Customers Bancorp, Inc.
Form 10-Q
May 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 March 31, 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 May 4, 2018, 31,498,221 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)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$9,198	$20,388
Interest-earning deposits	206,213	125,935
Cash and cash equivalents	215,411	146,323
Investment securities, at fair value	1,181,661	471,371
Loans held for sale (includes $1,875,515 and $1,795,294, respectively, at fair value)	1,875,515	1,939,485
Loans receivable	6,943,566	6,768,258
Allowance for loan losses	(39,499)	(38,015)
Total loans receivable, net of allowance for loan losses	6,904,067	6,730,243
FHLB, Federal Reserve Bank, and other restricted stock	130,302	105,918
Accrued interest receivable	31,812	27,021
Bank premises and equipment, net	11,556	11,955
Bank-owned life insurance	259,222	257,720
Other real estate owned	1,742	1,726
Goodwill and other intangibles	17,477	16,295
Other assets	140,501	131,498
Total assets	$10,769,266	$9,839,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$1,260,853	$1,052,115
Interest-bearing	5,781,606	5,748,027
Total deposits	7,042,459	6,800,142
Federal funds purchased	195,000	155,000
FHLB advances	2,252,615	1,611,860
Other borrowings	186,735	186,497
Subordinated debt	108,904	108,880
Accrued interest payable and other liabilities	64,465	56,212
Total liabilities	9,850,178	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 March 31, 2018 and December 31, 2017	217,471	217,471
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 31,996,531 and 31,912,763 shares issued as of March 31, 2018 and December 31, 2017; 31,466,271 and 31,382,503 shares outstanding as of March 31, 2018 and December 31, 2017	31,997	31,913
Additional paid in capital	424,099	422,096
Retained earnings	279,942	258,076
Accumulated other comprehensive loss, net	(26,188)	(359)
Treasury stock, at cost (530,260 shares as of March 31, 2018 and December 31, 2017)	(8,233)	(8,233)
Total shareholders' equity	919,088	920,964
Total liabilities and shareholders' equity	$10,769,266	$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 March 31,	
	2018	2017
Interest income:		
Loans receivable, including fees	$66,879	$61,461
Loans held for sale	19,052	13,946
Investment securities	8,672	5,887
Other	2,361	1,800
Total interest income	96,964	83,094
Interest expense:		
Deposits	19,793	14,323
Other borrowings	3,376	1,608
FHLB advances	7,080	3,060
Subordinated debt	1,684	1,685
Total interest expense	31,933	20,676
Net interest income	65,031	62,418
Provision for loan losses	2,117	3,050
Net interest income after provision for loan losses	62,914	59,368
Non-interest income:		
Interchange and card revenue	9,661	13,511
Deposit fees	2,092	3,127
Bank-owned life insurance	2,031	1,367
Mortgage warehouse transactional fees	1,887	2,221
Gain on sale of SBA and other loans	1,361	1,328
Mortgage banking income	121	155
Impairment loss on investment securities	—	(1,703)
Other	3,757	2,748
Total non-interest income	20,910	22,754
Non-interest expense:		
Salaries and employee benefits	24,925	21,112
Technology, communication and bank operations	9,943	9,916
Professional services	6,008	7,512
Occupancy	2,834	2,714
FDIC assessments, non-income taxes, and regulatory fees	2,200	1,725
Provision for operating losses	1,526	1,646
Loan workout	659	521
Advertising and promotion	390	326
Merger and acquisition related expenses	106	—
Other real estate owned expenses (income)	40	(55)
Other	3,649	3,949
Total non-interest expense	52,280	49,366
Income before income tax expense	31,544	32,756
Income tax expense	7,402	7,009
Net income	24,142	25,747

Preferred stock dividends	3,615	3,615
Net income available to common shareholders	$20,527	$22,132
Basic earnings per common share	$0.65	$0.73
Diluted earnings per common share	$0.64	$0.67

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Net income	$24,142	$25,747
Unrealized losses on available-for-sale debt securities:		
Unrealized losses arising during the period	(34,098)	(1,123)
Income tax effect	8,865	438
Net unrealized losses on available-for-sale debt securities	(25,233)	(685)
Unrealized gains on cash flow hedges:		
Unrealized gains arising during the period	873	329
Income tax effect	(227)	(128)
Reclassification adjustment for losses included in net income	131	827
Income tax effect	(34)	(323)
Net unrealized gains on cash flow hedges	743	705
Other comprehensive (loss) income, net of income tax effect	(24,490)	20
Comprehensive income (loss)	$(348)	$25,767

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)

	Three Months Ended March 31, 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	—	—	—	—	—	24,142	—	—	24,142
Other comprehensive loss	—	—	—	—	—	—	(24,490)	—	(24,490)
Preferred stock dividends	—	—	—	—	—	(3,615)	—	—	(3,615)
Share-based compensation expense	—	—	—	—	1,786	—	—	—	1,786
Exercise of warrants	—	—	5,242	5	107	—	—	—	112
Issuance of common stock under share-based compensation arrangements	—	—	78,526	79	110	—	—	—	189
Balance, March 31, 2018	9,000,000	$217,471	31,466,271	$31,997	$424,099	$279,942	$ (26,188)	$(8,233)	$919,088

	Three Months Ended March 31, 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 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	—	—	—	—	—	25,747	—	—	25,747
Other comprehensive income	—	—	—	—	—	—	20	—	20
Preferred stock dividends	—	—	—	—	—	(3,615)	—		(3,615)
Share-based compensation expense	—	—	—	—	1,413	—	—	—	1,413
Exercise of warrants	—	—	43,974	44	376	—	—	—	420
Issuance of common stock under share-based compensation arrangements	—	—	302,436	303	(343)	—	—	—	(40)
Balance, March 31, 2017	9,000,000	$217,471	30,636,327	$31,167	$428,454	$215,830	$(4,872)	$(8,233)	$879,817

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)

	Three Months Ended March 31, 2018			2017		
Cash Flows from Operating Activities						
Net income	$	24,142		$	25,747	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Provision for loan losses	2,117			3,050		
Depreciation and amortization	3,344			1,475		
Share-based compensation expense	2,218			1,829		
Deferred taxes	2,684			(284		)
Net amortization of investment securities premiums and discounts	375			111		
Unrealized gain recognized on equity securities	(10		)	—		
Impairment loss on investment securities	—			1,703		
Gain on sale of SBA and other loans	(1,477		)	(1,421		)
Origination of loans held for sale	(6,808,457		)	(6,401,005		)
Proceeds from the sale of loans held for sale	6,728,331			6,834,060		
Amortization of fair value discounts and premiums	76			27		
Net loss on sales of other real estate owned	—			(103		)
Valuation and other adjustments to other real estate owned	41			23		
Earnings on investment in bank-owned life insurance	(2,031		)	(1,367		)
Increase in accrued interest receivable and other assets	(6,806		)	(10,827		)
(Decrease) increase in accrued interest payable and other liabilities	7,347			(844		)
	(48,106		)	452,174		

Net Cash Provided By (Used In) Operating Activities				
Cash Flows from Investing Activities				
Proceeds from maturities, calls and principal repayments of securities available for sale	11,489		11,781	
Purchases of investment securities available for sale	(756,242	)	(538,544	)
Net increase in loans	(46,969	)	(377,517	)
Proceeds from sales of loans	16,468		105,448	
Purchase of loans	—		(171,839	)
Purchases of bank-owned life insurance	—		(50,000	)
Proceeds from bank-owned life insurance	529		—	
Net (purchases of) proceeds from FHLB, Federal Reserve Bank, and other restricted stock	(24,384	)	(16,810	)
Purchases of bank premises and equipment	(268	)	(366	)
Proceeds from sales of other real estate owned	—		450	
Purchase of leased assets under operating leases	(2,755	)	—	
Net Cash Used In Investing Activities	(802,132	)	(1,037,397	)
Cash Flows from Financing Activities				
Net increase in deposits	242,317		31,705	
Net increase in short-term borrowed funds from the FHLB	640,755		337,750	
Net increase in federal funds purchased	40,000		132,000	
Preferred stock dividends paid	(3,615	)	(3,615	)
Exercise of warrants	112		420	
Payments of employee taxes withheld from share-based awards	(587	)	(2,172	)
Proceeds from issuance of common stock	344		1,716	
Net Cash Provided By Financing Activities	919,326		497,804	
Net Increase (Decrease) in Cash and Cash Equivalents	69,088		(87,419	)
Cash and Cash Equivalents – Beginning	146,323		264,709	

Cash and Cash Equivalents – Ending	$	215,411	$	177,290

(continued)

Supplementary Cash Flows Information				
Interest paid	$	29,746	$	17,015
Income taxes paid	4,174		2,348	
Non-cash items:				
Transfer of loans to other real estate owned	$	57	$	—
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 and cash flows for the quarter ended March 31, 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 discussion 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 Customers' BankMobile Technologies, Inc. ("BMT") subsidiary into Flagship, with Customers' shareholders first receiving shares of BMT as a dividend in the spin-off and then receiving shares of Flagship common stock in the merger of BMT into Flagship in exchange for shares of BMT common stock they receive in the spin-off. Flagship will separately purchase BankMobile deposits directly from Customers for cash. Following completion of the spin-off and merger and other transactions contemplated in the Amended Agreement between Customers and Flagship, BMT's 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 March 31, 2018 consolidated balance sheet. The Amended Agreement provides that completion of the transactions will be subject to the receipt of all necessary closing conditions. Customers expects the transaction to close in the third quarter of 2018.

