Customers Bancorp, Inc.
Form 10-Q
November 03, 2017
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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 September 30, 2017

¨ 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 ¨		Accelerated filer	x
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 October 31, 2017, 30,806,122 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)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 13,318	$ 37,485
Interest-earning deposits	206,162	227,224
Cash and cash equivalents	219,480	264,709
Investment securities available for sale, at fair value	584,823	493,474
Loans held for sale (includes $1,963,076 and $2,117,510, respectively, at fair value)	2,113,293	2,117,510
Loans receivable	7,061,338	6,154,637
Allowance for loan losses	(38,314)	(37,315)
Total loans receivable, net of allowance for loan losses	7,023,024	6,117,322
FHLB, Federal Reserve Bank, and other restricted stock	98,611	68,408
Accrued interest receivable	27,135	23,690
Bank premises and equipment, net	12,369	12,769
Bank-owned life insurance	255,683	161,494
Other real estate owned	1,059	3,108
Goodwill and other intangibles	16,604	17,621
Other assets	119,748	102,631
Total assets	$ 10,471,829	$ 9,382,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 1,427,304	$ 966,058
Interest-bearing	6,169,772	6,337,717
Total deposits	7,597,076	7,303,775
Federal funds purchased	147,000	83,000
FHLB advances	1,462,343	868,800
Other borrowings	186,258	87,123
Subordinated debt	108,856	108,783
Accrued interest payable and other liabilities	59,654	75,383
Total liabilities	9,561,187	8,526,864
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 September 30, 2017 and December 31, 2016	217,471	217,471
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 31,317,892 and 30,820,177 shares issued as of September 30, 2017 and December 31, 2016; 30,787,632 and 30,289,917 shares outstanding as of September 30, 2017 and December 31, 2016	31,318	30,820
Additional paid in capital	429,633	427,008
Retained earnings	240,076	193,698
Accumulated other comprehensive income (loss), net	377	(4,892)
Treasury stock, at cost (530,260 shares as of September 30, 2017 and December 31, 2016)	(8,233)	(8,233)
Total shareholders' equity	910,642	855,872

Total liabilities and shareholders’ equity	$ 10,471,829	$ 9,382,736

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income:				
Loans receivable	$67,107	$60,362	$195,605	$173,847
Loans held for sale	21,633	18,737	53,103	50,272
Investment securities	7,307	3,528	21,017	10,875
Other	2,238	1,585	5,507	3,937
Total interest income	98,285	84,212	275,232	238,931
Interest expense:				
Deposits	18,381	13,009	48,934	34,365
Other borrowings	3,168	1,642	6,767	4,867
FHLB advances	7,032	3,291	15,433	9,274
Subordinated debt	1,685	1,685	5,055	5,055
Total interest expense	30,266	19,627	76,189	53,561
Net interest income	68,019	64,585	199,043	185,370
Provision for loan losses	2,352	88	5,937	2,854
Net interest income after provision for loan losses	65,667	64,497	193,106	182,516
Non-interest income:				
Interchange and card revenue	9,570	11,547	31,729	13,806
Gain (loss) on sale of investment securities	5,349	(1)	8,532	25
Deposit fees	2,659	4,218	7,918	5,260
Mortgage warehouse transactional fees	2,396	3,080	7,139	8,702
Bank-owned life insurance	1,672	1,386	5,297	3,629
Gain on sale of SBA and other loans	1,144	1,206	3,045	2,135
Mortgage banking income	257	287	703	737
Impairment loss on investment securities	(8,349)	—	(12,934)	—
Other	3,328	5,763	7,741	6,943
Total non-interest income	18,026	27,486	59,170	41,237
Non-interest expense:				
Salaries and employee benefits	24,807	22,681	69,569	58,051
Technology, communication and bank operations	14,401	12,525	33,227	19,021
Professional services	7,403	7,006	21,142	13,213
Occupancy	2,857	2,450	8,228	7,248
FDIC assessments, taxes, and regulatory fees	2,475	2,726	6,615	11,191
Provision for operating losses	1,509	1,406	4,901	1,943
Loan workout	915	592	1,844	1,497
Other real estate owned	445	1,192	550	1,663
Advertising and promotion	404	591	1,108	1,178
Acquisition related expenses	—	144	—	1,195
Other	5,824	4,905	13,634	12,106
Total non-interest expense	61,040	56,218	160,818	128,306
Income before income tax expense	22,653	35,765	91,458	95,447
Income tax expense	14,899	14,558	34,236	36,572

Net income	7,754	21,207	57,222	58,875
Preferred stock dividends	3,615	2,552	10,844	5,900
Net income available to common shareholders	$4,139	$18,655	$46,378	$52,975
Basic earnings per common share	$0.13	$0.68	$1.52	$1.95
Diluted earnings per common share	$0.13	$0.63	$1.42	$1.80

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$7,754	$21,207	$57,222	$58,875
Unrealized (losses) gains on available-for-sale securities:				
Unrealized holding (losses) gains on securities arising during the period	(3,570)	329	15,192	15,256
Income tax effect	1,393	(124)	(5,924)	(5,721)
Reclassification adjustments for (gains) losses on securities included in net income	(5,349)	1	(8,532)	(25)
Income tax effect	2,086	—	3,327	9
Net unrealized (losses) gains on available-for-sale securities	(5,440)	206	4,063	9,519
Unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) arising during the period	171	890	(189)	(2,523)
Income tax effect	(67)	(334)	74	946
Reclassification adjustment for losses included in net income	572	703	2,166	1,306
Income tax effect	(223)	(264)	(845)	(490)
Net unrealized gains (losses) on cash flow hedges	453	995	1,206	(761)
Other comprehensive (loss) income, net of income tax effect	(4,987)	1,201	5,269	8,758
Comprehensive income	$2,767	$22,408	$62,491	$67,633

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)

	Nine Months Ended September 30, 2017								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, December 31, 2016	9,000,000	$217,471	30,289,917	$30,820	$427,008	$193,698	$ (4,892)	$(8,233)	$855,872
Net income	—	—	—	—	—	57,222	—	—	57,222
Other comprehensive income	—	—	—	—	—	—	5,269	—	5,269
Preferred stock dividends	—	—	—	—	—	(10,844)	—	—	(10,844)
Share-based compensation expense	—	—	—	—	4,536	—	—	—	4,536
Exercise of warrants	—	—	50,387	50	507	—	—	—	557
Issuance of common stock under share-based compensation arrangements	—	—	447,328	448	(2,418)	—	—	—	(1,970)
Balance, September 30, 2017	9,000,000	$217,471	30,787,632	$31,318	$429,633	$240,076	$ 377	$(8,233)	$910,642

	Nine Months Ended September 30, 2016								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, December 31, 2015	2,300,000	$55,569	26,901,801	$27,432	$362,607	$124,511	$ (7,984)	$(8,233)	$553,902
Net income	—	—	—	—	—	58,875	—	—	58,875
Other comprehensive income	—	—	—	—	—	—	8,758	—	8,758
Issuance of common stock,	—	—	226,677	227	5,450	—	—	—	5,677

net of offering costs of $217									
Issuance of preferred stock, net of offering costs of $5,520	6,700,000	161,980	—	—	—	—	—	—	161,980
Preferred stock dividends	—	—	—	—	—	(5,900)	—		(5,900)
Share-based compensation expense	—	—	—	—	4,569	—	—	—	4,569
Exercise of warrants	—	—	259,851	259	862	—	—	—	1,121
Issuance of common stock under share-based compensation arrangements	—	—	155,888	156	673	—	—	—	829
Balance, September 30, 2016	9,000,000	$217,549	27,544,217	$28,074	$374,161	$177,486	$ 774	$(8,233)	$789,811

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)

	Nine Months Ended September 30, 2017		2016	
Cash Flows from Operating Activities				
Net income	$ 57,222		$ 58,875	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for loan losses, net of change to FDIC receivable and clawback liability	5,937		2,854	
Depreciation and amortization	7,476		4,138	
Share-based compensation expense	5,377		5,213	
Deferred taxes	286		(4,846	)
Net amortization of investment securities premiums and discounts	520		664	
Gain on sale of investment securities	(8,532	)	(25	)
Impairment loss on investment securities	12,934		—	
Gain on sale of SBA and other loans	(3,553	)	(2,674	)
Origination of loans held for sale	(22,770,726	)	(27,092,862	)
Proceeds from the sale of loans held for sale	22,925,668		26,473,789	
Decrease in FDIC loss sharing receivable net of clawback liability	—		255	
Amortization of fair value discounts and premiums	93		312	
Net loss on sales of other real estate owned	154		85	
Valuation and other adjustments to other real estate owned, net of	298		1,261	

FDIC receivable				
Earnings on investment in bank-owned life insurance	(5,297	)	(3,629	)
Increase in accrued interest receivable and other assets	(27,862	)	(38,672	)
(Decrease) increase in accrued interest payable and other liabilities	(14,106	)	66,577	
Net Cash Provided By (Used In) Operating Activities	185,889		(528,685	)
Cash Flows from Investing Activities				
Proceeds from maturities, calls and principal repayments of securities available for sale	36,461		46,097	
Proceeds from sales of investment securities available for sale	698,451		2,853	
Purchases of investment securities available for sale	(796,594	)	(5,000	)
Net increase in loans	(921,049	)	(641,093	)
Proceeds from sales of loans	124,703		91,868	
Purchase of loans	(262,641	)	—	
Purchases of bank-owned life insurance	(90,000	)	—	
Proceeds from bank-owned life insurance	1,418		619	
Net (purchases of) proceeds from FHLB, Federal Reserve Bank, and other restricted stock	(30,203	)	19,220	
Payments to the FDIC on loss sharing agreements	—		(2,049	)
Purchases of bank premises and equipment	(1,725	)	(3,343	)
Proceeds from sales of other real estate owned	1,680		419	
Acquisition of Disbursements business, net	—		(17,000	)
	(1,267,428	)	(507,409	)

