-rate risk and liquidity. Customers targeted a lower cash balance at December 31, 2017 consistent with its objectives of reducing total assets below $10 billion at December 31, 2017.

In connection with the June 2016 acquisition of the Disbursement business from Higher One, as of June 30, 2018 and December 31, 2017, Customers had $5 million in an escrow account restricted in use with a third party to be paid to Higher One upon the second anniversary of the transaction closing, or at a later date as otherwise agreed to by both parties. Also, in connection with the planned spin-off and merger, Customers had $1.0 million in an escrow account with a third party that is reserved for payment to Flagship Community Bank in the event the amended and restated agreement with Flagship is terminated for reasons described in the agreement. See NOTE 2 - SPIN-OFF AND MERGER for additional details related to this escrow account. In connection with the purchase of certain university relationships in January 2018, Customers placed $1.5 million in an escrow account with a third party that is reserved

for payment to a third party by December 31, 2018.

Investment Securities

The investment securities portfolio is an important source of interest income and liquidity. It consists of mortgage-backed securities (guaranteed by an agency of the United States government), corporate debt and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, provide collateral for other borrowings and diversify the credit risk of interest-earning assets. The portfolio is structured to optimize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

At June 30, 2018, investment securities were $1.2 billion, compared to $0.5 billion at December 31, 2017, an increase of $0.7 billion. The increase was primarily the result of purchases of agency-guaranteed mortgage-backed securities and corporate securities totaling $763.2 million during the six months ended June 30, 2018, offset in part by maturities, calls and principal repayments in the amount of $26.2 million during the six months ended June 30, 2018.

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For financial reporting purposes, available-for-sale debt securities are carried at fair value. Unrealized gains and losses on available-for-sale debt securities are included in other comprehensive income and reported as a separate component of shareholders' equity, net of the related tax effect. Beginning January 1, 2018, changes in the fair value of marketable equity securities previously classified as available for sale will be recorded in earnings in the period in which they occur and will no longer be deferred in accumulated other comprehensive income. Amounts previously recorded to accumulated other comprehensive income were reclassified to retained earnings on January 1, 2018. See NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional details related to the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities.

LOANS

Existing lending relationships are primarily with small and middle market businesses and individual consumers primarily in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; and Chicago, Illinois. The portfolio of loans to mortgage banking businesses is nationwide. The loan portfolio consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate and commercial and industrial loans. Customers continues to focus on small and middle market business loans to grow its commercial lending efforts, particularly its commercial and industrial loan portfolio and its specialty mortgage warehouse lending business, and has recently announced its entry into non-QM residential mortgage lending. In addition, Customers has been deemphasizing its multi-family business and has significantly limited originations of loans yielding less than 5% in order to reduce net interest margin compression.

Commercial Lending

Customers' commercial lending is divided into five groups: Business Banking, Small and Middle Market Business Banking, Multi-Family and Commercial Real Estate Lending, Mortgage Banking Lending and Equipment Finance. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest- rate risk and higher productivity levels.

The commercial lending group focuses primarily on companies with annual revenues ranging from $1 million to $100 million, which typically have credit requirements between $0.5 million and $10 million.

The small and middle market business banking platform originates loans, including Small Business Administration loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial solutions to the small business owners in its communities. A division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.

In 2009, Customers launched its lending to mortgage banking businesses products, which primarily provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business in 2009 during a period of market turmoil. Customers saw an opportunity to provide liquidity to this business segment at attractive spreads. There was also the opportunity to attract escrow deposits and to generate fee income in this business. The goal of the mortgage banking business lending group is to originate loans that provide liquidity to mortgage banking companies. These loans are primarily used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. The underlying residential loans are taken as collateral for Customers' commercial loans to the mortgage companies. As of June 30, 2018 and December 31, 2017, commercial loans to mortgage banking businesses totaled $1.9 billion and $1.8 billion, respectively, and are reported as loans held for sale.

The goal of Customers' multi-family lending group is to build a portfolio of high-quality multi-family loans within Customers' covered markets, while cross selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first lien mortgage on the multi-family

property, plus an assignment of all leases related to such property. As of June 30, 2018, Customers had multi-family loans of $3.5 billion outstanding, comprising approximately 38.9% of the total loan portfolio, compared to $3.6 billion, or approximately 41.9% of the total loan portfolio, at December 31, 2017.

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The equipment finance group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of June 30, 2018 and December 31, 2017, Customers had $167.2 million and $152.5 million, respectively, of equipment finance loans outstanding. As of June 30, 2018 and December 31, 2017, Customers had $35.1 million and $26.6 million of equipment finance leases, respectively. As of June 30, 2018 and December 31, 2017, Customers had $26.5 million and $21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $2.3 million and $0.5 million, respectively.

As of June 30, 2018, Customers had $8.5 billion in commercial loans outstanding, totaling approximately 93.6% of its total loan portfolio, which includes loans held for sale, compared to commercial loans outstanding of $8.4 billion, comprising approximately 96.2% of its loan portfolio, at December 31, 2017.