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As of and for the three month period ended March 31, 2017, BankMobile met the criteria to be classified as held for sale, and accordingly the operating results and associated cash flows of BankMobile were presented as "Discontinued operations" for the three month period ended March 31, 2017. 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 will be 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 month period ended March 31, 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 summarizes the effect of the reclassification from held for sale classification to held and used classification on the previously reported consolidated statements of income for the three months ended March 31, 2017:

	Three Months Ended March 31, 2017		
(amounts in thousands)	As Previously Reported	Effect of Reclassification From Held For Sale to Held and Used	After Reclassification
Interest income	$83,094	$ —	$ 83,094
Interest expense	20,670	6	20,676
Net interest income	62,424	(6)	62,418
Provision for loan losses	3,050	—	3,050
Non-interest income	5,427	17,327	22,754
Non-interest expenses	30,147	19,219	49,366
Income from continuing operations before income taxes	34,654	(1,898)	32,756
Provision for income taxes	7,730	(721)	7,009
Net income from continuing operations	26,924	(1,177)	25,747
Loss from discontinued operations before income taxes	(1,898)	1,898	—
Income tax benefit from discontinued operations	(721)	721	—
Net loss from discontinued operations	(1,177)	1,177	—
Net income	25,747	—	25,747
Preferred stock dividend	3,615	—	3,615
Net income available to common shareholders	$22,132	$ —	$ 22,132

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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 "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.

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Recently Issued Accounting Standards

Accounting Standards Adopted on January 1, 2018

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income/(Loss) 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 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. Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.	Customers early adopted on January 1, 2018. With the early adoption, Customers is now 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 its accounting and the financial reporting of its hedging activities with its 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 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.	Customers adopted on January 1, 2018. Customers generally does not modify the terms or conditions of its share-based-payment awards. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

	Effective January 1, 2018 on a prospective basis for awards modified on or after the adoption date.	
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.
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.

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Accounting Standards Adopted on January 1, 2018 (continued)

Standard	Summary of guidance	Effects on 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 loss). 4. Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities. 5.	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.

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.

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Accounting Standards Adopted on January 1, 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
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.
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.	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.

Effective January 1, 2018 on a modified retrospective basis.

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Accounting Standards Adopted on January 1, 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
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. 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).	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 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 2018-03 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 currently does not have any significant equity securities without readily determinable fair values 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 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.	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.
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities	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	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

Issued March 2017	permitted. Adoption of this new guidance must be applied on a modified retrospective approach.	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, initiating implementation efforts across the company and planning for 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 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.

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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 March 31,	
	2018	2017
(amounts in thousands, except share and per share data)		
Net income available to common shareholders	$20,527	$ 22,132
Weighted-average number of common shares outstanding - basic	31,424,496	30,407,060
Share-based compensation plans	840,561	2,344,929
Warrants	8,916	37,171
Weighted-average number of common shares - diluted	32,273,973	32,789,160
Basic earnings per common share	$0.65	$ 0.73
Diluted earnings per common share	$0.64	$ 0.67

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 to do so would have been anti-dilutive for the periods presented.

	Three Months Ended March 31,	
	2018	2017
Anti-dilutive securities:		
Share-based compensation awards	1,059,225	—
Warrants	—	52,242
Total anti-dilutive securities	1,059,225	52,242

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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 months ended March 31, 2018 and 2017. All amounts are presented net of tax. Amounts in parentheses indicate reductions to accumulated other comprehensive income.

	Three Months Ended March 31, 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 (1)	(256)	—	(256)	(42)	(298)
Reclassification of net unrealized gains on equity securities (1)	(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	(25,233)	—	(25,233)	646	(24,587)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (2)	—	—	—	97	97
Net current-period other comprehensive income (loss)	(25,233)	—	(25,233)	743	(24,490)
Balance - March 31, 2018	$(26,691)	$ —	$(26,691)	$ 503	$(26,188)

(1) 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.

(2) Reclassification amounts for available-for-sale securities are reported as gain (loss) 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.

	Three Months Ended March 31, 2017				
	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, 2016	$(2,681)	$ —	$(2,681)	$ (2,211)	$(4,892)
Other comprehensive income (loss) before reclassifications	(685)	—	(685)	201	(484)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	—	—	—	504	504
Net current-period other comprehensive income (loss)	(685)	—	(685)	705	20
Balance - March 31, 2017	$(3,366)	$ —	$(3,366)	$ (1,506)	$(4,872)

(1) Reclassification amounts for available-for-sale securities are reported as gain (loss) 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 March 31, 2018 and December 31, 2017 are summarized in the tables below:

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale Debt Securities:				
Agency-guaranteed residential mortgage-backed securities	$505,113	$ —	$(11,856)	$493,257
Agency-guaranteed commercial real estate mortgage-backed securities	334,643	—	(10,109)	324,534
Corporate notes	374,611	947	(15,050)	360,508
Available for Sale Debt Securities	$1,214,367	$ 947	$(37,015)	1,178,299
Equity Securities (1)				3,362
Total Investment Securities, at Fair Value				$1,181,661

(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			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
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.

There were no sales of securities during the three month periods ended March 31, 2018 and 2017.

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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:

	March 31, 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	119,980	117,332
Due after ten years	254,631	243,176
Agency-guaranteed residential mortgage-backed securities	505,113	493,257
Agency-guaranteed commercial real estate mortgage-backed securities	334,643	324,534
Total debt securities	$1,214,367	$1,178,299

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 March 31, 2018 and December 31, 2017 were as follows:

	March 31, 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	$430,735	$(8,161)	$62,522	$(3,695)	$493,257	$(11,856)
Agency-guaranteed commercial real estate mortgage-backed securities	318,635	(9,831)	5,899	(278)	324,534	(10,109)
Corporate notes	309,601	(15,050)	—	—	309,601	(15,050)
Total	$1,058,971	$(33,042)	$68,421	$(3,973)	$1,127,392	$(37,015)

	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 March 31, 2018, there were sixty-two 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 month period ended March 31, 2017, Customers recorded other-than-temporary impairment losses of $1.7 million related to its equity holdings in Religare for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through March 31, 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 from December 31, 2017 through March 31, 2018 were recorded directly in earnings, which resulted in an unrealized gain of $10 thousand being recognized in other non-interest income in the accompanying consolidated statements of income.

At March 31, 2018 and December 31, 2017, Customers Bank had pledged investment securities aggregating $701.5 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 March 31, 2018 and December 31, 2017 was as follows:

(amounts in thousands)	March 31, 2018	December 31, 2017
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,874,853	$1,793,408
Multi-family loans at lower of cost or fair value	—	144,191
Total commercial loans held for sale	1,874,853	1,937,599
Consumer loans:		
Residential mortgage loans, at fair value	662	1,886
Loans held for sale	$1,875,515	$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 21 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 March 31, 2018 and December 31, 2017.

(amounts in thousands)	March 31, 2018	December 31, 2017
Commercial:		
Multi-family	$3,645,374	$3,502,381
Commercial and industrial (including owner occupied commercial real estate)	1,704,791	1,633,818
Commercial real estate non-owner occupied	1,195,904	1,218,719
Construction	81,101	85,393
Total commercial loans	6,627,170	6,440,311
Consumer:		
Residential real estate	225,839	234,090
Manufactured housing	87,687	90,227
Other	3,570	3,547
Total consumer loans	317,096	327,864
Total loans receivable	6,944,266	6,768,175
Deferred (fees)/costs and unamortized (discounts)/premiums, net	(700)	83
Allowance for loan losses	(39,499)	(38,015)
Loans receivable, net of allowance for loan losses	$6,904,067	$6,730,243

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

	March 31, 2018						
(amounts in thousands)	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)
Multi-family	$—	$ —	$ —	$—	$3,643,539	$ 1,835	$3,645,374
Commercial and industrial	129	—	129	14,220	1,187,571	721	1,202,641
Commercial real estate - owner occupied	—	—	—	1,437	490,277	10,436	502,150
Commercial real estate - non-owner occupied	—	—	—	242	1,190,591	5,071	1,195,904
Construction	—	—	—	—	81,101	—	81,101
Residential real estate	4,490	—	4,490	5,216	210,825	5,308	225,839
Manufactured housing (5)	3,444	2,746	6,190	1,979	77,042	2,476	87,687
Other consumer	75	—	75	97	3,148	250	3,570
Total	$8,138	$ 2,746	$ 10,884	$23,191	$6,884,094	$ 26,097	$6,944,266

	December 31, 2017						
(amounts in thousands)	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)
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 March 31, 2018 and December 31, 2017, the Bank had $0.3 million, respectively, of residential real estate held in other real estate owned. As of March 31, 2018 and December 31, 2017, the Bank had initiated foreclosure proceedings on $1.2 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 months ended March 31, 2018 and 2017, and the loans and allowance for loan losses by loan class based on impairment-evaluation method as of March 31, 2018 and December 31, 2017 are presented in the tables below.