Net Cash Used In Investing Activities		
Cash Flows from Financing Activities		
Net increase in deposits	293,301	1,479,471
Net increase (decrease) in short-term borrowed funds from the FHLB	593,543	(663,600)
Net increase (decrease) in federal funds purchased	64,000	(18,000)
Proceeds from long-term FHLB borrowings	—	75,000
Net proceeds from issuance of long-term debt	98,564	—
Net proceeds from issuance of preferred stock	—	161,980
Preferred stock dividends paid	(10,844)	(5,450)
Exercise of warrants	557	1,121
Payments of employee taxes withheld from share-based awards	(4,923)	(702)
Proceeds from issuance of common stock	2,112	7,269
Net Cash Provided By Financing Activities	1,036,310	1,037,089
Net (Decrease) Increase in Cash and Cash Equivalents	(45,229)	995
Cash and Cash Equivalents – Beginning	264,709	264,593
Cash and Cash Equivalents – Ending	$ 219,480	$ 265,588

(continued)

Supplementary Cash Flows Information		
Interest paid	$ 70,706	$ 50,410
Income taxes paid	31,545	40,966
Non-cash items:		
Transfer of loans to other real estate owned	$ 83	$ 605
	150,638	—

Transfer of loans held
for investment to loans
held for sale
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, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan, New York; and nationally for certain loan and deposit products. The Bank has 14 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, and Philadelphia, Pennsylvania. 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. The combination of the BankMobile technology software platform with the Vibe Student Checking and Refund Management Disbursement Services business (the "Disbursement business") acquired from Higher One Holdings, Inc. and Higher One, Inc. (together, "Higher One") in June 2016 propelled BankMobile to one of the largest mobile banking services in the United States by number of customers. Customers has announced its intent to spin-off BankMobile to Customers’ shareholders through a tax-free spin-off/merger transaction. Accordingly, the assets and liabilities of BankMobile will not be reported separately as held for sale, and its operating results and associated cash flows will not be reported as discontinued operations, until execution of the spin-off/merger transaction and will be considered held and used for all periods presented. Previously reported held-for-sale balances in the consolidated balance sheet as of December 31, 2016, and corresponding operating results and cash flows for the periods presented, have been reclassified to conform with the current period consolidated financial statement presentation. See NOTE 3 TAX-FREE SPIN-OFF AND MERGER.
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 - ACQUISITION ACTIVITY
On June 15, 2016, Customers completed the acquisition of substantially all of the assets and the assumption of certain liabilities of the Disbursement business from Higher One. The acquisition was completed pursuant to the terms of an Asset Purchase Agreement (the "Purchase Agreement") dated as of December 15, 2015 between Customers and Higher One. Under the terms of the Purchase Agreement, Customers also acquired all existing relationships with vendors and educational institutions, and all intellectual property and assumed normal business related liabilities. In conjunction with the acquisition, Customers hired approximately 225 Higher One employees primarily located in New Haven, Connecticut that manage the Disbursement business and serve the Disbursement business customers.

The transaction contemplates aggregate guaranteed payments to Higher One of $42 million. The aggregate purchase price payable by Customers is $37 million in cash, with the payments to be made as follows: (i) $17 million in cash paid upon the closing of the acquisition, (ii) $10 million in cash upon the first anniversary of the closing and (iii) $10 million in cash paid upon the second anniversary of the closing. In accordance with the terms of the agreement, $10 million was paid to Higher One in June 2017. In addition, concurrently with the closing, the parties entered into a Transition Services Agreement pursuant to which Higher One provided certain transition services to Customers through June 30, 2017. As consideration for these services, Customers paid Higher One an additional $5 million in cash. Customers also will be required to make additional payments to Higher One if, during the three years following the closing, revenues from the acquired Disbursement business exceed $75 million in a year. The potential payment is equal to 35% of the amount the Disbursement business related revenue exceeds $75 million in each year. As of September 30, 2017, Customers has not recorded a liability for any additional contingent consideration payable under the Purchase Agreement.

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As specified in the Purchase Agreement, the payments of $10 million payable to Higher One upon each of the first and second anniversary of the transaction closing were placed into an escrow account with a third party. The escrow account with $10 million and $20 million, respectively, as of September 30, 2017 and December 31, 2016 in aggregate restricted cash and the corresponding obligation to pay Higher One pursuant to the terms of the Purchase Agreement have been assigned to BankMobile and are included with "Cash and cash equivalents" and "Accrued interest payable and other liabilities" on the September 30, 2017 and December 31, 2016 consolidated balance sheets. For more information regarding Customers' plans for BankMobile and the presentation of BankMobile within the consolidated financial statements, see NOTE 3 - TAX-FREE SPIN-OFF AND MERGER.
The assets acquired and liabilities assumed were initially presented at their estimated fair values based on a preliminary allocation of the purchase price. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that were highly subjective and subject to change. The fair value estimates were considered preliminary and subject to change for up to one year after the closing date of the acquisition as additional information became available. Based on a preliminary purchase price allocation, Customers recorded $4.3 million in goodwill as a result of the acquisition. At December 31, 2016, Customers recorded adjustments to the estimated fair values of prepaid expenses and other liabilities, which resulted in a $1.0 million increase in goodwill. The adjusted amount of goodwill of $5.3 million reflects the excess purchase price over the estimated fair value of the net assets acquired. The goodwill recorded is deductible for tax purposes. The purchase price allocation was considered final as of June 30, 2017. The following table summarizes the final adjusted amounts recognized for assets acquired and liabilities assumed:

(amounts in thousands)	
Fair value of assets acquired:	
Developed software	$27,400
Other intangible assets	9,300
Accounts receivable	2,784
Prepaid expenses	418
Fixed assets, net	229
Total assets acquired	40,131
Fair value of liabilities assumed:	
Other liabilities	5,735
Deferred revenue	2,655
Total liabilities assumed	8,390
Net assets acquired	$31,741
Transaction cash consideration (1)	$37,000
Goodwill recognized	$5,259

(1) Includes $10 million payable to Higher One upon each of the first and second anniversary of the transaction closing, which has been placed into an escrow account with a third party (aggregate amount of $20 million at December 31, 2016). Customers paid the first $10 million due to Higher One in June 2017.

The fair value for the developed software was estimated based on expected revenue attributable to the software utilizing a discounted cash flow methodology giving consideration to potential obsolescence. The developed software is being amortized over ten years based on the estimated economic benefits received. The fair values for the other intangible assets represent the value of existing student and university relationships and a non-compete agreement with Higher One based on estimated retention rates and discounted cash flows. Other intangible assets are being amortized over an estimated life ranging from four to twenty years. Because BankMobile met the criteria to be classified as held for sale at December 31, 2016, the acquired assets were not depreciated or amortized during first quarter 2017 and second quarter 2017. The reclassification of the acquired assets as held and used as of September 30, 2017 resulted in depreciation and amortization expense for the developed software, other intangible assets, and fixed assets totaling $3.5 million in third quarter 2017. The acquired assets were reclassified to held and used at their carrying amounts, adjusted for depreciation and amortization for the periods they were classified as held for sale, which was lower than their estimated fair values as of September 30, 2017.

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NOTE 3 – TAX-FREE SPIN-OFF AND MERGER

In third quarter 2017, Customers decided that the best strategy for its shareholders for divesting BankMobile was to spin-off BankMobile to Customers' shareholders through a spin-off/merger transaction. The tax-free spin-off is expected to be followed by a merger of Customers' BankMobile Technologies, Inc. subsidiary ("BMT") into Clearwater Florida based Flagship Community Bank ("Flagship"), with Customers' shareholders receiving shares of Flagship common stock in exchange for shares of BMT they receive in the spin-off. Flagship is expected to separately purchase BankMobile deposits directly from Customers for cash. Following completion of the spin-off and merger and other transactions contemplated in a purchase and sale agreement between Customers and Flagship, Customers' shareholders would receive collectively more than 50% of Flagship common stock, valued at approximately $110 million. The common stock of the merged entities, to be called BankMobile, is expected to be listed on a national securities exchange after completion of the transactions. Customers believes the transactions will be treated as a tax-free exchange for both Customers' shareholders and Customers. Customers expects to execute 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 purchase of BankMobile deposits from Customers. Customers expects that the Amended Agreement will provide that completion of the transactions will be subject to the receipt of all necessary regulatory approvals, certain Flagship shareholder approvals, successful raising of capital by Flagship, and other customary closing conditions. Customers expects the transaction to close in mid-2018.