Consumer Lending

Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. As of June 30, 2018, Customers had $583.5 million in consumer loans outstanding, or 6.4% of the total loan portfolio, compared to $329.8 million, or 3.8% of the total loan portfolio, as of December 31, 2017. In second quarter 2018, Customers purchased $277.4 million of thirty-year fixed-rate residential mortgage loans from Third Federal Savings & Loan. Customers plans to expand its product offerings in real estate secured consumer lending in 2018 and has announced its entry into the non-QM residential mortgage market.

Customers has launched a community outreach program in Philadelphia to finance homeownership in urban communities. As part of this program, Customers is offering an “Affordable Mortgage Product." This community outreach program is penetrating the underserved population, especially in low and moderate income neighborhoods. As part of this commitment, a loan production office was opened in Progress Plaza, 1501 North Broad Street, Philadelphia, PA. The program includes homebuyer seminars that prepare potential homebuyers for homeownership by teaching money management and budgeting skills, including the financial responsibilities that come with having a mortgage and owning a home. The “Affordable Mortgage Product” is offered throughout Customers' assessment areas.

Loans Held for Sale

The composition of loans held for sale as of June 30, 2018 and December 31, 2017 was as follows:

(amounts in thousands)	June 30, 2018	December 31, 2017
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,930,738	$ 1,793,408
Multi-family loans at lower of cost or fair value	—	144,191
Total commercial loans held for sale	1,930,738	1,937,599
Consumer Loans:		
Residential mortgage loans, at fair value	1,043	1,886
Loans held for sale	$1,931,781	$ 1,939,485

At June 30, 2018, loans held for sale totaled $1.9 billion, or 21.2% of the total loan portfolio, and $1.9 billion, or 22.3% of the total loan portfolio, at December 31, 2017. Held-for-sale loans are carried on the balance sheet at either fair value (due to the election of the fair value option) or at the lower of cost or fair value. An allowance for loan losses is not recorded on loans that are classified as held for sale.

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Loans Receivable

Loans receivable (excluding loans held for sale), net of the allowance for loan losses, increased by $413.2 million to $7.1 billion at June 30, 2018 from $6.7 billion at December 31, 2017. Loans receivable as of June 30, 2018 and December 31, 2017 consisted of the following:

(amounts in thousands)	June 30, 2018	December 31, 2017
Commercial:		
Multi-family	$3,542,770	$3,502,381
Commercial and industrial (including owner occupied commercial real estate)	1,811,751	1,633,818
Commercial real estate non-owner occupied	1,155,998	1,218,719
Construction	88,141	85,393
Total commercial loans	6,598,660	6,440,311
Consumer:		
Residential real estate	493,222	234,090
Manufactured housing	85,328	90,227
Other	3,874	3,547
Total consumer loans	582,424	327,864
Total loans receivable	7,181,084	6,768,175
Deferred costs and unamortized premiums, net	642	83
Allowance for loan losses	(38,288)	(38,015)
Loans receivable, net of allowance for loan losses	$7,143,438	$6,730,243

Credit Risk

Customers manages credit risk by maintaining diversification in its loan portfolio, establishing and enforcing prudent underwriting standards and collection efforts, and continuous and periodic loan classification reviews. Management also considers the effect of credit risk on financial performance by reviewing quarterly and maintaining an adequate allowance for loan losses. Credit losses are charged when they are identified, and provisions are added when it is estimated that a loss has occurred, to the allowance for loan losses at least quarterly. The allowance for loan losses is estimated at least quarterly.

The provision for loan losses was $(0.8) million and $0.5 million for the three months ended June 30, 2018 and 2017, respectively, and $1.3 million and $3.6 million for the six months ended June 30, 2018 and 2017, respectively. The allowance for loan losses maintained for loans receivable (excluding loans held for sale) was $38.3 million, or 0.53% of loans receivable, at June 30, 2018 and $38.0 million, or 0.56% of loans receivable, at December 31, 2017. Net charge-offs were $0.4 million for the three months ended June 30, 2018, a decrease of $1.5 million compared to the same period in 2017. The decrease in net charge-offs period over period was mainly driven by a decrease in charge-off activities in the commercial and industrial loan portfolio and an increase in recoveries in the commercial real estate owner occupied and construction loan portfolios. Net charge-offs were $1.1 million for the six months ended June 30, 2018, a decrease of $1.4 million compared to the same period in 2017. The decrease in net charge-offs period over period was mainly driven by decreases in charge-off activities related to the commercial and industrial loan portfolio and the commercial real estate non-owner occupied loan portfolio, partially offset by an increase in charge-off activities in the commercial real estate owner occupied portfolio and in the other consumer loan portfolio.