Three Months Ended March 31, 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, December 31, 2017	$12,168	$10,918	$3,232	$7,437	$979	$2,929	$180	$172	$38,015
Charge-offs	—	(50)	(18)	—	—	(365)	—	(256)	(689)
Recoveries	—	35	—	—	11	7	—	3	56
Provision for loan losses	377	834	311	(204)	(69)	608	(4)	264	2,117
Ending Balance, March 31, 2018	$12,545	$11,737	$3,525	$7,233	$921	$3,179	$176	$183	$39,499
As of March 31, 2018									
Loans:									
Individually evaluated for impairment	$—	$14,288	$1,483	$242	$—	$8,242	$10,108	$97	$34,460
Collectively evaluated for impairment	3,643,539	1,187,632	490,231	1,190,591	81,101	212,289	75,103	3,223	6,883,709
Loans acquired with credit deterioration	1,835	721	10,436	5,071	—	5,308	2,476	250	26,097
	$3,645,374	$1,202,641	$502,150	$1,195,904	$81,101	$225,839	$87,687	$3,570	$6,944,266
Allowance for loan losses:									
Individually evaluated for impairment	$—	$986	$764	$—	$—	$365	$4	$—	$2,119
Collectively evaluated for impairment	12,545	10,300	2,751	4,512	921	2,274	82	125	33,510
Loans acquired	—	451	10	2,721	—	540	90	58	3,870

with credit deterioration	$12,545	$11,737	$3,525	$7,233	$921	$3,179	$176	$183	$39,499

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Three Months Ended March 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
Ending Balance, December 31, 2016	$11,602	$11,050	$2,183	$7,894	$840	$3,342	$286	$118	$37,315
Charge-offs	—	(198)	—	(404)	—	(221)	—	(20)	(843)
Recoveries	—	215	—	—	81	21	—	44	361
Provision for loan losses	681	1,942	211	357	(36)	(62)	(2)	(41)	3,050
Ending Balance, March 31, 2017	$12,283	$13,009	$2,394	$7,847	$885	$3,080	$284	$101	$39,883
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 March 31, 2018 and December 31, 2017, funds available for reimbursement, if necessary, were $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 March 31, 2018 and December 31, 2017 and the average recorded investment and interest income recognized for the three months ended March 31, 2018 and 2017. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	March 31, 2018			Three Months Ended March 31, 2018	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no recorded allowance:					
Commercial and industrial	$5,830	$6,029	$ —	$7,484	$ —
Commercial real estate owner occupied	614	614	—	710	—
Commercial real estate non-owner occupied	242	353	—	201	—
Other consumer	97	97	—	63	—
Residential real estate	3,617	3,788	—	3,623	—
Manufactured housing	9,886	9,886	—	9,876	131
With an allowance recorded:					
Commercial and industrial	8,458	8,642	986	8,390	1
Commercial real estate owner occupied	869	869	764	756	1
Residential real estate	4,625	4,662	365	5,122	25
Manufactured housing	222	222	4	223	—
Total	$34,460	$35,162	$ 2,119	$36,448	$ 158

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	December 31, 2017			Three Months Ended March 31, 2017	
(amounts in thousands)	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no recorded allowance:					
Commercial and industrial	$9,138	$9,287	$ —	$4,248	$ 50
Commercial real estate owner occupied	806	806	—	1,435	15
Commercial real estate non-owner occupied	160	272	—	1,794	2
Other consumer	30	30	—	57	—
Residential real estate	3,628	3,801	—	4,502	1
Manufactured housing	9,865	9,865	—	9,833	141
With an allowance recorded:					
Commercial and industrial	8,323	8,506	650	8,837	81
Commercial real estate - owner occupied	642	642	642	844	1
Commercial real estate non-owner occupied	—	—	—	138	—
Residential real estate	5,619	5,656	155	2,597	39
Manufactured housing	224	224	4	102	3
Total	$38,435	$39,089	$ 1,451	$34,387	$ 333

Troubled Debt Restructurings

At March 31, 2018 and December 31, 2017, there were $19.0 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 March 31, 2018 and December 31, 2017. Nonaccrual TDRs are included in the reported amount of total non-accrual loans.

	March 31, 2018			December 31, 2017		
(amounts in thousands)	Accruing TDRs	Nonaccrual TDRs	Total	Accruing TDRs	Nonaccrual TDRs	Total
Commercial and industrial	$68	$ 5,519	$5,587	$63	$ 5,939	$6,002
Commercial real estate owner occupied	45	—	45	—	—	—
Manufactured housing	8,130	1,787	9,917	8,130	1,766	9,896
Residential real estate	3,026	463	3,489	3,828	703	4,531
Total TDRs	$11,269	$ 7,769	$19,038	$12,021	$ 8,408	$20,429

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The following table presents loans modified in a troubled debt restructuring by type of concession for the three months ended March 31, 2018 and 2017. There were no modifications that involved forgiveness of debt.

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	—	$ —	1	$ 348
Interest-rate reductions	9	322	20	855
Total	9	$ 322	21	$ 1,203

The following table provides, by loan type, the number of loans modified in troubled debt restructurings, and the related recorded investment, during the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Commercial and industrial	—	$ —	1	$ 348
Manufactured housing	9	322	20	855
Total loans	9	$ 322	21	$ 1,203

As of March 31, 2018, there were no additional commitments to lend additional funds to debtors whose loans have been modified in TDRs. As of December 31, 2017, except for one commercial and industrial loan with an outstanding commitment of $2.1 million, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.

As of March 31, 2018, one manufactured housing loan totaling $29 thousand that was modified in a TDR within the past twelve months, defaulted on payments. As of March 31, 2017, five manufactured housing loans totaling $0.2 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 months ended March 31, 2018. For the three months ended March 31, 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 months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
(amounts in thousands)		
Accretable yield balance as of December 31,	$7,825	$10,202

Accretion to interest income	(338)	(493)
Reclassification from nonaccretable difference and disposals, net	176	(333)
Accretable yield balance as of March 31,	$7,663	$9,376

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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, construction and residential real estate classes, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective loan portfolio class, 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.

"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 determined 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.

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“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 March 31, 2018 and December 31, 2017.

	March 31, 2018								
	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
(amounts in thousands)									
Pass/Satisfactory	$3,608,179	$1,161,401	$485,423	$1,178,454	$81,101	$—	$—	$—	$6,514,558
Special Mention	29,634	12,751	8,208	16,356	—	—	—	—	66,949
Substandard	7,561	28,489	8,519	1,094	—	—	—	—	45,663
Performing (1)	—	—	—	—	—	216,133	79,518	3,398	299,049
Non-performing (2)	—	—	—	—	—	9,706	8,169	172	18,047
Total	$3,645,374	$1,202,641	$502,150	$1,195,904	$81,101	$225,839	$87,687	$3,570	$6,944,266

	December 31, 2017								
	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
(amounts in thousands)									
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

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 these purchases and sales during the three months ended March 31, 2018 and 2017 materially affected the credit profile of Customers’ related 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 $5.5 billion at March 31, 2018 and December 31, 2017, respectively.

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.

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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 March 31, 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, 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 March 31, 2018:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$710,156	8.508 %	$375,609	4.500%	N/A	N/A	$532,113	6.375%
Customers Bank	$1,037,480	12.448%	$375,048	4.500%	$541,736	6.500 %	$531,318	6.375%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$927,627	11.113%	$500,812	6.000%	N/A	N/A	$657,316	7.875%
Customers Bank	$1,037,480	12.448%	$500,064	6.000%	$666,751	8.000 %	$656,333	7.875%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,047,698	12.552%	$667,749	8.000%	N/A	N/A	$824,253	9.875%
Customers Bank	$1,186,105	14.231%	$666,751	8.000%	$833,439	10.000%	$823,021	9.875%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$927,627	9.031 %	$410,858	4.000%	N/A	N/A	$410,858	4.000%
Customers Bank	$1,037,480	10.107%	$410,612	4.000%	$513,265	5.000 %	$410,612	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 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.

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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 March 31, 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:

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:

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 21 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 March 31, 2018 and December 31, 2017 were as follows.

			Fair Value Measurements at March 31, 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	$215,411	$215,411	$215,411	$—	$ —
Debt securities, available for sale	1,178,299	1,178,299	—	1,178,299	—
Equity securities	3,362	3,362	3,362	—	—
Loans held for sale	1,875,515	1,875,515	—	1,875,515	—
Loans receivable, net of allowance for loan losses	6,904,067	6,829,770	—	—	6,829,770
FHLB, Federal Reserve Bank and other restricted stock	130,302	130,302	—	130,302	—
Derivatives	13,606	13,606	—	13,523	83
Liabilities:					
Deposits	$7,042,459	$7,034,680	$5,153,428	$1,881,252	$ —
Federal funds purchased	195,000	195,000	195,000	—	—
FHLB advances	2,252,615	2,252,445	1,687,615	564,830	—
Other borrowings	186,735	187,092	64,262	122,830	—
Subordinated debt	108,904	114,950	—	114,950	—
Derivatives	12,673	12,673	—	12,673	—

			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 March 31, 2018 and December 31, 2017 were as follows:

	March 31, 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	$—	$ 493,257	$ —	$493,257
Agency guaranteed commercial mortgage-backed securities	—	324,534	—	324,534
Corporate notes	—	360,508	—	360,508
Equity securities	3,362	—	—	3,362
Derivatives	—	13,523	83	13,606
Loans held for sale – fair value option	—	1,875,515	—	1,875,515
Total assets - recurring fair value measurements	$3,362	$ 3,067,337	$ 83	$3,070,782
Liabilities				
Derivatives	$—	$ 12,673	$ —	$12,673
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $2,119	$—	$ —	$ 12,588	$12,588
Other real estate owned	—	—	1,408	1,408
Total assets - nonrecurring fair value measurements	$—	$ —	$ 13,996	$13,996

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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 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 months ended March 31, 2018 and 2017 are summarized as follows. 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 March 31,	
(amounts in thousands)	2018	2017
Balance at December 31	$ 60	$ 45
Issuances	83	95
Settlements	(60)	(45)
Balance at March 31	$ 83	$ 95

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 months ended March 31, 2018 and 2017.