At December 31, 2016, BankMobile met the criteria to be classified as held for sale, and accordingly the assets and liabilities of BankMobile were presented as "Assets held for sale," "Non-interest bearing deposits held for sale," and "Other liabilities held for sale" and BankMobile's operating results and associated cash flows were presented as "Discontinued operations". However, with the third quarter 2017 spin-off/merger decision, 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 not be reported as held for sale or discontinued operations until execution of the spin-off/merger transaction. Accordingly, BankMobile's assets, liabilities, operating results and cash flows will not be reported separately as held for sale or discontinued operations at September 30, 2017 and December 31, 2016 and for the three and nine month periods ended September 30, 2017 and 2016 and instead will be reported as held and used. As a result, 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. Customers recorded a charge of $4.2 million in third quarter 2017 relating to the amount of depreciation and amortization expense that would have been recorded had the assets been continuously classified as held and used.

Prior reported December 31, 2016 assets held for sale, non-interest bearing deposits held for sale and other liabilities held for sale have been reclassified to conform with the current period presentation as summarized below. Amounts previously reported as discontinued operations have also 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 14 - 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 balance sheet as of December 31, 2016 and the previously reported consolidated statements of income for the the three and nine months ended September 30, 2016:

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(amounts in thousands)	December 31, 2016 As Previously Reported	Effect of Reclassification From Held For Sale to Held and Used	December 31, 2016 After Reclassification
ASSETS			
Cash and cash equivalents	$ 244,709	$ 20,000	$ 264,709
Loans receivable	6,142,390	12,247	6,154,637
Bank premises and equipment, net	12,259	510	12,769
Goodwill and other intangibles	3,639	13,982	17,621
Assets held for sale	79,271	(79,271)	—
Other assets	70,099	32,532	102,631
LIABILITIES			
Demand, non-interest bearing deposits	$ 512,664	$ 453,394	$ 966,058
Interest bearing deposits	6,334,316	3,401	6,337,717
Non-interest bearing deposits held for sale	453,394	(453,394)	—
Other liabilities held for sale	31,403	(31,403)	—
Accrued interest payable and other liabilities	47,381	28,002	75,383

	Three Months Ended September 30, 2016 As Previously Reported	Effect of Reclassification From Held For Sale to Held and Used	Three Months Ended September 30, 2016 After Reclassification
Interest income	$ 84,212	$ —	$ 84,212
Interest expense	19,622	5	19,627
Net interest income	64,590	(5)	64,585
Provision for loan losses	(161)	249	88
Non-interest income	11,121	16,365	27,486
Non-interest expenses	36,750	19,468	56,218
Income from continuing operations before income taxes	39,122	(3,357)	35,765
Provision for income taxes	15,834	(1,276)	14,558
Net income from continuing operations	23,288	(2,081)	21,207
Loss from discontinued operations before income taxes	(3,357)	3,357	—
Income tax benefit from discontinued operations	(1,276)	1,276	—
Net loss from discontinued operations	(2,081)	2,081	—
Net income	21,207	—	21,207
Preferred stock dividend	2,552	—	2,552
Net income available to common shareholders	$ 18,655	$ —	$ 18,655

	Nine Months Ended September 30, 2016	Effect of Reclassification From Held For Sale to Held and Used	Nine Months Ended September 30, 2016

	As Previously Reported		After Reclassification
Interest income	$238,931	$ —	$ 238,931
Interest expense	53,548	13	53,561
Net interest income	185,383	(13)	185,370
Provision for loan losses	2,605	249	2,854
Non-interest income	22,241	18,996	41,237
Non-interest expenses	100,706	27,600	128,306
Income from continuing operations before income taxes	104,313	(8,866)	95,447
Provision for income taxes	39,942	(3,370)	36,572
Net income from continuing operations	64,371	(5,496)	58,875
Loss from discontinued operations before income taxes	(8,865)	8,865	—
Income tax benefit from discontinued operations	(3,369)	3,369	—
Net loss from discontinued operations	(5,496)	5,496	—
Net income	58,875	—	58,875
Preferred stock dividend	5,900	—	5,900
Net income available to common shareholders	$52,975	$ —	$ 52,975

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NOTE 4 — 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, 2016 consolidated balance sheet presented in this report has been derived from Customers Bancorp's audited 2016 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 2016 consolidated financial statements of Customers Bancorp and subsidiaries included in Customers' Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 8, 2017. 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; Allowance for Loan Losses; Goodwill and other Intangible Assets; Investments in FHLB, Federal Reserve Bank, and other restricted stock; Other Real Estate Owned; FDIC Loss Sharing Receivable and Clawback Liability; Bank-Owned Life Insurance; Bank Premises and Equipment; Treasury Stock; Income Taxes; Share-Based Compensation; Segments; Derivative Instruments and Hedging; Comprehensive Income; and Earnings per Share. Certain prior period amounts have been reclassified to conform to the current period presentation. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

Reclassifications

As described in NOTE 3 - TAX-FREE SPIN-OFF AND MERGER, as of September 30, 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 9 and NOTE 12) 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, 2016.

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

Recently Issued Accounting Standards

Accounting Standards Adopted in 2017

Since January 1, 2017, Customers has adopted the following FASB Accounting Standard Updates ("ASUs"), none of which had a material impact to Customers' consolidated financial statements:

- Customers adopted ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, on a prospective basis. This ASU clarifies that a change in the counterparties to a derivative contract (i.e., a novation), in and of itself, does not require the de-designation of a hedging relationship provided that all the other hedge accounting criteria continue to be met.

- Customers also adopted ASU 2016-06, Contingent Put and Call Options in Debt Instruments. This ASU clarifies that a contingency of put or call exercise does not need to be evaluated to determine whether it relates to interest rates and credit risk in an embedded derivative analysis of hybrid financial instruments. In other words, a contingent put or call option embedded in a debt instrument would be evaluated for possible separate accounting as a derivative instrument without regard to the nature of the exercise contingency. However, as required under the existing guidance, companies will still need to evaluate the other relevant embedded derivative guidance, such as whether the payoff from the contingent put or call option is adjusted based on changes in an index other than interest rates or credit risk, and whether the debt involves a substantial premium or discount. As the adoption did not result in any significant impact to Customers' consolidated financial statements, it did not result in a modified retrospective application.

Customers also adopted ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting, on a prospective basis. This ASU eliminates the requirement for the retrospective use of the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence of an investor. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of

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the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for the equity method of accounting.

- Customers also adopted ASU 2016-17, Consolidation - Interests Held Through Related Parties that are Under Common Control. This ASU amends the guidance included in ASU 2015-02, Consolidation: Amendments to Consolidation Analysis which Customers adopted in first quarter 2016. This ASU makes a narrow amendment that requires that a single decision maker considers indirect economic interests in an entity held through related parties that are under common control on a proportionate basis when determining whether it is the primary beneficiary of that VIE. Prior to this amendment, indirect interests held through related parties that are under common control were to be considered equivalent of the single decision maker's direct interests in their entirety which could result in a single decision maker consolidating the VIE. As the adoption did not result in any significant impact to Customers' consolidated financial statements, it did not result in a full or modified retrospective application.

Accounting Standards Issued But Not Yet Adopted

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, which 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. The guidance 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 as the hedged item. The guidance also changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. Customers plans to adopt this ASU by January 1, 2018. Adoption of this new guidance must be applied on a modified retrospective approach. While Customers continues to assess all potential impacts of the standard, Customers does not currently expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features, which will change 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 income available to common shareholders in basic earnings per share ("EPS"). For public business entities, the amendments in this ASU are 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, accordingly Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements, however, Customers will continue to evaluate the potential impact through the adoption date.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification in Accounting Standards Codification ("ASC") 718. Under this ASU, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award as equity or a liability changes as a result of the change in terms or conditions. This ASU does not change the accounting for modifications under ASC 718. The ASU will be effective for Customers for its first reporting period beginning after December 15, 2017, with early adoption permitted. Adoption of this new guidance must be applied prospectively to an award modified on or after the adoption date. Customers generally does not modify the terms of conditions of its share-based payment awards, accordingly Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements, however, Customers will continue to evaluate the potential impact through the adoption date.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities, which requires that premiums for certain callable debt securities held be amortized to their earliest call date. This ASU does not affect the accounting for securities purchased at a discount. This ASU will be effective for Customers for its first reporting period beginning after December 15, 2018, with earlier adoption permitted. Adoption of this new guidance must be applied on a modified retrospective approach. Customers currently has an immaterial amount of callable debt securities purchased with premiums, accordingly Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements, however, Customers will continue to evaluate the potential impact through the adoption date.

In February 2017, the FASB issued ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the scope and application of the accounting guidance on the sale of nonfinancial assets to non-customers, including partial sales. This ASU defines an in-substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. 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. This ASU also unifies the guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing the sales of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint ventures. This ASU will be effective for Customers for its first reporting period beginning after December 15, 2017, with early adoption permitted. The adoption of this new guidance must be applied on a full or modified retrospective basis. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test that requires an entity to determine the implied fair value of its goodwill through a hypothetical purchase price allocation. Instead, under this ASU, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. All other goodwill impairment guidance will remain largely unchanged. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will also be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is effective for Customers for its first reporting period beginning after December 15, 2019. Early adoption is permitted for impairment tests performed after January 1, 2017. Customers expects to early adopt this ASU upon its next annual goodwill impairment test in 2017 and does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which 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. In addition, 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. Also, the amendments narrow the definition of the term “output” so that it is consistent with how outputs are defined in ASC Topic 606, Revenue from Contracts with Customers. This ASU is effective for Customers for its first reporting period beginning after December 15, 2017. Adoption of this new guidance must be applied on a prospective basis. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for

Customers for its first reporting period beginning after December 15, 2017, with early adoption permitted. Customers does not expect the adoption to this ASU to have a significant impact on the presentation of its statement of cash flows.