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The table below presents changes in the Bank's allowance for loan losses for the periods indicated.
Analysis of the Allowance for Loan Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(amounts in thousands)				
Balance at the beginning of the period	$39,499	$39,883	$38,015	$37,315
Loan charge-offs (1)				
Commercial and industrial	174	1,849	224	2,047
Commercial real estate owner occupied	483	—	501	—
Commercial real estate non-owner occupied	—	4	—	408
Residential real estate	42	69	407	290
Other consumer	462	226	718	246
Total Charge-offs	1,161	2,148	1,850	2,991
Loan recoveries (1)				
Commercial and industrial	140	68	175	283
Commercial real estate owner occupied	326	9	326	9
Construction	209	49	220	130
Residential real estate	56	6	63	27
Other consumer	3	56	6	100
Total Recoveries	734	188	790	549
Total net charge-offs	427	1,960	1,060	2,442
Provision for loan losses	(784)	535	1,333	3,585
Balance at the end of the period	$38,288	$38,458	$38,288	$38,458

(1) Charge-offs and recoveries on purchased-credit-impaired loans that are accounted for in pools are recognized on a net basis when the pool matures.

The allowance for loan losses is based on a quarterly evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb probable losses incurred as of the balance sheet date. All commercial loans are assigned internal credit-risk ratings, based upon an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly by the responsible officer, and the risk ratings are adjusted when considered appropriate. The risk assessment allows management to identify problem loans timely. Management considers a variety of factors and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate an appropriate level of allowance for loan losses. Refer to Critical Accounting Policies herein and NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements in its 2017 Form 10-K for further discussion on management's methodology for estimating the allowance for loan losses.

Approximately 83% of Customers' commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, "the real estate portfolio"). Customers' lien position on the real estate collateral will vary on a loan-by-loan basis and will change as a result of changes in the value of the collateral. Current appraisals providing current value estimates of the property are received when Customers' credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal, including that real estate values have deteriorated. The credit committee and loan officers review loans that are 15 or more days delinquent and all non-accrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk-rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographic area and other factors that may affect the cash flow of the loan. If a loan is individually evaluated for impairment, the collateral value or discounted cash flow analysis is

generally used to determine the estimated fair value of the underlying collateral, net of estimated selling costs, and compared to the outstanding loan balance to determine the amount of reserve necessary, if any. Appraisals used in this evaluation process are typically less than two years aged. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to estimate the fair value of the loan, net of estimated selling costs, and compared to the outstanding loan balance to estimate the required reserve.

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These impairment measurements are inherently subjective as they require material estimates, including, among others, estimates of property values in appraisals, the amounts and timing of expected future cash flows on individual loans, and general considerations for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which require judgment and may be susceptible to significant change over time and as a result of changing economic conditions or other factors. Pursuant to ASC 310-10-35, Loan Impairment, and ASC 310-40, Troubled Debt Restructurings by Creditors, impaired loans, consisting primarily of non-accrual and restructured loans, are considered in the methodology for determining the allowance for loan losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral (less estimated costs to sell) if principal repayment is expected to come from the sale or operation of such collateral.

Asset Quality

Customers divides its loan portfolio into two categories to analyze and understand loan activity and performance: loans that were originated and loans that were acquired. Customers further segments the originated and acquired loan categories by loan product or other characteristic generally defining a shared characteristic with other loans in the same group. Customers' originated loans were subject to the current underwriting standards that were put in place in 2009. Management believes this segmentation better reflects the risk in the portfolio and the various types of reserves that are available to absorb loan losses that may emerge in future periods. Credit losses from originated loans are absorbed by the allowance for loan losses. Credit losses from acquired loans are absorbed by the allowance for loan losses, nonaccretable difference fair value marks, and cash reserves. As described below, the allowance for loan losses is intended to absorb only those losses estimated to have been incurred after acquisition, whereas the fair value mark and cash reserves absorb losses estimated to have been embedded in the acquired loans at acquisition. The schedule that follows includes both loans held for sale and loans held for investment.

Asset Quality at June 30, 2018

Loan Type	Total Loans	Current	30-89 Days Past Due	90 Days or More Past Due and Accruing	Non-accrual/ NPL (a)	OREO (b)	NPA (a)+(b)	NPL to Loan Type (%)	NPA to Loans + OREO (%)
(amounts in thousands)									
Originated Loans									
Multi-Family	$3,540,261	$3,538,918	$—	$ —	$1,343	$—	$1,343	0.04%	0.04%
Commercial & Industrial (1)	1,728,577	1,713,369	1,087	—	14,121	667	14,788	0.82%	0.86%
Commercial Real Estate Non-Owner Occupied	1,140,483	1,138,133	—	—	2,350	—	2,350	0.21%	0.21%
Residential	106,076	103,426	748	—	1,902	57	1,959	1.79%	1.85%
Construction	88,141	88,141	—	—	—	—	—	— %	— %
Other consumer	1,752	1,716	36	—	—	—	—	— %	— %
Total Originated Loans	6,605,290	6,583,703	1,871	—	19,716	724	20,440	0.30%	0.31%
Loans Acquired									
Bank Acquisitions	136,070	130,316	1,015	475	4,264	704	4,968	3.13%	3.63%
Loan Purchases	439,724	430,415	3,517	3,777	2,015	277	2,292	0.46%	0.52%
Total Loans Acquired	575,794	560,731	4,532	4,252	6,279	981	7,260	1.09%	1.26%
Deferred costs and unamortized premiums, net	642	642	—	—	—	—	—		
Total Loans Receivable	7,181,726	7,145,076	6,403	4,252	25,995	1,705	27,700	0.36%	0.39%
Total Loans Held for Sale	1,931,781	1,931,781	—	—	—	—	—		

Total Portfolio	$9,113,507	$9,076,857	$6,403	$ 4,252	$25,995	$1,705	$27,700	0.29%	0.30%

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.