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The following table summarizes financial assets and financial liabilities measured at fair value as of March 31, 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			
March 31, 2018	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	$12,588	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	1,408	Collateral appraisal (1)	Liquidation expenses (2)	(11)%
Residential mortgage loan commitments	83	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 $0.8 million from accumulated other comprehensive income as a reduction 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 27 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At March 31, 2018, Customers had eleven outstanding interest rate derivatives with notional amounts totaling $960.0 million 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 March 31, 2018 expire between April 2018 and July 2021.

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 March 31, 2018, Customers had 84 interest rate swaps with an aggregate notional amount of $813.7 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 March 31, 2018 and December 31, 2017, Customers had an outstanding notional balance of residential mortgage loan commitments of $3.6 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 March 31, 2018 and December 31, 2017, Customers had outstanding notional balances of credit derivatives of $80.0 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 March 31, 2018 and December 31, 2017.

	March 31, 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	$ 1,224	Other liabilities	$ 545
Total		$ 1,224		$ 545
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 12,235	Other liabilities	$ 12,104
Credit contracts	Other assets	64	Other liabilities	24
Residential mortgage loan commitments	Other assets	83	Other liabilities	—
Total		$ 12,382		$ 12,128

	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 months ended March 31, 2018 and 2017.

	Three Months Ended March 31, 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	$ 385
Credit contracts	Other non-interest income	(23)
Residential mortgage loan commitments	Mortgage banking income	23

Total	$	385

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(amounts in thousands)	Three Months Ended March 31, 2017 Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 483
Credit contracts	Other non-interest income	—
Residential mortgage loan commitments	Mortgage banking income	50
Total		$ 533

(amounts in thousands)	Three Months Ended March 31, 2018 Amount of Gain 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
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$646	Interest expense	$ (131)

(amounts in thousands)	Three Months Ended March 31, 2017 Amount of Gain 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
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$201	Interest expense	$ (827)

(1) Amounts presented are net of taxes. See NOTE 5 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME for total effect on other comprehensive income 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 March 31, 2018, the fair value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was $0.2 million. In addition, Customers has minimum collateral posting thresholds with certain of these counterparties and at March 31, 2018 had posted $0.4 million of cash as collateral. Customers records cash posted as collateral as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of other assets.

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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 March 31, 2018

(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: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Received	Net Amount
Interest rate swap derivatives with institutional counterparties	$ 11,716	$ —	$ 11,716	$ —	$ 9,240	$ 2,476

Offsetting of Financial Liabilities and Derivative Liabilities
At March 31, 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: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Pledged	Net Amount
Interest rate swap derivatives with institutional counterparties	$ 2,405	$ —	$ 2,405	$ —	$ 352	$ 2,053

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

	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: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral	Net Amount

				Received	
(amounts in thousands)					
Description					
Interest rate swap derivatives with institutional counterparties	$ 5,930	$ —	$ 5,930	$ —	$ 5,070	$ 860

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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: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Pledged	Net Amount
Interest rate swap derivatives with institutional counterparties	$ 5,058	$ —	$ 5,058	$ —	$ 4,872	$ 186

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 month periods ended March 31, 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 37.25% for 2017, respectively.

	Three Months Ended March 31, 2018		
	Community Business Banking	BankMobile	Consolidated
Interest income	$92,554	$4,410 (1)	$96,964
Interest expense	31,917	16	31,933
Net interest income	60,637	4,394	65,031
Provision for loan losses	1,874	243	2,117
Non-interest income	8,439	12,471	20,910
Non-interest expense	34,331	17,949	52,280
Income before income tax expense (benefit)	32,871	(1,327)	31,544
Income tax expense (benefit)	7,728	(326)	7,402
Net income (loss)	25,143	(1,001)	24,142
Preferred stock dividends	3,615	—	3,615
Net income (loss) available to common shareholders	$21,528	$(1,001)	$20,527
As of March 31, 2018			
Goodwill and other intangibles	$3,630	$13,847	$17,477
Total assets	$10,690,479	$78,787	$10,769,266
Total deposits	$6,418,810	$623,649	$7,042,459
Total non-deposit liabilities	$2,759,156	$48,563	$2,807,719

	Three Months Ended March 31, 2017		
	Community Business Banking	BankMobile	Consolidated
Interest income	$78,832	$4,262 (1)	$83,094
Interest expense	20,656	20	20,676
Net interest income	58,176	4,242	62,418
Provision for loan losses	3,050	—	3,050
Non-interest income	5,427	17,327	22,754
Non-interest expense	30,147	19,219	49,366
Income (loss) before income tax expense (benefit)	30,406	2,350	32,756
Income tax expense (benefit)	6,116	893	7,009
Net income (loss)	24,290	1,457	25,747
Preferred stock dividends	3,615	—	3,615
Net income (loss) available to common shareholders	$20,675	$1,457	$22,132
As of March 31, 2017			
Goodwill and other intangibles	$3,636	$13,982	$17,618
Total assets	$9,833,721	$72,915	$9,906,636
Total deposits	$6,627,061	$708,419	$7,335,480
Total non-deposit liabilities	$1,660,967	$30,372	$1,691,339

(1) - Amounts reported include funds transfer pricing of $4.4 million and $4.3 million for the three months ended March 31, 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, 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 March 31, 2018 and 2017 amounted to $1.5 million and $0.8 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 months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018		
	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$223	$ 9,438	$ 9,661
Deposit Fees	287	1,805	2,092
University Fees - Card and Disbursement Fees	—	326	326
Total revenue recognized at point in time	510	11,569	12,079
Revenue recognized over time:			
University Fees - Subscription Revenue	—	870	870
Total revenue recognized over time	—	870	870
Total revenue from contracts with customers	$510	$ 12,439	$ 12,949

	Three Months Ended March 31, 2017		
	Community Business Banking	BankMobile	Consolidated
Revenue from contracts with customers:			
Revenue recognized at point in time:			
Interchange and Card Revenue	$203	$ 13,308	$ 13,511
Deposit Fees	324	2,803	3,127
University Fees - Card and Disbursement Fees	—	392	392
Total revenue recognized at point in time	527	16,503	17,030
Revenue recognized over time:			

University Fees - Subscription Revenue	—	795	795
Total revenue recognized over time	—	795	795
Total revenue from contracts with customers	$527	$ 17,298	$ 17,825

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 above 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 March 31, 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 fees (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 March 31, 2018 and December 31, 2017, Customers recorded deferred revenue of $1.8 million and $2.0 million, respectively, related to these university subscription contracts. At March 31, 2018 and December 31, 2017, Customers had accounts receivable of $1.2 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 months ended March 31, 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 report in "NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION" on Form 10-Q for the quarterly period ended March 31, 2018. 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.

First Quarter Events of Note

Customers reported net income available to common shareholders of $20.5 million, or $0.64 per fully diluted common share, for first quarter 2018. Total assets were $10.8 billion at March 31, 2018, an increase of $0.9 billion from December 31, 2017, including $0.7 billion of investment securities growth and $111.3 million of total loan 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 $23.2 million, or 0.26% of total loans, and total non-performing assets (non-performing loans and other real estate owned) only 0.23% of total assets at March 31, 2018, reflecting Customers' conservative lending practices and continued focus on credit risk management. Customers' level of non-performing loans to total loans at March 31, 2018 remained well below industry average non-performing loans to total loans of 1.30% and Customers' peer group non-performing loans to total loans of 0.80%.

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 March 31, 2018. Customers Bancorp's Tier 1 leverage ratio was 9.03%, and its total risk-based capital ratio was 12.55% at March 31, 2018.

Results of Operations

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Net income available to common shareholders decreased $1.6 million, or 7.3%, to $20.5 million for the three months ended March 31, 2018 when compared to net income available to common shareholders of $22.1 million for the three months ended March 31, 2017. The decreased net income available to common shareholders primarily resulted from an increase in non-interest expense of $2.9 million, or 5.9%, and a decrease in non-interest income of $1.8 million, or 8.1%, offset in part by an increase in net interest income of $2.6 million, or 4.2%, and a decrease in the provision for loan losses of $0.9 million.