In October 2016, the FASB issued ASU 2016-16-Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This 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.
This ASU is effective for Customers for its first reporting period beginning after December 15, 2017, with early adoption permitted. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which aims to reduce the existing diversity in practice with regards to the following specific items in the Statement of Cash Flows:

1. Cash payments for debt prepayment or extinguishment costs will be classified in financing activities.
2. Upon settlement of zero-coupon bonds and bonds with insignificant cash coupons, the portion of the payment attributable to imputed interest will be classified as an operating activity, while the portion of the payment attributable to principal will be classified as a financing activity.
3. Cash paid by an acquirer soon after a business combination (i.e. approximately three months or less) for the settlement of a contingent consideration liability will be classified in investing activities. Payments made thereafter should be separated between financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date will be classified in financing activities; any excess will be classified in operating activities.
4. 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). Cash proceeds from lump-sum settlements will be classified based on the nature of each loss component included in the settlement.
5. Cash proceeds received from the settlement of bank-owned life insurance (BOLI) policies will be classified as cash inflows from investing activities. Cash payments for premiums on BOLI may be classified as cash outflows for investing, operating, or a combination of both.
6. 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.
7. Distributions received from equity method investees will be classified using either a cumulative earnings approach or a look-through approach as an accounting policy election.

The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. This ASU is effective for Customers for its first reporting period beginning after December 15, 2017, with early adoption permitted. Customers is currently evaluating the impact of this ASU and does not expect the ASU to have a material impact on the presentation of its statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU 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. This ASU will replace today’s “incurred loss” approach. The CECL model 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. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This ASU is effective for Customers for its first reporting period beginning after December 15, 2019. Earlier adoption is also permitted. Adoption of the new guidance 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. It is expected 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.

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In March 2016, the FASB issued ASU 2016-04, Liabilities - Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products, that would require issuers of prepaid stored-value product (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. There is currently a diversity in the methodology used to recognize breakage. Subtopic 405-20, Extinguishment of Liabilities, includes derecognition guidance for both financial liabilities and nonfinancial liabilities, and Topic 606, Revenue from Contracts with Customers, includes authoritative breakage guidance but excludes financial liabilities. 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. This ASU is effective for Customers for its first reporting period beginning after December 15, 2017. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which 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. The new guidance 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. The new standard is effective for Customers for its first reporting period beginning after December 15, 2018. Early adoption is permitted. 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. A modified retrospective transition approach is required for lessors for sales-type, direct financing, 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. 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.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance in this ASU among other things, (1) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) 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, (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) 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, (6) 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 and (7) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for Customers for its first reporting period beginning after December 15, 2017, including interim periods within those fiscal years. Customers is in the process of evaluating the impacts of the adoption of this ASU, however, it does not expect the impact to be significant to its financial condition, results of operations and consolidated financial statements given the immaterial amount of its investment in equity securities.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), superseding the revenue recognition requirements in ASC 605. This ASU 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. In August 2015, the FASB issued ASU 2015-14, which formalized the deferral of the effective date of the amendment for a period of one-year from the original effective date. Following the issuance of ASU 2015-14, the amendment will be effective for Customers for its first reporting period beginning after December 15, 2017. In March 2016, the FASB also issued ASU 2016-08, an amendment to the guidance in ASU 2014-09, which 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. ASU 2016-08 also eliminated two of the indicators (the entity’s consideration is in the form of a commission and the entity is not exposed to credit risk) in making that determination. This amendment also clarifies that each indicator may be more or less relevant to the assessment depending on the terms and conditions of the contract. In April 2016, the FASB also issued ASU 2016-10, which clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property

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(which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU 2016-12, an amendment to ASU 2014-09, which provided practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on transition, collectability, non-cash consideration and the presentation of sales and other similar taxes. The amendments, collectively, should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption.

Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), Customers current assessment is that the new guidance will 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 will adopt this ASU on January 1, 2018 using a modified retrospective approach. Customers has completed its identification of all revenue streams that are included in its financial statements and has identified its deposit related fees, service charges, debit card and prepaid card interchange income, and university fees to be within the scope of the standard. Customers is also substantially complete with its review of the related contracts and has also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Customers' overall assessment suggests that adoption of this ASU will not materially change its current method and timing of recognizing revenue for these revenue streams. Customers, however, is still evaluating the ASU’s expanded disclosure requirements. As provided above, Customers current assessment is that the adoption of this ASU will not have a significant impact to its financial condition, results of operations and consolidated financial statements.

NOTE 5 — EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(amounts in thousands, except share and per share data)				
Net income available to common shareholders	$4,139	$ 18,655	$46,378	$ 52,975
Weighted-average number of common shares outstanding - basic	30,739,671	27,367,551	30,597,314	27,131,960
Share-based compensation plans	1,754,480	2,205,291	2,004,917	2,119,717
Warrants	18,541	124,365	24,392	243,531
Weighted-average number of common shares - diluted	32,512,692	29,697,207	32,626,623	29,495,208
Basic earnings per common share	$0.13	$ 0.68	$1.52	$ 1.95
Diluted earnings per common share	$0.13	$ 0.63	$1.42	$ 1.80

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Anti-dilutive securities:				
Share-based compensation awards	409,225	616,995	409,225	616,995
Warrants	52,242	52,242	52,242	52,242
Total anti-dilutive securities	461,467	669,237	461,467	669,237

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NOTE 6 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT (1)

The following tables present the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2017 and 2016.

(amounts in thousands)	Three Months Ended September 30, 2017 Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Loss on Cash Flow Hedges	Total
Balance - June 30, 2017	$6,822	$(1,458)	$5,364
Other comprehensive income (loss) before reclassifications	(2,177)	104	(2,073)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (2)	(3,263)	349	(2,914)
Net current-period other comprehensive (loss) income	(5,440)	453	(4,987)
Balance - September 30, 2017	$1,382	$(1,005)	$377

(amounts in thousands)	Nine Months Ended September 30, 2017 Unrealized Gains (Losses) on Available-For-Sale Securities	Unrealized Loss on Cash Flow Hedges	Total
Balance - December 31, 2016	$(2,681)	$(2,211)	$(4,892)
Other comprehensive income (loss) before reclassifications	9,268	(115)	9,153
Amounts reclassified from accumulated other comprehensive income (loss) to net income (2)	(5,205)	1,321	(3,884)
Net current-period other comprehensive income	4,063	1,206	5,269
Balance - September 30, 2017	$1,382	$(1,005)	$377

(1) All amounts are presented net of tax. Amounts in parentheses indicate reductions to accumulated other comprehensive income.

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

(amounts in thousands)	Three Months Ended September 30, 2016 Available-for-sale-securities Unrealized Gains	Foreign Currency Items	Total Unrealized Gains	Unrealized Loss on Cash Flow Hedge	Total
Balance - June 30, 2016	$4,895	$(768)	$4,127	$(4,554)	$(427)
Other comprehensive income (loss) before reclassifications	15	190	205	556	761
	1	—	1	439	440

Amounts reclassified from accumulated other comprehensive income (loss) to net income (2)					
Net current-period other comprehensive income	16	190	206	995	1,201
Balance - September 30, 2016	$4,911	$ (578)	$ 4,333	$ (3,559)	$774

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(amounts in thousands)	Nine Months Ended September 30, 2016 Available-for-sale-securities Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Loss on Cash Flow Hedge	Total
Balance - December 31, 2015	$(4,602)	$ (584)	$ (5,186)	$ (2,798)	$(7,984)
Other comprehensive income (loss) before reclassifications	9,529	6	9,535	(1,577)	7,958
Amounts reclassified from accumulated other comprehensive income (loss) to net income (2)	(16)	—	(16)	816	800
Net current-period other comprehensive income (loss)	9,513	6	9,519	(761)	8,758
Balance - September 30, 2016	$4,911	$ (578)	$ 4,333	$ (3,559)	$774

(1) All amounts are presented net of tax. Amounts in parentheses indicate reductions to accumulated other comprehensive income.

(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.

NOTE 7 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of September 30, 2017 and December 31, 2016 are summarized in the tables below:

	September 30, 2017 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Agency-guaranteed residential mortgage-backed securities	$197,606	$ 521	$ (1,800)	$196,327
Agency-guaranteed commercial real estate mortgage-backed securities	337,683	2,843	(418)	340,108
Corporate notes (1)	44,958	1,119	—	46,077
Equity securities (2)	2,311	—	—	2,311
	$582,558	$ 4,483	$ (2,218)	$584,823

(1) Includes subordinated debt issued by other bank holding companies.

(2) Includes equity securities issued by a foreign entity.