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Asset Quality at June 30, 2018 (continued)

Loan Type	Total Loans	NPL	ALL	Cash Reserve	Total Credit Reserves	Reserves to Loans (%)	Reserves to NPLs (%)
(amounts in thousands)							
Originated Loans							
Multi-Family	$3,540,261	$1,343	$12,072	$ —	$12,072	0.34 %	898.88 %
Commercial & Industrial (1)	1,728,577	14,121	14,643	—	14,643	0.85 %	103.70 %
Commercial Real Estate Non-Owner Occupied	1,140,483	2,350	4,260	—	4,260	0.37 %	181.28 %
Residential	106,076	1,902	2,047	—	2,047	1.93 %	107.62 %
Construction	88,141	—	992	—	992	1.13 %	— %
Other consumer	1,752	—	131	—	131	7.48 %	— %
Total Originated Loans	6,605,290	19,716	34,145	—	34,145	0.52 %	173.18 %
Loans Acquired							
Bank Acquisitions	136,070	4,264	3,990	—	3,990	2.93 %	93.57 %
Loan Purchases	439,724	2,015	153	510	663	0.15 %	32.90 %
Total Loans Acquired	575,794	6,279	4,143	510	4,653	0.81 %	74.10 %
Deferred costs and unamortized premiums, net	642	—	—	—	—		
Total Loans Receivable	7,181,726	25,995	38,288	510	38,798	0.54 %	149.25 %
Total Loans Held for Sale	1,931,781	—	—	—	—		
Total Portfolio	$9,113,507	$25,995	$38,288	$ 510	$38,798	0.43 %	149.25 %

(1) Commercial & industrial loans, including owner occupied commercial real estate.

Originated Loans

Post 2009 originated loans (excluding held-for-sale loans) totaled $6.6 billion at June 30, 2018, compared to $6.4 billion at December 31, 2017. The management team adopted new underwriting standards that management believes better limits risks of loss in 2009 and has worked to maintain these standards. Only $19.7 million, or 0.30% of post 2009 originated loans, were non-performing at June 30, 2018, compared to $20.0 million of post 2009 originated loans, or 0.31% of post 2009 originated loans, at December 31, 2017. The post 2009 originated loans were supported by an allowance for loan losses of $34.1 million (0.52% of post 2009 originated loans) and $33.3 million (0.52% of post 2009 originated loans), respectively, at June 30, 2018 and December 31, 2017. Total 2009 and prior loans ("legacy loans") were $22.5 million and $25.6 million at June 30, 2018 and December 31, 2017, respectively.

Loans Acquired

At June 30, 2018, total acquired loans were $575.8 million, or 8.0% of total loans held for investment, compared to $328.8 million, or 4.9% of total loans held for investment, at December 31, 2017. Non-performing acquired loans totaled $6.3 million and $6.4 million at June 30, 2018 and December 31, 2017, respectively. When loans are acquired, they are recorded on the balance sheet at fair value. Acquired loans include purchased portfolios, FDIC failed-bank acquisitions, and unassisted acquisitions. Of the manufactured housing loans purchased from Tammac prior to 2012, $49.4 million were supported by a $0.5 million cash reserve at June 30, 2018, compared to $51.9 million supported by a cash reserve of $0.6 million at December 31, 2017. The cash reserve was created as part of the purchase transaction to absorb losses and is maintained in a demand deposit account at the Bank. All current losses and delinquent interest are absorbed by this reserve and any recoveries of those losses, as well as the proceeds from the sale of the repossessed properties securing the loans, are placed back into the reserve. For the manufactured housing loans purchased in 2012, Tammac has an obligation to pay the Bank the full payoff amount of the defaulted loan, including any principal, unpaid interest, or advances on the loans, once the borrower vacates the property. At June 30, 2018, $29.2 million of these loans were outstanding, compared to $31.4 million at December 31, 2017.

The price paid for acquired loans considered management's judgment as to the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the cash flow forecast to incorporate changes in the credit outlook. Generally, a decrease in forecasted cash flows for a purchased loan will result in a provision for loan losses, and absent charge-offs, an increase in the allowance for loan losses. Acquired

loans have a significantly higher percentage of non-performing loans than loans originated after September 2009. Management acquired these loans with the expectation that non-performing loan levels would be elevated, and therefore incorporated that expectation into the price paid. Customers has assigned these loans to its Special Assets Group, a team that focuses on workouts for these acquired non-performing assets. Total acquired loans were supported by reserves (allowance for loan losses and cash reserves) of $4.7 million (0.81% of total acquired loans) and $5.4 million (1.64% of total acquired loans) at June 30, 2018 and December 31, 2017, respectively.