Net interest income of $65.0 million increased $2.6 million, or 4.2%, for the three months ended March 31, 2018 when compared to net interest income of $62.4 million for the three months ended March 31, 2017. This increase resulted primarily from an increase in the average balance of interest-earning assets of $0.6 billion over the prior year period, offset in part by a 6 basis point decline in net interest margin (tax-equivalent) to 2.67% for first quarter 2018 from 2.73% for first quarter 2017.

The provision for loan losses of $2.1 million decreased $0.9 million for the three months ended March 31, 2018 when compared to the provision for loan losses of $3.1 million for the three months ended March 31, 2017. The first quarter 2018 provision expense included provisions of $0.9 million for loan portfolio growth and reserves of $1.3 million for impaired loans, offset in part by a $0.2 million release resulting from improved asset quality and lower incurred losses than previously estimated.

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Non-interest income of $20.9 million decreased $1.8 million, or 8.1%, for the three months ended March 31, 2018 when compared to non-interest income of $22.8 million for the three months ended March 31, 2017. This decrease was primarily the result of decreases in interchange card revenues and deposit fees of $3.9 million and $1.0 million, or 28.5% and 33.1%, respectively, mostly driven by lower activity volumes in the BankMobile business segment. Interchange and card revenue of $9.7 million for the three months ended March 31, 2018 is presented net of $1.5 million of debit and prepaid interchange expenses in accordance with the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION. Interchange and card revenue would have been $12.6 million for the three months ended March 31, 2017 if presented on a consistent basis with the three months ended March 31, 2018. These decreases in other non-interest income were partially offset by increases in other non-interest income of $1.0 million, primarily from commercial operating leases, and the recognition of other-than-temporary impairment charges of $1.7 million in first quarter 2017 related to the Religare equity securities.
Non-interest expense of $52.3 million increased $2.9 million, or 5.9%, for the three months ended March 31, 2018 when compared to non-interest expense of $49.4 million for the three months ended March 31, 2017. This increase resulted primarily from increases in salaries and employee benefits of $3.8 million, driven primarily by salary increases as well as increases in the average number of full-time equivalent employees as Customers continues to hire new team members in the markets that it serves. These increases in non-interest expense were partially offset by a decrease in professional services of $1.5 million. 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 tax expense of $7.4 million increased $0.4 million, or 5.6%, for the three months ended March 31, 2018 when compared to income tax expense of $7.0 million for the three months ended March 31, 2017. The increase in income tax expense was driven primarily by the prior year period recognition of $6.1 million of deferred tax benefits related to the vesting of restricted shares and exercises of employee stock options and the adoption of a tax strategy to capture the benefit of other-than-temporary impairment losses on investment securities that reduced the first quarter 2017 tax rate to 21.4%, offset in large part by the lower federal 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 $1.2 million in first quarter 2018 compared to first quarter 2017.
Preferred stock dividends were $3.6 million for the three months ended March 31, 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 spread and margin for the periods indicated.

	Three Months Ended March 31, 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	$184,033	$ 694	1.53 %	$499,561	$ 973	0.79 %
Investment securities (A)	1,085,429	8,672	3.20 %	829,730	5,887	2.88 %
Loans:						
Commercial loans to mortgage companies	1,591,749	18,394	4.69 %	1,480,335	14,563	3.99 %
Multifamily loans	3,637,929	33,312	3.71 %	3,337,334	30,508	3.71 %
Commercial and industrial	1,653,655	17,687	4.34 %	1,350,720	13,496	4.05 %
Non-owner occupied commercial real estate	1,281,502	12,413	3.93 %	1,277,286	11,984	3.81 %
All other loans	330,100	4,125	5.07 %	415,693	4,856	4.74 %
Total loans (B)	8,494,935	85,931	4.10 %	7,861,368	75,407	3.89 %
Other interest-earning assets	116,823	1,667	5.79 %	75,980	827	4.41 %
Total interest-earning assets	9,881,220	96,964	3.97 %	9,266,639	83,094	3.64 %
Non-interest-earning assets	394,487			340,902		
Total assets	$10,275,707			$9,607,541		
Liabilities						
Interest checking accounts	$499,245	1,432	1.16 %	$318,248	497	0.63 %
Money market deposit accounts	3,402,963	11,471	1.37 %	3,155,674	6,225	0.80 %
Other savings accounts	37,496	25	0.27 %	43,285	28	0.26 %
Certificates of deposit	1,872,351	6,865	1.49 %	2,699,317	7,573	1.14 %
Total interest-bearing deposits	5,812,055	19,793	1.38 %	6,216,524	14,323	0.93 %
Borrowings	2,182,463	12,140	2.25 %	1,130,490	6,353	2.28 %
Total interest-bearing liabilities	7,994,518	31,933	1.62 %	7,347,014	20,676	1.14 %
Non-interest-bearing deposits	1,278,947			1,315,194		
Total deposits and borrowings	9,273,465		1.39 %	8,662,208		0.97 %
Other non-interest-bearing liabilities	75,307			77,339		
Total liabilities	9,348,772			8,739,547		
Shareholders’ Equity	926,935			867,994		
Total liabilities and shareholders’ equity	$10,275,707			$9,607,541		
Net interest earnings		65,031			62,418	
Tax-equivalent adjustment (C)		171			93	
Net interest earnings		$ 65,202			$ 62,511	
Interest spread			2.58 %			2.67 %
Net interest margin			2.66 %			2.73 %
Net interest margin tax equivalent (C)			2.67 %			2.73 %

(A) 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.

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

(C) Non-GAAP tax-equivalent basis, using a 26% rate for the current period and a 35% rate for the other periods 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 March 31, 2018 vs. 2017 Increase (Decrease) due to Change in		
	Rate	Volume	Total
(amounts in thousands)			
Interest income			
Interest-earning deposits	$567	$(846)	$(279)
Investment securities	808	1,977	2,785
Loans:			
Commercial loans to mortgage companies	2,677	1,154	3,831
Multifamily loans	52	2,752	2,804
Commercial and industrial	1,002	3,189	4,191
Non-owner occupied commercial real estate	389	40	429
All other loans	321	(1,052)	(731)
Total loans	4,441	6,083	10,524
Other interest-earning assets	309	531	840
Total interest income	6,125	7,745	13,870
Interest expense			
Interest checking accounts	556	379	935
Money market deposit accounts	4,724	522	5,246
Other savings accounts	—	(3)	(3)
Certificates of deposit	1,969	(2,677)	(708)
Total interest-bearing deposits	7,249	(1,779)	5,470
Borrowings	(63)	5,850	5,787
Total interest expense	7,186	4,071	11,257
Net interest income	$(1,061)	$3,674	$2,613

Net interest income for the three months ended March 31, 2018 was $65.0 million, an increase of $2.6 million, or 4.2%, from net interest income of $62.4 million for the three months ended March 31, 2017, as average loan and security balances increased $0.9 billion. Net interest margin (tax equivalent) narrowed by 6 basis points to 2.67% for first quarter 2018 compared to 2.73% for first quarter 2017. The net interest margin (tax equivalent) compression largely resulted from a 45 basis point increase in the cost of interest bearing deposits, primarily 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. Prepayment fees for the three months ended March 31, 2018 also decreased by $0.6 million when compared to the same period of last year. The higher cost of funds and the decrease in prepayment fees was offset in part by a 33 basis point increase in the yield of interest-earning assets, primarily due to an increase in the yield of our portfolio of commercial loans to mortgage companies.

Interest expense on borrowings increased $5.8 million in first quarter 2018 compared to first quarter 2017. This increase was primarily driven by higher average balances of borrowings, which increased $1.1 billion for first quarter

2018 compared to first quarter 2017, primarily as a result of the increases in FHLB advances, federal funds purchased, and in the outstanding balance of senior note borrowings.

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PROVISION FOR LOAN LOSSES

The provision for loan losses of $2.1 million decreased by $0.9 million for the three months ended March 31, 2018, compared to $3.1 million for the same period in 2017. The provision for loan losses in first quarter 2018 included $0.9 million for loan portfolio growth and $1.3 million for impaired loans, offset in part by a $0.2 million release resulting from improved asset quality and lower incurred losses than previously estimated. In first quarter 2017, the provision for loan losses of $3.1 million included provision of $0.5 million for new loan growth and $2.5 million for reserves on impaired loans.

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 March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
(amounts in thousands)		
Interchange and card revenue	$9,661	$13,511
Deposit fees	2,092	3,127
Bank-owned life insurance	2,031	1,367
Mortgage warehouse transactional fees	1,887	2,221
Gain on sale of SBA and other loans	1,361	1,328
Mortgage banking income	121	155
Impairment loss on investment securities	—	(1,703)
Other	3,757	2,748
Total non-interest income	$20,910	$22,754

Non-interest income decreased $1.8 million during the three months ended March 31, 2018 to $20.9 million, compared to $22.8 million for the three months ended March 31, 2017. This decrease was primarily due to decreases in interchange and card revenue and deposit fees of $3.9 million and $1.0 million, respectively, driven by lower transactional volumes for the three months ended March 31, 2018 compared to the same period in 2017 in the BankMobile business segment. Interchange and card revenue of $9.7 million for the three months ended March 31, 2018 is presented net of $1.5 million of debit and prepaid interchange expenses in accordance with the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) as described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION. Interchange and card revenue would have been $12.6 million for the three months ended March 31, 2017 if presented on a consistent basis with the three months ended March 31, 2018. These decreases in non-interest income were offset in part by increases in other non-interest income of $1.0 million, primarily driven by commercial operating leases, income from bank-owned life insurance policies of $0.7 million, and the prior period recognition of other-than-temporary impairment losses of equity securities related to the Religare investment of $1.7 million for the three months ended March 31, 2017. No such impairment was recorded for the three months ended March 31, 2018.