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	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Agency-guaranteed residential mortgage-backed securities	$233,002	$ 918	$ (2,657)	$231,263
Agency-guaranteed commercial real estate mortgage-backed securities	204,689	—	(2,872)	201,817
Corporate notes (1)	44,932	401	(185)	45,148
Equity securities (2)	15,246	—	—	15,246
	$497,869	$ 1,319	$ (5,714)	$493,474

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

The following table presents proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(amounts in thousands)				
Proceeds from sale of available-for-sale securities	$554,540	$5	$698,451	$2,853
Gross gains	$5,349	$—	$8,532	$26
Gross losses	—	(1)	—	(1)
Net gains (losses)	$5,349	$(1)	$8,532	$25

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

The following table presents available-for-sale debt securities by stated maturity. Debt 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:

	September 30, 2017	
	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	42,958	43,854
Due after ten years	2,000	2,223
Agency-guaranteed residential mortgage-backed securities	197,606	196,327
Agency-guaranteed commercial real estate mortgage-backed securities	337,683	340,108
Total debt securities	$580,247	$582,512

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Gross unrealized losses and fair value of Customers' investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
(amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Agency-guaranteed residential mortgage-backed securities	$54,525	$ (279)	$45,682	$ (1,521)	$100,207	$ (1,800)
Agency-guaranteed commercial real estate mortgage-backed securities	105,044	(418)	—	—	105,044	(418)
Total	$159,569	$ (697)	$45,682	$ (1,521)	$205,251	$ (2,218)

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
(amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Agency-guaranteed residential mortgage-backed securities	$87,433	$ (1,330)	$30,592	$ (1,327)	$118,025	$ (2,657)
Agency-guaranteed commercial real estate mortgage-backed securities	201,817	(2,872)	—	—	201,817	(2,872)
Corporate notes (1)	9,747	(185)	—	—	9,747	(185)
Total	$298,997	$ (4,387)	$30,592	$ (1,327)	$329,589	$ (5,714)

(1) Includes subordinated debt issued by other bank holding companies.

At September 30, 2017, there were sixteen available-for-sale investment securities in the less-than-twelve-month category and eleven available-for-sale 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. All amounts 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.

At September 30, 2017, management evaluated its equity holdings issued by Religare Enterprises, Ltd. ("Religare") for other-than-temporary impairment. Because management no longer has the intent to hold these securities until a recovery in fair value, Customers recorded an other-than-temporary impairment loss of $8.3 million and $12.9 million, respectively, for the three and nine months ended September 30, 2017 for the full amount of the decline in fair value below the cost basis established at June 30, 2017 and December 31, 2016. The fair value of the equity securities at September 30, 2017 of $2.3 million became the new cost basis of the securities. Because of the change in disposition strategy for BankMobile at September 30, 2017, Customers did not record a deferred tax asset for the other-than-temporary impairment loss recorded in third quarter 2017. In addition, Customers reversed $4.6 million of previously recorded deferred tax assets in third quarter 2017 as the tax-free spin-off/merger strategy for BankMobile does not result in capital gains that could be used to offset any capital losses resulting from the disposition of the Religare equity securities.

At September 30, 2017 and December 31, 2016, Customers Bank had pledged investment securities aggregating $127.6 million and $231.3 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.

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NOTE 8 – LOANS HELD FOR SALE

The composition of loans held for sale as of September 30, 2017 and December 31, 2016 was as follows:

(amounts in thousands)	September 30, 2017	December 31, 2016
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,961,248	$2,116,815
Multi-family loans at lower of cost or fair value	150,217	—
Total commercial loans held for sale	2,111,465	2,116,815
Consumer loans:		
Residential mortgage loans, at fair value	1,828	695
Loans held for sale	$2,113,293	$2,117,510

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 June 30, 2017, Customers Bank transferred $150.8 million of multi-family loans from loans receivable (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 September 30, 2017, the estimated fair value of these loans was higher than their carrying value. Accordingly, a lower of cost or market value adjustment was not recorded in third quarter 2017.

Effective December 31, 2016, Customers Bank transferred $25.1 million of multi-family loans from held for sale to loans 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 was lower than the estimated fair value at the time of transfer.

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NOTE 9 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of September 30, 2017 and December 31, 2016. BankMobile loans receivable previously reported as held for sale have been reclassified as held and used to conform with the current period presentation.

(amounts in thousands)	September 30, 2017	December 31, 2016
Commercial:		
Multi-family	$3,618,989	$3,214,999
Commercial and industrial (including owner occupied commercial real estate)	1,601,789	1,382,343
Commercial real estate non-owner occupied	1,237,849	1,193,715
Construction	73,203	64,789
Total commercial loans	6,531,830	5,855,846
Consumer:		
Residential real estate	435,188	193,502
Manufactured housing	92,938	101,730
Other	3,819	3,483
Total consumer loans	531,945	298,715
Total loans receivable	7,063,775	6,154,561
Deferred (fees)/costs and unamortized (discounts)/premiums, net	(2,437)	76
Allowance for loan losses	(38,314)	(37,315)
Loans receivable, net of allowance for loan losses	$7,023,024	$6,117,322

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The following tables summarize loans receivable by loan type and performance status as of September 30, 2017 and December 31, 2016:

	September 30, 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	$—	$ —	$ —	$—	$3,617,062	$ 1,927	$3,618,989
Commercial and industrial	—	—	—	20,423	1,093,997	802	1,115,222
Commercial real estate - owner occupied	—	—	—	2,949	472,832	10,786	486,567
Commercial real estate - non-owner occupied	—	—	—	184	1,232,212	5,453	1,237,849
Construction	—	—	—	—	73,203	—	73,203
Residential real estate	1,607	—	1,607	4,269	423,551	5,761	435,188
Manufactured housing (5)	2,937	2,505	5,442	1,959	82,896	2,641	92,938
Other consumer	67	—	67	58	3,474	220	3,819
Total	$4,611	$ 2,505	$ 7,116	$29,842	$6,999,227	$ 27,590	$7,063,775

	December 31, 2016						
(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	$12,573	$ —	$ 12,573	$—	$3,200,322	$ 2,104	$3,214,999
Commercial and industrial	350	—	350	8,443	978,881	1,037	988,711
Commercial real estate - owner occupied	137	—	137	2,039	379,227	12,229	393,632
Commercial real estate - non-owner occupied	—	—	—	2,057	1,185,331	6,327	1,193,715
Construction	—	—	—	—	64,789	—	64,789
Residential real estate	4,417	—	4,417	2,959	178,559	7,567	193,502
Manufactured housing (5)	3,761	2,813	6,574	2,236	89,850	3,070	101,730
Other consumer	12	—	12	58	3,177	236	3,483
Total	$21,250	$ 2,813	$ 24,063	$17,792	$6,080,136	$ 32,570	$6,154,561

(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 subject to 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 September 30, 2017 and December 31, 2016, the Bank had $0.3 million and $0.5 million, respectively, of residential real estate held in other real estate owned. As of September 30, 2017 and December 31, 2016, the Bank had initiated foreclosure proceedings of $1.5 million and $0.4 million, respectively, on loans secured by residential real estate.

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Allowance for loan losses

The changes in the allowance for loan losses for the three and nine months ended September 30, 2017 and 2016 and the loans and allowance for loan losses by loan class based on impairment evaluation method as of September 30, 2017 and December 31, 2016 were as follows. The amounts presented for the provision for loan losses below do not include the effect of changes to estimated benefits resulting from the FDIC loss share arrangements for the covered loans for periods prior to the termination of the FDIC loss sharing arrangements.

Three Months Ended September 30, 2017 (amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Ending Balance, June 30, 2017	$12,028	$11,585	$2,976	$7,786	$716	$2,995	$268	$104	$38,458
Charge-offs	—	(2,032)	—	(77)	—	(120)	—	(356)	(2,585)
Recoveries	—	54	—	—	27	7	—	1	89
Provision for loan losses	668	966	262	(53)	104	72	(77)	410	2,352
Ending Balance, September 30, 2017	$12,696	$10,573	$3,238	$7,656	$847	$2,954	$191	$159	$38,314
Nine Months Ended September 30, 2017									
Ending Balance, December 31, 2016	$11,602	$11,050	$2,183	$7,894	$840	$3,342	$286	$118	$37,315
Charge-offs	—	(4,079)	—	(485)	—	(410)	—	(602)	(5,576)
Recoveries	—	337	9	—	157	34	—	101	638
Provision for loan losses	1,094	3,265	1,046	247	(150)	(12)	(95)	542	5,937
Ending Balance, September 30, 2017	$12,696	$10,573	$3,238	$7,656	$847	$2,954	$191	$159	$38,314
As of September 30, 2017									
Loans:									
Individually evaluated for impairment	$—	$20,493	$2,950	$184	$—	$8,178	$10,340	$56	$42,201

Collectively evaluated for impairment	3,617,062	1,093,927	472,831	1,232,212	73,203	421,249	79,957	3,543	6,993,984
Loans acquired with credit deterioration	1,927	802	10,786	5,453	—	5,761	2,641	220	27,590
	$3,618,989	$1,115,222	$486,567	$1,237,849	$73,203	$435,188	$92,938	$3,819	$7,063,775
Allowance for loan losses:									
Individually evaluated for impairment	$—	$625	$740	$—	$—	$142	$5	$15	$1,527
Collectively evaluated for impairment	12,696	9,462	2,481	4,732	847	2,222	83	93	32,616
Loans acquired with credit deterioration	—	486	17	2,924	—	590	103	51	4,171
	$12,696	$10,573	$3,238	$7,656	$847	$2,954	$191	$159	$38,314