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DEPOSITS

Customers offers a variety of deposit accounts, including checking, savings, money market deposit accounts (“MMDA”) and time deposits. Deposits are primarily obtained from Customers' geographic service area and nationwide through deposit brokers, listing services and other relationships. Total deposits were $7.3 billion at June 30, 2018, an increase of $0.5 billion, or 7.3%, from $6.8 billion at December 31, 2017. Transaction deposits increased by $0.3 billion, or 6.7%, to $5.2 billion at June 30, 2018, from $4.9 billion at December 31, 2017, with non-interest bearing deposits increasing by $38.6 million. Interest-bearing demand deposits were $0.6 billion at June 30, 2018, an increase of $99.5 million, or 19.0%, from $0.5 billion at December 31, 2017. Savings, including MMDA, totaled $3.5 billion at June 30, 2018, an increase of $191.2 million, or 5.8%, from $3.3 billion at December 31, 2017. This increase was primarily attributed to an increase in money market deposit accounts. Total time deposits were $2.1 billion at June 30, 2018, an increase of $166.5 million, or 8.7%, from $1.9 billion at December 31, 2017. At June 30, 2018, the Bank had $1.6 billion in state and municipal deposits to which it had pledged available borrowing capacity through the FHLB to the depositor through a letter of credit arrangement. At June 30, 2018, the balance of state and municipal deposits was $1.5 billion.

The components of deposits were as follows at the dates indicated:

(amounts in thousands)	June 30, 2018	December 31, 2017
Demand, non-interest bearing	$1,090,744	$ 1,052,115
Demand, interest bearing	623,343	523,848
Savings, including MMDA	3,509,706	3,318,486
Time, $100,000 and over	1,055,341	1,284,855
Time, other	1,016,820	620,838
Total deposits	$7,295,954	$ 6,800,142

BORROWINGS

Borrowed funds from various sources are generally used to supplement deposit growth and meet other operating needs. Customers' borrowings generally include short-term and long-term advances from the FHLB, federal funds purchased, senior unsecured notes and subordinated debt. Subordinated debt is also considered as Tier 2 capital for certain regulatory calculations. As of June 30, 2018 and December 31, 2017, total outstanding borrowings were $2.8 billion and $2.1 billion, respectively, which represented an increase of $0.7 billion, or 35.3%. This increase was primarily the result of an increase in investments and loans receivable increasing the need for short-term borrowings.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure of that institution’s ability to meet depositors’ needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Ensuring adequate liquidity is an objective of the asset/liability management process. Customers coordinates its management of liquidity with its interest rate sensitivity and capital position, and strives to maintain a strong liquidity position.

Customers' investment portfolio provides periodic cash flows through regular maturities and amortization and can be used as collateral to secure additional liquidity funding. As of June 30, 2018 and December 31, 2017, Customers had unpledged marketable investments of $476.0 million and $454.4 million, respectively. Customers' principal sources of funds are deposits, borrowings, principal and interest payments on loans, other funds from operations, and proceeds from common and preferred stock issuances. Borrowing arrangements are maintained with the Federal Home Loan Bank and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Longer-term borrowing arrangements are also maintained with the Federal Home Loan Bank. As of June 30, 2018, Customers' borrowing capacity with the Federal Home Loan Bank was $4.9 billion, of which $2.4 billion was utilized in borrowings and

$1.6 billion of available capacity was utilized to collateralize state and municipal deposits. As of December 31, 2017, Customers' borrowing capacity with the Federal Home Loan Bank was $4.3 billion, of which $1.6 billion was utilized in borrowings and $1.8 billion of available capacity was utilized to collateralize state and municipal deposits. As of June 30, 2018 and December 31, 2017, Customers' borrowing capacity with the Federal Reserve Bank of Philadelphia was $136.9 million and $142.5 million, respectively.

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Net cash flows used in operating activities were $71.9 million during the six months ended June 30, 2018, compared to net cash flows provided by operating activities of $27.5 million during the six months ended June 30, 2017. During the six months ended June 30, 2018, originations of loans held for sale in excess of the proceeds from the sales of loans held for sale required $136.2 million of cash flows used in operating activities. During the six months ended June 30, 2017, proceeds from sales of loans held for sale in excess of funds required to originate loans held for sale contributed $13.5 million to cash flows provided by operating activities.
Net cash flows used in investment activities were $1.0 billion during the six months ended June 30, 2018, compared to net cash flows used in investing activities of $1.3 billion during the six months ended June 30, 2017.
Cash used in investment activities consisted of the following:

- Purchases of investment securities available for sale totaled $763.2 million during the six months ended June 30, 2018, compared to $644.0 million during the six months ended June 30, 2017.
- Cash flows used to fund new loans held for investment totaled $18.7 million and $572.3 million during the six months ended June 30, 2018 and 2017, respectively.
- Cash flows used to purchase loans was $278.5 million and $262.6 million during the six months ended June 30, 2018 and 2017, respectively.
- Purchases of bank owned life insurance policies were $50.0 million during the six months ended June 30, 2017. There were no such purchases of bank owned life insurance policies during the six months ended June 30, 2018.
- Net purchases of FHLB, Federal Reserve Bank and other restricted stock totaled $30.1 million and $61.3 million during the six months ended June 30, 2018 and 2017, respectively.
- Purchases of leased assets under operating leases were $6.5 million during the six months ended June 30, 2018. There were no such purchases of leased assets under operating leases during the six months ended June 30, 2017.