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NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
(amounts in thousands)	2018	2017
Salaries and employee benefits	$24,925	$21,112
Technology, communication and bank operations	9,943	9,916
Professional services	6,008	7,512
Occupancy	2,834	2,714
FDIC assessments, non-income taxes, and regulatory fees	2,200	1,725
Provision for operating losses	1,526	1,646
Loan workout	659	521
Advertising and promotion	390	326
Merger and acquisition related expenses	106	—
Other real estate owned expenses (income)	40	(55)
Other	3,649	3,949
Total non-interest expense	$52,280	$49,366

Non-interest expense was $52.3 million for the three months ended March 31, 2018, an increase of $2.9 million from non-interest expense of $49.4 million for the three months ended March 31, 2017.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $3.8 million, or 18.1%, to $24.9 million for the three months ended March 31, 2018 from $21.1 million for the three months ended March 31, 2017. The increase was primarily attributable to increases in compensation levels for existing employees reflecting higher costs to maintain our workforce, and increases in the average number of full-time equivalent employees by 35, as Customers continues to hire new team members in the markets it serves.

Professional services expenses decreased $1.5 million, or 20.0%, to $6.0 million for the three months ended March 31, 2018 from $7.5 million for the three months ended March 31, 2017. These decreases were 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 $7.4 million increased $0.4 million, or 5.6%, for the three months ended March 31, 2018 when compared to income tax expense of $7.0 million for the three months ended March 31, 2017. Customers did not experience the large tax benefit in first quarter 2018 compared to first quarter 2017 due to the December 22, 2017 adoption of the Tax Cuts and Jobs Act of 2017 because Customers recognized $6.1 million in deferred tax benefits in first quarter 2017, resulting in an effective tax rate for first quarter 2017 of 21.4%, which is comparable to the first quarter 2018 effective tax rate of 23.5%. This increase was offset in part by a decrease in pre-tax income of $1.2 million in first quarter 2018 compared to first quarter 2017.

PREFERRED STOCK DIVIDENDS

Preferred stock dividends were $3.6 million for the three months ended March 31, 2018 and 2017, respectively.

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Financial Condition

General

Customers' total assets were $10.8 billion at March 31, 2018. This represented a $0.9 billion, or 9.4%, 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 the spin-off of BankMobile is completed, or until July 1, 2019.

The change in Customers' financial position at March 31, 2018 compared to December 31, 2017 occurred primarily as the result of an increase in total investment securities of $0.7 billion, or 150.7%, to $1.2 billion at March 31, 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 the increase in total loans outstanding, including loans held for sale, of $111.3 million since December 31, 2017, or 1.3%, primarily driven by growth in commercial loans to mortgage banking businesses of $86.7 million and commercial and industrial loans (including owner occupied commercial real estate loans) of $65.7 million. These increases were offset in part by a decrease in non-owner occupied commercial real estate loans of $22.8 million in first quarter 2018.

Total liabilities were $9.9 billion at March 31, 2018. This represented a $0.9 billion, or 10.4%, increase from $8.9 billion at December 31, 2017. The increase in total liabilities resulted primarily from FHLB borrowings, which increased by $0.6 billion, or 39.8%, to $2.3 billion at March 31, 2018 from $1.6 billion at December 31, 2017, and total deposits, which increased $242.3 million, or 3.6%, to $7.0 billion at March 31, 2018 from $6.8 billion at December 31, 2017. Federal funds purchased increased $40.0 million, or 25.8%, to $195.0 million at March 31, 2018 from $155.0 million at December 31, 2017.

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

(amounts in thousands)	March 31, 2018	December 31, 2017
Cash and cash equivalents	$ 215,411	$ 146,323
Investment securities, at fair value	1,181,661	471,371
Loans held for sale (includes $1,875,515 and $1,795,294, respectively, at fair value)	1,875,515	1,939,485
Loans receivable	6,943,566	6,768,258
Allowance for loan losses	(39,499)	(38,015)
Total assets	10,769,266	9,839,555
Total deposits	7,042,459	6,800,142
Federal funds purchased	195,000	155,000
FHLB advances	2,252,615	1,611,860
Other borrowings	186,735	186,497
Subordinated debt	108,904	108,880
Total liabilities	9,850,178	8,918,591
Total shareholders’ equity	919,088	920,964
Total liabilities and shareholders’ equity	10,769,266	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 $9.2 million at March 31, 2018. This represents a $11.2 million decrease 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 $206.2 million and $125.9 million at March 31, 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 as of year end 2017.

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In connection with the June 2016 acquisition of the Disbursement business from Higher One, as of March 31, 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. 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 June 30, 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 maximize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

At March 31, 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 totaled $756.2 million during the three months ended March 31, 2018, offset in part by maturities, calls and principal repayments in the amount of $11.5 million during the three months ended March 31, 2018, consistent with Customers' goals to increase interest-earning assets in first quarter 2018.

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.

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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, expand its specialty mortgage warehouse lending business and expand its multi-family/commercial real estate lending business.

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 March 31, 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 March 31, 2018, Customers had multi-family loans of $3.6 billion outstanding, comprising approximately 41.3% of the total loan portfolio, compared to $3.6 billion, or approximately 41.9% of the total loan portfolio, at December 31, 2017.

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 March 31, 2018 and December 31, 2017, Customers had $156.6 million and $152.5 million, respectively, of equipment finance loans outstanding. As of March 31, 2018 and December 31, 2017, Customers had $33.2 million and $26.6 million of finance leases, respectively. As of March 31, 2018 and December 31, 2017, Customers had $23.6 million and $21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $1.3 million and $0.5 million, respectively.

As of March 31, 2018, Customers had $8.5 billion in commercial loans outstanding, totaling approximately 96.4% 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.

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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 March 31, 2018, Customers had $317.8 million in consumer loans outstanding, or 3.6% of the total loan portfolio. Customers plans to expand its product offerings in real estate secured consumer lending in 2018.

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 March 31, 2018 and December 31, 2017 was as follows:

	March 31, 2018	December 31, 2017
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,874,853	$ 1,793,408
Multi-family loans at lower of cost or fair value	—	144,191
Total commercial loans held for sale	1,874,853	1,937,599
Consumer Loans:		
Residential mortgage loans, at fair value	662	1,886
Loans held for sale	$1,875,515	$ 1,939,485

At March 31, 2018, loans held for sale totaled $1.9 billion, or 21.3% 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 $173.8 million to $6.9 billion at March 31, 2018 from $6.7 billion at December 31, 2017. Loans receivable as of March 31, 2018 and December 31, 2017 consisted of the following:

(amounts in thousands)	March 31, 2018	December 31, 2017
Commercial:		
Multi-family	$3,645,374	$3,502,381
Commercial and industrial (including owner occupied commercial real estate)	1,704,791	1,633,818
Commercial real estate non-owner occupied	1,195,904	1,218,719
Construction	81,101	85,393
Total commercial loans	6,627,170	6,440,311
Consumer:		
Residential real estate	225,839	234,090
Manufactured housing	87,687	90,227
Other	3,570	3,547
Total consumer loans	317,096	327,864
Total loans receivable	6,944,266	6,768,175
Deferred (fees)/costs and unamortized (discounts)/premiums, net	(700)	83
Allowance for loan losses	(39,499)	(38,015)
Loans receivable, net of allowance for loan losses	$6,904,067	$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 $2.1 million and $3.1 million for the three months ended March 31, 2018 and 2017, respectively. The allowance for loan losses maintained for loans receivable (excludes loans held for sale) was $39.5 million, or 0.57% of loans receivable, at March 31, 2018 and $38.0 million, or 0.56% of loans receivable, at December 31, 2017. Net charge-offs were $0.6 million for the three months ended March 31, 2018, an increase of $0.2 million compared to the same period in 2017. The increase in net charge-offs in first quarter 2018 was mainly driven by increases in charge-off activities related to residential real estate and other consumer loan portfolios.