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Three Months Ended September 30, 2016 (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, June 30, 2016	$12,368	$10,370	$1,582	$8,483	$1,209	$3,535	$440	$110	$38,097
Charge-offs	—	(237)	—	(140)	—	(43)	—	(246)	(666)
Recoveries	—	62	—	—	8	298	—	10	378
Provision for loan losses	(695)	832	305	3	(168)	(411)	(18)	240	88
Ending Balance, September 30, 2016	$11,673	$11,027	$1,887	$8,346	$1,049	$3,379	$422	$114	$37,897
Nine Months Ended September 30, 2016									
Ending Balance, December 31, 2015	$12,016	$8,864	$1,348	$8,420	$1,074	$3,298	$494	$133	$35,647
Charge-offs	—	(774)	—	(140)	—	(456)	—	(478)	(1,848)
Recoveries	—	173	—	8	465	299	—	10	955
Provision for loan losses	(343)	2,764	539	58	(490)	238	(72)	449	3,143
Ending Balance, September 30, 2016	$11,673	$11,027	$1,887	$8,346	$1,049	$3,379	$422	$114	$37,897
As of December 31, 2016									
Loans:									
Individually evaluated for impairment	$—	$8,516	$2,050	$2,151	$—	$6,972	$9,665	$57	$29,411
Collectively evaluated for impairment	3,212,895	979,158	379,353	1,185,237	64,789	178,963	88,995	3,190	6,092,580
Loans acquired with credit deterioration	2,104	1,037	12,229	6,327	—	7,567	3,070	236	32,570

	$3,214,999	$988,711	$393,632	$1,193,715	$64,789	$193,502	$101,730	$3,483	$6,154,561
Allowance for loan losses:									
Individually evaluated for impairment	$—	$1,024	$287	$14	$—	$35	$—	$—	$1,360
Collectively evaluated for impairment	11,602	9,686	1,896	4,626	772	2,414	88	60	31,144
Loans acquired with credit deterioration	—	340	—	3,254	68	893	198	58	4,811
	$11,602	$11,050	$2,183	$7,894	$840	$3,342	$286	$118	$37,315

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 September 30, 2017 and December 31, 2016, funds available for reimbursement, if necessary, were $0.7 million and $1.0 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 September 30, 2017 and December 31, 2016 and the average recorded investment and interest income recognized for the three and nine months ended September 30, 2017 and 2016. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	September 30, 2017			Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)							
With no related allowance recorded:							
Commercial and industrial	$19,433	$22,354	$ —	$13,345	$ 354	$8,796	$ 450
Commercial real estate owner occupied	1,669	1,936	—	1,744	15	1,589	18
Commercial real estate non-owner occupied	184	428	—	184	91	989	93
Other consumer	32	32	—	44	—	50	—
Residential real estate	7,457	7,664	—	5,228	125	4,865	126
Manufactured housing	10,340	10,340	—	10,243	164	10,038	457
With an allowance recorded:							
Commercial and industrial	1,060	1,331	625	1,963	—	5,400	22
Commercial real estate owner occupied	1,281	1,281	740	1,056	1	950	3
Commercial real estate non-owner occupied	—	—	—	51	—	94	—
Other consumer	24	24	15	12	—	6	—
Residential real estate	721	741	142	2,862	—	2,729	84
Manufactured housing	—	—	5	114	—	108	8
Total	$42,201	$46,131	$ 1,527	$36,846	$ 750	$35,614	$ 1,261

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	December 31, 2016			Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
(amounts in thousands)	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Multi-family	$—	$—	$ —	$2,080	$ 38	$1,205	$ 38
Commercial and industrial	2,396	3,430	—	21,859	406	18,681	879
Commercial real estate owner occupied	1,210	1,210	—	10,182	201	9,651	403
Commercial real estate non-owner occupied	2,002	2,114	—	7,983	118	6,081	133
Other consumer	57	57	—	43	—	45	—
Residential real estate	6,682	6,749	—	3,835	39	4,039	83
Manufactured housing	9,665	9,665	—	8,971	9	8,785	290
With an allowance recorded:							
Multi-family	—	—	—	383	5	290	15
Commercial and industrial	6,120	6,120	1,024	7,561	43	7,256	155
Commercial real estate - owner occupied	840	840	287	—	—	6	—
Commercial real estate non-owner occupied	149	204	14	328	2	438	6
Other consumer	—	—	—	—	—	36	—
Residential real estate	290	303	35	300	—	421	—
Total	$29,411	$30,692	$ 1,360	$63,525	$ 861	$56,934	$ 2,002

Troubled Debt Restructurings

At September 30, 2017 and December 31, 2016, there were $20.8 million and $16.4 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 six-month performance requirement, 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 loans modified in a troubled debt restructuring by type of concession for the three and nine months ended September 30, 2017 and 2016. There were no modifications that involved forgiveness of debt.

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
(dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Extensions of maturity	1	$ 60	—	$ —
Interest-rate reductions	3	122	10	533
Total	4	$ 182	10	$ 533

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	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Extensions of maturity	4	$ 6,263	3	$ 1,995
Interest-rate reductions	32	1,297	49	1,932
Total	36	$ 7,560	52	$ 3,927

The following table provides, by loan type, the number of loans modified in troubled debt restructurings, and the related recorded investment, during the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
(dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	—	$ —	—	$ —
Manufactured housing	4	182	10	533
Residential real estate	—	—	—	—
Total loans	4	$ 182	10	$ 533

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	3	$ 6,203	1	$ 76
Commercial real estate non-owner occupied	—	—	1	1,844
Manufactured housing	33	1,357	47	1,716
Residential real estate	—	—	3	291
Total loans	36	$ 7,560	52	$ 3,927

As of September 30, 2017, except for one commercial and industrial loan with an outstanding commitment of $2.3 million, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs. There were no commitments to lend additional funds to debtors whose loans have been modified in TDRs at December 31, 2016.

As of September 30, 2017, ten manufactured housing loans totaling $0.5 million that were modified in TDRs within the past twelve months, defaulted on payments. As of September 30, 2016, five manufactured housing loans totaling $0.1 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 September 30, 2017. For the nine months ended September 30, 2017, there was one allowance recorded resulting from TDR modifications, totaling $1 thousand for one manufactured housing loan. There was one specific allowance totaling $29 thousand for one commercial real estate non-owner occupied loan resulting from TDR modifications during the three and nine months ended September 30, 2016.

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Purchased Credit Impaired Loans

The changes in accretable yield related to purchased-credit-impaired loans for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Accretable yield balance as of June 30,	$9,006	$11,165
Accretion to interest income	(368)	(460)
Reclassification from nonaccretable difference and disposals, net	(276)	107
Accretable yield balance as of September 30,	$8,362	$10,812

	Nine Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Accretable yield balance as of December 31,	$10,202	$12,947
Accretion to interest income	(1,326)	(1,429)
Reclassification from nonaccretable difference and disposals, net	(514)	(706)
Accretable yield balance as of September 30,	$8,362	$10,812

Allowance for Loan Losses and the FDIC Loss Sharing Receivable and Clawback Liability

Losses incurred on covered loans were eligible for partial reimbursement by the FDIC. Subsequent to the purchase date, the expected cash flows on the covered loans were subject to evaluation. Decreases in the present value of expected cash flows on the covered loans were recognized by increasing the allowance for loan losses with a related charge to the provision for loan losses. At the same time, the FDIC indemnification asset was increased reflecting an estimated future collection from the FDIC, which was recorded as a reduction to the provision for loan losses. If the expected cash flows on the covered loans increased such that a previously recorded impairment could be reversed, the Bank recorded a reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC receivable balance (with a related charge to the provision for loan losses). Increases in expected cash flows on covered loans and decreases in expected cash flows from the FDIC loss sharing receivable, when there were no previously recorded impairments, were considered together and recognized over the remaining life of the loans as interest income. Decreases in the valuations of other real estate owned covered by the loss sharing agreements were recorded net of the estimated FDIC receivable as an increase to other real estate owned expense (a component of non-interest expense).

On July 11, 2016, Customers entered into an agreement to terminate all existing rights and obligations pursuant to the loss sharing agreements with the FDIC. In connection with the termination agreement, Customers paid the FDIC $1.4 million as final payment under these agreements. The negotiated settlement amount was based on net losses incurred on the covered assets through September 30, 2015, adjusted for cash payments to and receipts from the FDIC as part of the December 31, 2015 and March 31, 2016 certifications. Consequently, loans and other real estate owned previously reported as covered assets pursuant to the loss sharing agreements were no longer presented as covered assets as of June 30, 2016.

The following table presents changes in the allowance for loan losses and the FDIC loss sharing receivable, including the effects of the estimated clawback liability and the termination agreement, for the three and nine months ended September 30, 2017 and 2016.

Allowance for Loan Losses

	Three Months Ended September 30,	
(amounts in thousands)	2017	2016
Ending balance as of June 30,	$ 38,458	$ 38,097
Provision for loan losses (1)	2,352	88
Charge-offs	(2,585)	(666)
Recoveries	89	378
Ending balance as of September 30,	$ 38,314	$ 37,897

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(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Three Months Ended September 30, 2017	2016
Ending balance as of June 30,	$ —	$ (1,381)
Cash payments to the FDIC	—	1,381
Ending balance as of September 30,	$ —	$ —
(1) Provision for loan losses	$ 2,352	$ 88
Net amount reported as provision for loan losses	$ 2,352	$ 88

(amounts in thousands)	Allowance for Loan Losses Nine Months Ended September 30, 2017	2016
Ending balance as of December 31,	$ 37,315	$ 35,647
Provision for loan losses (1)	5,937	3,143
Charge-offs	(5,576)	(1,848)
Recoveries	638	955
Ending balance as of September 30,	$ 38,314	$ 37,897

(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Nine Months Ended September 30, 2017	2016
Ending balance as of December 31,	$ —	$ (2,083)
Increased estimated cash flows (2)	—	289
Other activity, net (a)	—	(255)
Cash payments to the FDIC	—	2,049
Ending balance as of September 30,	$ —	$ —
(1) Provision for loan losses	$ 5,937	$ 3,143
(2) Effect attributable to FDIC loss share arrangements	—	(289)
Net amount reported as provision for loan losses	$ 5,937	$ 2,854

(a) Includes external costs, such as legal fees, real estate taxes, and appraisal expenses, which qualified for reimbursement under the FDIC loss sharing agreements.