Cash provided by investment activities consisted of the following:

- Proceeds from maturities, calls and principal repayments of securities available for sale totaled $26.2 million for the six months ended June 30, 2018, compared to $22.8 million for the six months ended June 30, 2017.
- Proceeds from sales of investment securities available for sale amounted to $116.0 million during the six months ended June 30, 2017. There were no such sales of investments securities during the six months ended June 30, 2018.
- Proceeds from the sale of loans held for investment totaled $29.0 million during the six months ended June 30, 2018, compared to $112.9 million during the six months ended June 30, 2017.

Net cash flows provided by financing activities were $1.2 billion during the six months ended June 30, 2018, compared to $1.5 billion for the six months ended June 30, 2017. During the six months ended June 30, 2018, a net increase in short-term borrowed funds from the FHLB provided net cash flows of $777.9 million and an increase in deposits provided net cash flows of $495.8 million. These cash flow increases were partially offset by a net cash flow usage in federal funds purchased of $50.0 million, and preferred stock dividends paid of $7.2 million. During the six months ended June 30, 2017, a net increase in short-term borrowed funds from the FHLB provided net cash flows of $1.1 billion, a net increase in deposits provided net cash flows of $171.6 million, proceeds from the issuance of five-year senior notes provided $98.6 million, and a net increase in federal funds purchased provided net cash flows of $67.0 million, partially offset by the payment of preferred stock dividends of $7.2 million. These financing activities provided sufficient cash flows to support Customers' investing and operating activities.

On July 31, 2018, the 6.375% senior notes with an aggregate principal amount of $63.3 million issued by Customers Bancorp in July 2013 matured. Customers had sufficient funds accumulated at the Bancorp to make payment to the debtholders upon maturity of the senior notes. Overall, based on our core deposit base and available sources of borrowed funds, management believes that Customers has adequate resources to meet its short-term and long-term cash requirements for the foreseeable future.

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CAPITAL ADEQUACY AND SHAREHOLDERS' EQUITY

Shareholders' equity increased $15.3 million to $936.2 million at June 30, 2018 when compared to shareholders' equity of $921.0 million at December 31, 2017, an increase of 1.7% . The primary components of the net increase were as follows:

- net income of $47.8 million for the six months ended June 30, 2018;
- share-based compensation expense of $3.7 million for the six months ended June 30, 2018; and
- issuance of common stock under share-based compensation arrangements of $3.2 million for the six months ended June 30, 2018.

The increases were offset in part by:

- other comprehensive loss of $32.3 million for the six months ended June 30, 2018, arising primarily from unrealized fair value losses recognized on available-for-sale debt securities; and
- preferred stock dividends of $7.2 million for the six months ended June 30, 2018.

The Bank and Customers Bancorp are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Customers' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At June 30, 2018 and December 31, 2017, the Bank and the Bancorp met all capital adequacy requirements to which they were subject.

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Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios set forth in the following table:

			Minimum Capital Levels to be Classified as:					
	Actual		Adequately Capitalized		Well Capitalized		Basel III Compliant	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2018:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$735,609	8.611 %	$384,418	4.500%	N/A	N/A	$544,591	6.375%
Customers Bank	$1,054,613	12.351%	$384,232	4.500%	$555,002	6.500 %	$544,329	6.375%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$953,025	11.156%	$512,557	6.000%	N/A	N/A	$672,731	7.875%
Customers Bank	$1,054,613	12.351%	$512,309	6.000%	$683,079	8.000 %	$672,406	7.875%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,072,072	12.550%	$683,409	8.000%	N/A	N/A	$843,583	9.875%
Customers Bank	$1,202,070	14.078%	$683,079	8.000%	$853,849	10.000%	$843,176	9.875%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$953,025	8.866 %	$429,963	4.000%	N/A	N/A	$429,963	4.000%
Customers Bank	$1,054,613	9.822 %	$429,471	4.000%	$536,839	5.000 %	$429,471	4.000%
As of December 31, 2017:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$689,494	8.805 %	$352,368	4.500%	N/A	N/A	$450,248	5.750%
Customers Bank	$1,023,564	13.081%	$352,122	4.500%	$508,621	6.500 %	$449,934	5.750%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$906,963	11.583%	$469,824	6.000%	N/A	N/A	$567,704	7.250%
Customers Bank	$1,023,564	13.081%	$469,496	6.000%	$625,994	8.000 %	$567,307	7.250%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,021,601	13.047%	$626,432	8.000%	N/A	N/A	$724,313	9.250%
Customers Bank	$1,170,666	14.961%	$625,994	8.000%	$782,493	10.000%	$723,806	9.250%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$906,963	8.937 %	$405,949	4.000%	N/A	N/A	$405,949	4.000%
Customers Bank	$1,023,564	10.092%	$405,701	4.000%	$507,126	5.000 %	$405,701	4.000%

The capital ratios above reflect the capital requirements under "Basel III" effective during first quarter 2015 and the capital conservation buffer effective January 1, 2016. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. As of June 30, 2018, the Bank and Customers Bancorp were in compliance with the Basel III requirements. See "NOTE 9 - REGULATORY CAPITAL" to Customers' unaudited financial statements for additional discussion regarding regulatory capital requirements.