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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 March 31,	
	2018	2017
(amounts in thousands)		
Balance at the beginning of the period	$38,015	$37,315
Loan charge-offs (1)		
Commercial and industrial	50	198
Commercial real estate owner occupied	18	—
Commercial real estate non-owner occupied	—	404
Residential real estate	365	221
Other consumer	256	20
Total Charge-offs	689	843
Loan recoveries (1)		
Commercial and industrial	35	215
Construction	11	81
Residential real estate	7	21
Other consumer	3	44
Total Recoveries	56	361
Total net charge-offs	633	482
Provision for loan losses	2,117	3,050
Balance at the end of the period	$39,499	$39,883

(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 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 84% 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 credit 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 March 31, 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	$3,642,808	$3,642,808	$—	$ —	$—	$—	$—	— %	— %
Commercial & Industrial (1)	1,618,845	1,603,417	129	—	15,299	667	15,966	0.95 %	0.99 %
Commercial Real Estate Non-Owner Occupied	1,176,949	1,176,949	—	—	—	—	—	— %	— %
Residential	107,920	103,697	2,456	—	1,767	57	1,824	1.64 %	1.69 %
Construction	81,102	81,102	—	—	—	—	—	— %	— %
Other consumer	1,339	1,294	45	—	—	—	—	— %	— %
Total Originated Loans	6,628,963	6,609,267	2,630	—	17,066	724	17,790	0.26 %	0.27 %
Loans Acquired									
Bank Acquisitions	141,343	133,716	2,519	962	4,146	741	4,887	2.93 %	3.44 %
Loan Purchases	173,960	164,612	3,509	3,860	1,979	277	2,256	1.14 %	1.29 %
Total Loans Acquired	315,303	298,328	6,028	4,822	6,125	1,018	7,143	1.94 %	2.26 %
Deferred fees and unamortized discounts, net	(700)	(700)	—	—	—	—	—		
Total Loans Receivable	6,943,566	6,906,895	8,658	4,822	23,191	1,742	24,933	0.33 %	0.36 %
Total Loans Held for Sale	1,875,515	1,875,515	—	—	—	—	—	—	—

Total Portfolio	$8,819,081	$8,782,410	$8,658	$ 4,822	$23,191	$1,742	$24,933	0.26%	0.28%

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

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Asset Quality at March 31, 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	$3,642,808	$—	$12,545	$ —	$12,545	0.34 %	— %
Commercial & Industrial (1)	1,618,845	15,299	14,353	—	14,353	0.89 %	93.82 %
Commercial Real Estate Non-Owner Occupied	1,176,949	—	4,444	—	4,444	0.38 %	— %
Residential	107,920	1,767	2,111	—	2,111	1.96 %	119.47%
Construction	81,102	—	921	—	921	1.14 %	— %
Other consumer	1,339	—	101	—	101	7.54 %	— %
Total Originated Loans	6,628,963	17,066	34,475	—	34,475	0.52 %	202.01%
Loans Acquired							
Bank Acquisitions	141,343	4,146	4,848	—	4,848	3.43 %	116.93%
Loan Purchases	173,960	1,979	176	627	803	0.46 %	40.58 %
Total Loans Acquired	315,303	6,125	5,024	627	5,651	1.79 %	92.26 %
Deferred fees and unamortized discounts, net	(700)	—	—	—	—		
Total Loans Receivable	6,943,566	23,191	39,499	627	40,126	0.58 %	173.02%
Total Loans Held for Sale	1,875,515	—	—	—	—		
Total Portfolio	$8,819,081	$23,191	$39,499	$ 627	$40,126	0.45 %	173.02%

(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 March 31, 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 $17.1 million, or 0.26% of post 2009 originated loans, were non-performing at March 31, 2018, compared to $20.0 million of post 2009 originated loans, or 0.31% of post 2009 loans, at December 31, 2017. The post 2009 loans were supported by an allowance for loan losses of $34.5 million (0.52% of post 2009 originated loans) and $33.3 million (0.52% of post 2009 originated loans), respectively, at March 31, 2018 and December 31, 2017. Total 2009 and prior loans ("legacy loans") were $23.6 million and $25.6 million at March 31, 2018 and December 31, 2017, respectively.

Loans Acquired

At March 31, 2018, total acquired loans were $315.3 million, or 4.5% of total loans held for investment, compared to $328.8 billion, or 4.9% of total loans held for investment, at December 31, 2017. Non-performing acquired loans totaled $6.1 million and $6.4 million at March 31, 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, $50.7 million were supported by a $0.6 million cash reserve at March 31, 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 March 31, 2018, $30.2 million of these loans were outstanding, compared to $31.4 million at December 31, 2017. Many of the acquired loans were purchased at a discount. The price paid 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 $5.7 million (1.79% of total acquired loans) and $5.4 million (1.64% of total acquired loans) at March 31, 2018 and December 31, 2017, respectively.

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DEPOSITS

The Bank offers a variety of deposit accounts, including checking, savings, money market deposit accounts (“MMDA”) and time deposits. Deposits are primarily obtained from the Bank's geographic service area and nationwide through deposit brokers, listing services and other relationships. Total deposits were $7.0 billion at March 31, 2018, an increase of $0.2 billion, or 3.6%, from $6.8 billion at December 31, 2017. Transaction deposits increased by $0.3 billion, or 5.3%, to $5.2 billion at March 31, 2018, from $4.9 billion at December 31, 2017, with non-interest bearing deposits increasing by $0.2 billion. Savings, including MMDA, totaled $3.4 billion at March 31, 2018, an increase of $63.7 million, or 1.9%, 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 $1.9 billion at March 31, 2018, a decrease of $16.7 million, or 0.9%, from $1.9 billion at December 31, 2017. At March 31, 2018, the Bank had $1.9 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 March 31, 2018, the balance of state and municipal deposits was $1.7 billion.

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

(amounts in thousands)	March 31, 2018	December 31, 2017
Demand, non-interest bearing	$1,260,853	$ 1,052,115
Demand, interest bearing	510,418	523,848
Savings, including MMDA	3,382,157	3,318,486
Time, $100,000 and over	1,128,774	1,284,855
Time, other	760,257	620,838
Total deposits	$7,042,459	$ 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 March 31, 2018 and December 31, 2017, total outstanding borrowings were $2.7 billion and $2.1 billion, respectively, which represented an increase of $0.7 billion, or 33.0%. 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 March 31, 2018 and December 31, 2017, Customers had unpledged marketable investments of $480.2 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 March 31, 2018, Customers' borrowing capacity with the Federal Home Loan Bank was $4.8 billion, of which $2.3 billion was utilized in borrowings and $1.9 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 March 31, 2018 and December 31, 2017, Customers' borrowing capacity with the Federal

Reserve Bank of Philadelphia was $133.2 million and $142.5 million, respectively.
Net cash flows used in operating activities were $48.1 million during the three months ended March 31, 2018, compared to net cash flows provided by operating activities of $452.2 million during the three months ended March 31, 2017. During the three months ended March 31, 2018, originations of loans held for sale in excess of the proceeds from the sales of loans held for sale

required $80.1 million of cash flows used in operating activities. During the three months ended March 31, 2017, proceeds from sales of loans held for sale in excess of funds required to originate loans held for sale contributed $433.1 million to cash flows provided by operating activities.
Net cash flows used in investment activities were $0.8 billion during the three months ended March 31, 2018, compared to net cash flows used in investing activities of $1.0 billion during the three months ended March 31, 2017. Purchases of investment securities available for sale totaled $756.2 million during the three months ended March 31, 2018, compared to $538.5 million during the three months ended March 31, 2017. Cash flows used to fund new loans held for investment totaled $47.0 million and $377.5 million during the three months ended March 31, 2018 and 2017, respectively. Cash flows used to purchase loans and bank-owned life insurance policies were $171.8 million and $50.0 million, respectively, during the three months ended March 31, 2017, compared to no such similar purchases during the three months ended March 31, 2018. Net purchases of FHLB, Federal Reserve Bank and other restricted stock totaled $24.4 million and $16.8 million during the three months ended March 31, 2018 and 2017, respectively. Proceeds from the sale of loans held for investment totaled $16.5 million during the three months ended March 31, 2018, compared to $105.4 million during the three months ended March 31, 2017.
Net cash flows provided by financing activities were $0.9 billion during the three months ended March 31, 2018, compared to $0.5 billion for the three months ended March 31, 2017. During the three months ended March 31, 2018, a net increase in short-term borrowed funds provided net cash flows of $640.8 million, an increase in deposits provided net cash flows of $242.3 million, and a net increase in federal funds purchased provided net cash flows of $40.0 million, partially offset by preferred stock dividends paid of $3.6 million. During the three months ended March 31, 2017, a net increase in short-term borrowed funds provided net cash flows of $337.8 million, a net increase in federal funds purchased provided net cash flows of $132.0 million, and a net increase in deposits provided net cash flows of $31.7 million, partially offset by the payment of preferred stock dividends of $3.6 million. These financing activities provided sufficient cash flows to support Customers' investing and operating activities.
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.

CAPITAL ADEQUACY AND SHAREHOLDERS' EQUITY

Shareholders' equity decreased $1.9 million to $919.1 million at March 31, 2018 when compared to shareholders' equity of $921.0 million at December 31, 2017, a 0.2% decrease in first quarter 2018. The primary components of the net decrease were as follows:

- other comprehensive loss of $24.5 million for the three months ended March 31, 2018, arising primarily from unrealized fair value losses recognized on available-for-sale debt securities;
- preferred stock dividends of $3.6 million for the three months ended March 31, 2018;

The decreases were offset in part by:

- net income of $24.1 million for the three months ended March 31, 2018;
- share-based compensation expense of $1.8 million for the three months ended March 31, 2018;
- issuance of common stock under share-based compensation arrangements of $0.2 million for the three months ended March 31, 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 March 31, 2018 and December 31, 2017, the Bank and the Bancorp met all capital adequacy requirements to which they were subject

to.