Credit Quality Indicators

Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, construction, and residential real estate 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. 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.
"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 Special Mention 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

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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 classified Substandard 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 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.

The following tables present the credit ratings of loans receivable as of September 30, 2017 and December 31, 2016.

	September 30, 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	$3,577,304	$1,080,797	$468,389	$1,212,945	$73,203	$431,364	$—	$—	$6,844,002
Special Mention	36,604	8,663	9,716	22,008	—	—	—	—	76,991
Substandard	5,081	25,762	8,462	2,896	—	3,824	—	—	46,025
Performing (1)	—	—	—	—	—	—	85,537	3,694	89,231
Non-performing (2)	—	—	—	—	—	—	7,401	125	7,526
Total	$3,618,989	$1,115,222	$486,567	$1,237,849	$73,203	$435,188	$92,938	$3,819	$7,063,775

	December 31, 2016								
	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	$3,198,290	$954,846	$375,919	$1,175,850	$50,291	$189,919	$—	$—	$5,945,115
Special Mention	—	19,552	12,065	10,824	14,498	—	—	—	56,939
Substandard	16,709	14,313	5,648	7,041	—	3,583	—	—	47,294
Performing (1)	—	—	—	—	—	—	92,920	3,413	96,333

Non-performing (2)	—	—	—	—	—	—	8,810	70	8,880
Total	$3,214,999	$988,711	$393,632	$1,193,715	$64,789	$193,502	$101,730	$3,483	$6,154,561

(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.

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Loan Purchases and Sales
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 second quarter 2017, Customers purchased an additional $90.0 million of thirty-year fixed-rate residential mortgage loans from Everbank. The purchase price was 101.0% of loans outstanding. There were no loan purchases during the three months ended September 30, 2017 and during the three or nine months ended September 30, 2016.

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 Small Business Administration (SBA) loans resulting in a gain on sale of $0.8 million. In second quarter 2017, Customers sold $7.0 million of SBA loans resulting in a gain on sale of $0.6 million. In third quarter 2017, Customers sold $11.0 million of SBA loans resulting in a gain on sale of $1.1 million. In first quarter 2016, Customers sold $6.9 million of SBA loans resulting in a gain on sale of $0.6 million. In second quarter 2016, Customers sold one commercial loan amounting to $5.7 million resulting in a loss on sale of $0.1 million and $3.6 million of SBA loans resulting in a gain on sale of $0.4 million. There were no loan sales during the third quarter 2016.

None of these purchases and sales during the nine months ended September 30, 2017 and 2016 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 September 30, 2017, compared to $4.8 billion at December 31, 2016.

NOTE 10 - BORROWINGS

In June 2017, Customers Bancorp issued $100 million of senior notes at 99.775% of face value. The price to purchasers represents a yield-to-maturity of 4.0% on the fixed coupon rate of 3.95%. The senior notes mature in June 2022.

The net proceeds to Customers after deducting the underwriting discount and estimated offering expenses were approximately $98.6 million. The net proceeds were contributed to Customers Bank for purposes of its working capital needs and the funding of its organic growth.

NOTE 11 — REGULATORY CAPITAL
The Bank and the Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Customers' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and the Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.
Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At September 30, 2017 and December 31, 2016, the Bank and the Bancorp satisfied all capital requirements to which they were subject.

The Dodd-Frank Act required the Federal Reserve Bank to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depositary subsidiaries. In 2013, the federal banking agencies approved rules that implemented the Dodd-Frank requirements and certain other regulatory capital reforms effective January 1, 2015, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk weighted assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier 1

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risk based capital ratios to 6% and 8%, respectively, (iii) changed the treatment of certain capital components for determining Tier 1 and Tier 2 capital, and (iv) changed the risk weighting of certain assets and off-balance sheet items in determining risk weighted assets.

Generally, to be considered adequately capitalized, or well capitalized, respectively, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk based ratios and the Tier 1 leverage ratio in excess of the related minimum ratios as set forth in the following table:

	Actual		For Capital Adequacy Purposes (Minimum Plus Capital Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2017:						
Common equity Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$677,976	8.284 %	$470,603	5.750 %	N/A	N/A
Customers Bank	$1,009,380	12.342%	$470,242	5.750 %	$531,578	6.500 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$895,447	10.941%	$593,369	7.250 %	N/A	N/A
Customers Bank	$1,009,380	12.342%	$592,914	7.250 %	$654,250	8.000 %
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$1,014,784	12.399%	$757,057	9.250 %	N/A	N/A
Customers Bank	$1,156,766	14.145%	$756,477	9.250 %	$817,813	10.000 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$895,447	8.355 %	$428,709	4.000 %	N/A	N/A
Customers Bank	$1,009,380	9.434 %	$427,963	4.000 %	$534,954	5.000 %
As of December 31, 2016:						
Common equity Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$628,139	8.487 %	$379,306	5.125 %	N/A	N/A
Customers Bank	$857,421	11.626%	$377,973	5.125 %	$479,380	6.500 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$844,755	11.414%	$490,322	6.625 %	N/A	N/A
Customers Bank	$857,421	11.626%	$488,599	6.625 %	$590,006	8.000 %
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$966,097	13.053%	$638,343	8.625 %	N/A	N/A
Customers Bank	$1,003,609	13.608%	$636,101	8.625 %	$737,508	10.000 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$844,755	9.067 %	$372,652	4.000 %	N/A	N/A
Customers Bank	$857,421	9.233 %	$371,466	4.000 %	$464,333	5.000 %

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." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is being phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter.

Effective January 1, 2017, 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 capital ratio of 5.750%;

(ii) a Tier 1 Risk based capital ratio of 7.250%; and
(iii) a Total Risk based capital ratio of 9.250%.

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

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NOTE 12 — 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 September 30, 2017 and December 31, 2016:
Cash and cash equivalents:
The carrying amounts reported on the balance sheet for cash and cash equivalents approximate those assets’ fair values. These assets are classified as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Investment securities:
The fair values of investment securities available for sale 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.

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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.
Loans held for sale - Multifamily loans:
The fair values of multi-family loans held for sale are estimated using pricing indications from letters of intent with third party investors, recent sale transactions within the secondary markets for loans with similar characteristics, non-binding indicative bids from brokers, or estimates made by management considering current market rates and terms. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans receivable, net of allowance for loan losses:
The fair values of loans held for investment are estimated using discounted cash flows and market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. These assets are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
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.
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.
Deposit liabilities:
The fair values disclosed for interest and non-interest bearing checking, passbook savings and money market deposit accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). These liabilities are classified as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. These liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Federal funds purchased:

For these short-term instruments, the carrying amount is considered a reasonable estimate of fair value. These liabilities are classified as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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Borrowings:
Borrowings consist of long-term and short-term FHLB advances, 5-year senior unsecured notes, and subordinated debt. For overnight borrowings, the carrying amounts are considered reasonable estimates of fair value and are classified as Level 1 fair value measurements. Fair values of all other FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. Fair values of privately placed subordinated and senior unsecured debt are estimated by a third-party financial adviser using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit-risk characteristics, terms and remaining maturity. These liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements. The $63 million senior unsecured notes issued during third quarter 2013 are traded on The New York Stock Exchange, and their price can be obtained daily. This fair value measurement is classified as Level 1.
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.

Off-balance-sheet financial instruments:

The fair values of unused commitments to lend and standby letters of credit are considered to be the same as their contractual amounts.
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 September 30, 2017 and December 31, 2016 were as follows. BankMobile assets and liabilities previously reported as held for sale have been reclassified as held and used to conform with the current period presentation.