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OFF-BALANCE SHEET ARRANGEMENTS

Customers is involved with financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of business to meet the financing needs of the Bank's customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheets.

With commitments to extend credit, exposures to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. The same credit policies are used in making commitments and conditional obligations as for on-balance sheet instruments. Because they involve credit risk similar to extending a loan, commitments to extend credit are subject to the Bank's credit policy and other underwriting standards.

As of June 30, 2018 and December 31, 2017, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

(amounts in thousands)	June 30, 2018	December 31, 2017
Commitments to fund loans	$346,648	$333,874
Unfunded commitments to fund mortgage warehouse loans	1,268,637	1,567,139
Unfunded commitments under lines of credit	759,100	485,345
Letters of credit	38,718	39,890
Other unused commitments	6,319	6,679

Commitments to fund loans, unfunded commitments to fund mortgage warehouse loans, unfunded commitments under lines of credit and letters of credit are agreements to extend credit to or for the benefit of a customer in the ordinary course of the Bank's business.

Commitments to fund loans and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if the Bank deems it necessary upon extension of credit, is based upon management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. government through one of its programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Effect of Government Monetary Policies

Our earnings are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. An important function of the Federal Reserve Board is to regulate the money supply and interest rates. Among the instruments used to implement those objectives are open market operations in United States government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect rates charged on loans or paid for deposits.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

The largest component of Customers' net income is net interest income, and the majority of its financial instruments are interest-rate sensitive assets and liabilities with various term structures and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest-rate risk. Interest-rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals and differences in lending and funding rates. Customers' asset/liability committee actively seeks to monitor and control the mix of interest-rate sensitive assets and interest-rate sensitive liabilities.

Customers uses two complementary methods to analyze and measure interest-rate sensitivity as part of the overall management of interest-rate risk; they are income simulation modeling and estimates of economic value of equity. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest-rate risk of Customers' exposure to time factors and changes in interest-rate environments.

Income simulation modeling is used to measure interest-rate sensitivity and manage interest-rate risk. Income simulation considers not only the impact of changing market interest rates upon forecasted net interest income but also other factors such as yield-curve relationships, the volume and mix of assets and liabilities, customer preferences and general market conditions.

Through the use of income simulation modeling, Customers has estimated the net interest income for the period ending June 30, 2019, based upon the assets, liabilities and off-balance sheet financial instruments in existence at June 30, 2018. Customers has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately (“rate shocks”). For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200, and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were only decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the Down 200 and Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. The following table reflects the estimated percentage change in estimated net interest income for the period ending June 30, 2019, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change
Up 3%	(13.4)%
Up 2%	(8.4)%
Up 1%	(3.9)%
Down 1%	(1.2)%

The net changes in net interest income in all scenarios are within Customers Bank's interest rate risk policy guidelines.

Economic Value of Equity (“EVE”) estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200, and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were only decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the Down 200 and Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. This method of measurement primarily evaluates the longer term repricing risks and options in Customers Bank’s balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at June 30, 2018, resulting from shocks to interest rates.

Rate Shocks	From base
Up 3%	(26.3)%

Up 2%	(16.4)%
Up 1%	(7.6)%
Down 1%	2.9 %

The net changes in economic value of equity in all scenarios are within Customers Bank's interest rate risk policy guidelines.

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Management believes that the assumptions and combination of methods utilized in evaluating estimated net interest income are reasonable. However, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments, as well as the estimated effect of changes in interest rates on estimated net interest income, could vary substantially if different assumptions are used or actual experience differs from the assumptions used in the model.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp's disclosure controls and procedures were effective at June 30, 2018.

During the quarter ended June 30, 2018, there have been no changes in Customers Bancorp's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Customers Bancorp's internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings disclosed within our 2017 Form 10-K.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Risk Factors" included within the 2017 Form 10-K. There are no material changes from the risk factors included within the 2017 Form 10-K, other than the risk described below. The risks described within the 2017 Form 10-K and below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial also may materially adversely affect our business, financial condition and/or operating results. See "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements."

The Federal Reserve may conclude that following the Merger of Flagship Community Bank and the BankMobile business, if completed prior to December 31, 2018, will be an affiliate of Customers Bancorp as of December 31, 2018 for purposes of applying the small issuer exemption contained in the Durbin Amendment. Failure of the combined company to qualify for the Durbin Amendment small issuer exemption would result in a material reduction in interchange revenue and may adversely impact the ability to attract or retain certain white label partners.