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Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or comply with 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 March 31, 2018:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$710,156	8.508 %	$375,609	4.500%	N/A	N/A	$532,113	6.375%
Customers Bank	$1,037,480	12.448%	$375,048	4.500%	$541,736	6.500 %	$531,318	6.375%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$927,627	11.113%	$500,812	6.000%	N/A	N/A	$657,316	7.875%
Customers Bank	$1,037,480	12.448%	$500,064	6.000%	$666,751	8.000 %	$656,333	7.875%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,047,698	12.552%	$667,749	8.000%	N/A	N/A	$824,253	9.875%
Customers Bank	$1,186,105	14.231%	$666,751	8.000%	$833,439	10.000%	$823,021	9.875%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$927,627	9.031 %	$410,858	4.000%	N/A	N/A	$410,858	4.000%
Customers Bank	$1,037,480	10.107%	$410,612	4.000%	$513,265	5.000 %	$410,612	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 March 31, 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 March 31, 2018 and December 31, 2017, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	March 31, 2018	December 31, 2017
(amounts in thousands)		
Commitments to fund loans	$213,915	$333,874
Unfunded commitments to fund mortgage warehouse loans	1,548,629	1,567,139
Unfunded commitments under lines of credit	712,009	485,345
Letters of credit	39,732	39,890
Other unused commitments	6,679	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 March 31, 2019, based upon the assets, liabilities and off-balance sheet financial instruments in existence at March 31, 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 March 31, 2019, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change
Up 3%	(14.8)%
Up 2%	(7.5)%
Up 1%	(2.5)%
Down 1%	(1.8)%

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 March 31, 2018, resulting from shocks to interest rates.

Rate Shocks	From base
Up 3%	(28.8)%

Up 2%	(17.0)%
Up 1%	(7.3)%
Down 1%	2.7 %

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

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 March 31, 2018.

During the quarter ended March 31, 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. The risks described within the 2017 Form 10-K 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.”

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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 months ended March 31, 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

Reclassification of Previously Reported Financial Information

On April 30, 2018, Customers filed a current report on Form 8-K with certain unaudited financial information included in Exhibit 99.1. The unaudited consolidated statements of operations for the three months ended December 31, 2017 ("Q4 2017"), the three months ended September 30, 2017 ("Q3 2017"), the three months June 30, 2017 ("Q2 2017"), and the three months ended March 31, 2017 ("Q1 2017") and the unaudited BankMobile segment results for Q4 2017, Q3 2017, Q2 2017, and Q1 2017 included in Exhibit 99.1 were presented for comparative purposes with the unaudited consolidated statements of operations and BankMobile segment results for the three months ended March 31, 2018 ("Q1 2018") as if the adoption of Accounting Standards Codification ("ASU") 2014-09, Revenues from Contracts with Customers (Topic 606), was done on a retrospective basis. As disclosed in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' unaudited interim consolidated financial statements, Customers adopted ASU 2014-09 on a modified retrospective basis and, accordingly, presented debit and prepaid card interchange expense as a reduction to interchange and card revenue (a component of non-interest income) instead of an increase to technology, communication and bank operations (a component of non-interest expense) for Q1 2018. The unaudited consolidated statement of operations and BankMobile segment results for Q1 2017 presented elsewhere in this quarterly report on Form 10-Q do not reflect this reclassification.

The following tables present Customers' unaudited consolidated statements of operations for Q4 2017, Q3 2017, and Q2 2017 and the unaudited BankMobile segment results for Q4 2017, Q3 2017, and Q2 2017 with the adoption of this ASU done on a modified retrospective basis:

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED - UNAUDITED
(Dollars in thousands, except per share data)

	Q4 2017	Q3 2017	Q2 2017
Interest income:			
Loans receivable, including fees	$70,935	$67,107	$67,036
Loans held for sale	20,294	21,633	17,524
Investment securities	4,136	7,307	7,823
Other	2,254	2,238	1,469
Total interest income	97,619	98,285	93,852
Interest expense:			
Deposits	18,649	18,381	16,228
Other borrowings	3,288	3,168	1,993
FHLB advances	5,697	7,032	5,340
Subordinated debt	1,685	1,685	1,685
Total interest expense	29,319	30,266	25,246
Net interest income	68,300	68,019	68,606
Provision for loan losses	831	2,352	535
Net interest income after provision for loan losses	67,469	65,667	68,071
Non-interest income:			
Interchange and card revenue (1)	9,780	9,570	8,648
Deposit fees	2,121	2,659	2,133
Bank-owned life insurance	1,922	1,672	2,258
Mortgage warehouse transactional fees	2,206	2,396	2,523
Gain on sale of SBA and other loans	1,178	1,144	573
Mortgage banking income	173	257	291
Gain on sale of investment securities	268	5,349	3,183
Impairment loss on investment securities	—	(8,349)	(2,882)
Other	2,092	3,328	1,664
Total non-interest income	19,740	18,026	18,391
Non-interest expense:			
Salaries and employee benefits	25,948	24,807	23,651
Technology, communication and bank operations (2)	12,637	14,401	8,910
Professional services	7,010	7,403	6,227
Occupancy	2,937	2,857	2,657
FDIC assessments, non-income taxes, and regulatory fees	1,290	2,475	2,416
Loan workout	522	915	408
Merger and acquisition related expenses	410	—	—
Advertising and promotion	361	404	378
Other real estate owned expense (income)	20	445	160
Other	3,653	7,333	5,606
Total non-interest expense	54,788	61,040	50,413
Income before income tax expense	32,421	22,653	36,049
Income tax expense	10,806	14,899	12,327
Net income	21,615	7,754	23,722
Preferred stock dividends	3,615	3,615	3,615
Net income available to common shareholders	$18,000	$4,139	$20,107

Basic earnings per common share	$0.58	$0.13	$0.66
Diluted earnings per common share	$0.55	$0.13	$0.62

(1) Does not include the netting of debit and prepaid card interchange expense of $1.5 million, $1.2 million and $0.6 million for Q4 2017, Q3 2017 and Q2 2017, respectively.

(2) Includes debit and prepaid card interchange expense of $1.5 million, $1.2 million and $0.6 million for Q4 2017, Q3 2017 and Q2 2017, respectively.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
SEGMENT REPORTING - UNAUDITED
BankMobile:

(Dollars in thousands, except per share data)	Q4 2017	Q3 2017	Q2 2017
Interest income	$3,212	$2,700	$2,745
Interest expense	15	16	18
Net interest income	3,197	2,684	2,727
Provision for loan losses	652	478	—
Non-interest income (1)	11,540	13,836	11,419
Non-interest expense (2)	20,888	27,050	19,845
Loss before income tax benefit	(6,803)	(11,008)	(5,699)
Income tax benefit	(2,563)	(4,100)	(2,166)
Net loss available to common shareholders	$(4,240)	$(6,908)	$(3,533)
Basic loss per common share	$(0.14)	$(0.23)	$(0.11)
Diluted loss per common share	$(0.13)	$(0.21)	$(0.11)

(1) Does not include the netting of debit and prepaid card interchange expense of $1.5 million, $1.2 million and $0.6 million for Q4 2017, Q3 2017 and Q2 2017, respectively.
(2) Includes debit and prepaid card interchange expense of $1.5 million, $1.2 million and $0.6 million for Q4 2017, Q3 2017 and Q2 2017, respectively.

Other Matters

On December 30, 2016, Customers entered into a letter agreement (the "Agreement") with Jay Sidhu, our Chairman and Chief Executive Officer, which, subject to certain conditions, provided for the payment of a one-time cash bonus to Mr. Sidhu equal to 10 percent of the gross sales price of the BankMobile business segment. On November 17, 2017, Customers entered into an Amended and Restated Purchase and Assumption Agreement and Plan of Merger in which Customers agreed to spin-off the BankMobile business to Customers' shareholders, to be followed by a merger between the BankMobile Technologies, Inc. subsidiary and Flagship Community Bank. As a spin-off and merger transaction of this type would not be considered a sale under the Agreement, no amounts would be due to Mr. Sidhu pursuant to the Agreement. On March 30, 2018, Mr. Sidhu offered to terminate the Agreement, and such offer was accepted by Customers. A written termination agreement was not entered into by the parties.

In Customers' definitive proxy statement for its 2018 Annual Meeting of Shareholders, filed with the SEC on April 10, 2018, Customers provided substantive descriptions of the performance metrics and relative weightings to be used to determine the annual performance awards and long-term incentive plan awards for the Chief Executive Officer, President, and Chief Financial Officer for 2018. The disclosed metrics and weightings changed from the prior year for the annual performance award and long term incentive plan, and the long term incentive plan was modified from a subjective award to a more quantitative award. The disclosure in the section of the definitive proxy statement captioned "V. New Compensation Plan for 2018" is incorporated into this Item 5 by reference.

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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's 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's 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
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

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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.	
May 9, 2018	By:	/s/ Jay S. Sidhu
	Name:	Jay S. Sidhu
	Title:	Chairman and Chief Executive Officer (Principal Executive Officer)
May 9, 2018	By:	/s/ Robert E. Wahlman
	Name:	Robert E. Wahlman
	Title:	Chief Financial Officer (Principal Financial Officer)

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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

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