The Federal Reserve has indicated that following the acquisition of the BankMobile business by Flagship in the Merger, the combined company may be considered an affiliate of Customers Bancorp for purposes of calculating the applicability of the Federal Reserve Act Sections 23A and 23B, Regulation W, Regulation EE, and the Durbin Amendment by the fact that Customers Bancorp's shareholders will hold approximately 51% of the stock of the combined company after giving effect to the Distribution and the Merger. Unless the combined company can reasonably demonstrate that, as a result of shareholder turnover from regular market trading, the shareholders of Customers Bancorp receiving Flagship shares in the Merger may control 24.9% or less of the combined company's common shares on a combined basis as of December 31, 2018, and that other subjective elements of Customers Bancorp's control or significant influence over the post-Merger company are not present, the Federal Reserve may determine that the combined company and Customers Bancorp are affiliates for purposes of the Federal Reserve Act Section 23A and 23B, Regulation W, Regulation EE, and the Durbin Amendment. None of Customers Bancorp, Customers Bank, Flagship Community Bank, or any affiliate thereof, nor anyone acting on their behalf, intends to take any action or engage in any efforts to cause, encourage or otherwise influence any Customers Bancorp shareholders who receive shares of Flagship Community Bank (if the spin-off and merger is completed) to sell or otherwise dispose of their shares. The determination that the combined company and Customers Bancorp are affiliates for purposes of the Durbin Amendment would require the combined company and Customers Bancorp to combine the combined company's and Customers Bancorp's assets for the purpose of calculating the $10 billion asset threshold in determining whether the combined company qualifies for the small debit card issuer exemption to the Durbin Amendment. If the combined company is not able to qualify for the small debit card issuer exemption to the Durbin Amendment, the BankMobile/Flagship company would face a material loss of interchange revenue, and may adversely impact the combined company's ability to attract or retain other white label partners. While management believes it can successfully demonstrate that, as a result of shareholder turnover from regular market trading, the ownership of Flagship by holders of Customers Bancorp common stock receiving Flagship common stock in the Merger will decline to 24.9% or less through natural turnover of common stock ownership within three to four months after the transactions are completed, and that other qualitative conditions that could lead to a separate qualitative determination of control or significant influence are not present, a failure to qualify for the small debit card issuer exemption in the Durbin Amendment at December 31, 2018 would materially and adversely affect the combined company's revenues, ongoing business and ability to achieve BankMobile/Flagship's future business plans. Furthermore, if BankMobile/Flagship does not qualify for the small debit card issuer exemption as of December 31,

2018, the combined company may not be able to qualify for the small debit card issuer exemption until at least the next measurement date, December 31, 2019, and may not be able to reinstitute the combined company's interchange fee levels until at least January 1, 2020.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 26, 2013, Customers announced that the Board of Directors had authorized a stock repurchase plan in which the Bancorp could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. The repurchase program has no expiration date but may be suspended, modified or discontinued at any time, and the Bancorp has no obligation to repurchase any amount of its common stock under the program.

During the three and six months ended June 30, 2018, Customers did not repurchase any of its shares. The maximum number of shares available to be purchased under the plan is 750,551 shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On August 7, 2018, Customers Bancorp, Inc., Customers Bank, and BankMobile Technologies, Inc. agreed to a request from Flagship Community Bank (“Flagship”) for Flagship to withdraw their Bank Merger Act application (the “Application”) previously filed pursuant to the Amended and Restated Purchase and Assumption Agreement and Plan of Merger (the “Agreement”) from the Federal Deposit Insurance Corporation (“FDIC”) in order to address certain questions and comments expected to be received from the FDIC regarding the Application. Flagship also committed to complete and resubmit the Application to the FDIC as soon as practicable, which Flagship hopes to complete by September 30, 2018, with the understanding that Flagship has no obligation to proceed with the application beyond September 30, 2018 without an amendment to the Agreement extending the expiration date of the Agreement beyond September 30, 2018.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on April 30, 2012
3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
3.4	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on May 18, 2015
3.5	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on January 29, 2016
3.6	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on

	April 28, 2016
3.7	Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on September 16, 2016
3.8	Letter Agreement, dated as of August 7, 2018, by and between Flagship Community Bank, BankMobile Technologies, Inc., Customers Bank and Customers Bancorp, Inc.

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4.1	Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013
4.2	First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013
4.3	6.375% Global Note in aggregate principal amount of $55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013
4.4	Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013
4.5	6.375% Global Note in aggregate principal amount of $8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013
4.6	Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on June 26, 2014
4.7	Form of Warrant issued by Berkshire Bancorp, Inc., incorporated by reference to Exhibit 10.23 to the Customers Bancorp Form S-1/A filed with the SEC on April 25, 2012
4.8	Second Supplemental Indenture, dated as of June 30, 2017, by and between Customers Bancorp, Inc, as Issuer, and Wilmington Trust, National Association, As Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on June 30, 2017
31.1	Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
31.2	Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101	The Exhibits filed as part of this report are as follows:
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definitions Linkbase Document.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		Customers Bancorp, Inc.
August 8, 2018	By:	/s/ Jay S. Sidhu
	Name:	Jay S. Sidhu
	Title:	Chairman and Chief Executive Officer (Principal Executive Officer)
August 8, 2018	By:	/s/ Robert E. Wahlman
	Name:	Robert E. Wahlman
	Title:	Chief Financial Officer (Principal Financial Officer)

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