			Fair Value Measurements at September 30, 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	$219,480	$219,480	$219,480	$—	$ —
Investment securities, available for sale	584,823	584,823	2,311	582,512	—
Loans held for sale	2,113,293	2,113,473	—	1,963,076	150,397
Loans receivable, net of allowance for loan losses	7,023,024	7,020,487	—	—	7,020,487
FHLB, Federal Reserve Bank and other restricted stock	98,611	98,611	—	98,611	—
Derivatives	10,447	10,447	—	10,344	103
Liabilities:					
Deposits	$7,597,076	$7,596,324	$5,296,636	$2,299,688	$ —
Federal funds purchased	147,000	147,000	147,000	—	—
FHLB advances	1,462,343	1,462,245	727,343	734,902	—
Other borrowings	186,258	194,157	65,704	128,453	—
Subordinated debt	108,856	115,500	—	115,500	—
Derivatives	12,092	12,092	—	12,092	—

			Fair Value Measurements at December 31, 2016		
(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	$264,709	$264,709	$264,709	$—	$ —
Investment securities, available for sale	493,474	493,474	15,246	478,228	—
Loans held for sale	2,117,510	2,117,510	—	2,117,510	—
Loans receivable, net of allowance for loan losses	6,117,322	6,162,020	—	—	6,162,020
FHLB, Federal Reserve Bank and other restricted stock	68,408	68,408	—	68,408	—
Derivatives	10,864	10,864	—	10,819	45
Liabilities:					
Deposits	$7,303,775	$7,303,663	$4,472,013	$2,831,650	$ —

Federal funds purchased	83,000	83,000	83,000	—	—
FHLB advances	868,800	869,049	688,800	180,249	—
Other borrowings	87,123	91,761	66,261	25,500	—
Subordinated debt	108,783	111,375	—	111,375	—
Derivatives	14,172	14,172	—	14,172	—

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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 September 30, 2017 and December 31, 2016 were as follows:

	September 30, 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	$—	$ 196,327	$ —	$196,327
Agency guaranteed commercial mortgage-backed securities	—	340,108	—	340,108
Corporate notes	—	46,077	—	46,077
Equity securities	2,311	—	—	2,311
Derivatives	—	10,344	103	10,447
Loans held for sale – fair value option	—	1,963,076	—	1,963,076
Total assets - recurring fair value measurements	$2,311	$ 2,555,932	$ 103	$2,558,346
Liabilities				
Derivatives	$—	$ 12,092	$ —	$12,092
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,527	$—	$ —	$ 2,976	$2,976
Other real estate owned	—	—	782	782
Total assets - nonrecurring fair value measurements	$—	$ —	$ 3,758	$3,758

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	December 31, 2016 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	$—	$ 231,263	$ —	$231,263
Agency-guaranteed commercial mortgage-backed securities	—	201,817	—	201,817
Corporate notes	—	45,148	—	45,148
Equity securities	15,246	—	—	15,246
Derivatives	—	10,819	45	10,864
Loans held for sale – fair value option	—	2,117,510	—	2,117,510
Total assets - recurring fair value measurements	$15,246	$ 2,606,557	$ 45	$2,621,848
Liabilities				
Derivatives	$—	$ 14,172	$ —	$14,172
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,360	$—	$ —	$ 6,527	$6,527
Other real estate owned	—	—	2,731	2,731
Total assets - nonrecurring fair value measurements	$—	$ —	$ 9,258	$9,258

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2017 and 2016 are summarized as follows. Additional information about residential mortgage loan commitments can be found in NOTE 13 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES.

	Residential Mortgage Loan Commitments Three Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Balance at June 30	$102	$157
Issuances	103	85
Settlements	(102)	(157)
Balance at September 30	$103	$85

	Residential Mortgage Loan Commitments Nine Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Balance at December 31	$ 45	$ 45
Issuances	300	315
Settlements	(242)	(275)
Balance at September 30	$ 103	$ 85

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Customers' policy is to recognize transfers between fair value levels when events or circumstances warrant transfers. There were no transfers between levels during the three and nine months ended September 30, 2017 and 2016.

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2017 and December 31, 2016 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			
September 30, 2017	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (4)
(amounts in thousands)				
Impaired loans	$2,976	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	782	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	103	Adjusted market bid	Pull-through rate	90%

	Quantitative Information about Level 3 Fair Value Measurements			
December 31, 2016	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (4)
(amounts in thousands)				
Impaired loans	$1,431	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Impaired loans	5,096	Discounted cash flow	Projected cash flows (3)	4 times EBITDA
Other real estate owned	2,731	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	45	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) Projected cash flows of the business derived using EBITDA multiple based on management's best estimate.
(4) Presented as a percentage of the value determined by appraisal for impaired loans and other real estate owned.

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NOTE 13 — 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 effective portion of 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. The ineffective portion of the change in fair value of the derivatives is to be recognized directly in earnings. During the three and nine months ended September 30, 2017 and 2016, Customers did not record any hedge ineffectiveness.

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 $1.2 million from accumulated other comprehensive income to interest expense during the next 12 months.

Customers is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 24 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At September 30, 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. At December 31, 2016, Customers had four outstanding interest rate derivatives with notional amounts totaling $325.0 million that were designated as cash flow hedges of interest rate risk. The hedges expire between January 2018 and April 2019.

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 September 30, 2017, Customers had 76 interest rate swaps with an aggregate notional amount of $793.6 million related to this program. At December 31, 2016, Customers had 76 interest rate swaps with an aggregate notional amount of $716.6 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 September 30, 2017 and December 31, 2016, Customers had an outstanding notional balance of residential mortgage loan commitments of $5.4 million and $3.6 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 reported directly in earnings. At September 30, 2017 and December 31, 2016, Customers had outstanding notional balances of credit derivatives of $53.3 million and $44.9 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 September 30, 2017 and December 31, 2016.

	September 30, 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	$ 355	Other liabilities	$ 2,001
Total		$ 355		$ 2,001
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 9,861	Other liabilities	$ 10,083
Credit contracts	Other assets	128	Other liabilities	8
Residential mortgage loan commitments	Other assets	103	Other liabilities	—
Total		$ 10,092		$ 10,091

	December 31, 2016			
	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	$—	Other liabilities	$3,624
Total		$—		$3,624
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$10,683	Other liabilities	$10,537
Credit contracts	Other assets	136	Other liabilities	11
Residential mortgage loan commitments	Other assets	45	Other liabilities	—
Total		$10,864		$10,548

Effect of Derivative Instruments on Comprehensive Income

The following tables present the effect of Customers' derivative financial instruments on comprehensive income for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30, 2017	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 91
Credit contracts	Other non-interest income	(6)
Residential mortgage loan commitments	Mortgage banking income	1

Total	$	86

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	Three Months Ended September 30, 2016	
(amounts in thousands)	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 1,737
Credit contracts	Other non-interest income	(15)
Residential mortgage loan commitments	Mortgage banking income	(71)
Total		$ 1,651

	Nine Months Ended September 30, 2017	
(amounts in thousands)	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 429
Credit contracts	Other non-interest income	(5)
Residential mortgage loan commitments	Mortgage banking income	58
Total		$ 482

	Nine Months Ended September 30, 2016	
(amounts in thousands)	Income Statement Location	Amount of Income Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 1,250
Credit contracts	Other non-interest income	257
Residential mortgage loan commitments	Mortgage banking income	41
Total		$ 1,548

	Three Months Ended September 30, 2017		
(amounts in thousands)	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$104	Interest expense	$ (572)

	Three Months Ended September 30, 2016		
	Amount of Gain	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)

	Recognized in OCI on Derivatives (Effective Portion) (1)			
(amounts in thousands)				
Derivatives in cash flow hedging relationships:				
Interest rate swaps	$556	Interest expense	$	(703)

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(amounts in thousands)	Nine Months Ended September 30, 2017 Amount of Loss Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Derivative in cash flow hedging relationships:			
Interest rate swaps	$(115)	Interest expense	$ (2,166)

(amounts in thousands)	Nine Months Ended September 30, 2016 Amount of Loss Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Derivative in cash flow hedging relationships:			
Interest rate swaps	$(1,577)	Interest expense	$ (1,306)

(1) Amounts presented are net of taxes. See NOTE 6 - 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 September 30, 2017, 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 $7.3 million. In addition, Customers has minimum collateral posting thresholds with certain of these counterparties and at September 30, 2017 had posted $8.3 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.

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 September 30, 2017

(amounts in thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
Description				Financial Instruments	Cash Collateral Received	
Interest rate swap derivatives with institutional counterparties	$ 4,190	$ —	$ 4,190	$ —	$ 1,900	$ 2,290

Offsetting of Financial Liabilities and Derivative Liabilities
At September 30, 2017

(amounts in thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
Description				Financial Instruments	Cash Collateral Pledged	
Interest rate swap derivatives with institutional counterparties	$ 8,400	$ —	$ 8,400	$ —	$ 8,262	$ 138

Offsetting of Financial Assets and Derivative Assets
At December 31, 2016

(amounts in thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
Description				Financial Instruments	Cash Collateral Received	
Interest rate swap derivatives with institutional counterparties	$ 4,723	$ —	$ 4,723	$ —	$ —	$ 4,723

Offsetting of Financial Liabilities and Derivative Liabilities
At December 31, 2016

Gross	Gross	Net	Net

(amounts in thousands) Description	Amount of Recognized Liabilities	Amounts Offset in the Consolidated Balance Sheet	Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet Financial Instruments	Cash Collateral Pledged	Amount
Interest rate swap derivatives with institutional counterparties	$ 9,825	$ —	$ 9,825	$ —	$ 4,472	$ 5,353

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NOTE 14 — BUSINESS SEGMENTS

Customers has historically operated under one business segment, "Community Banking." However, beginning in third quarter 2016, Customers revised its segment financial reporting to reflect the manner in which its chief operating decision makers (our Chief Executive Officer and Board of Directors) have begun allocating resources and assessing performance subsequent to Customers' acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile technology platform late in second quarter 2016.

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 and New Hampshire 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 a result of the Disbursement business acquisition.

The following tables present the operating results for Customers' reportable business segments for the three and nine months ended September 30, 2017 and 2016. Customers has presented the financial information and disclosures for prior periods to reflect the segment disclosures as if they had been in effect for the periods presented. 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 37.25% for 2017 and 38% for 2016.

BankMobile, previously presented as discontinued operations in the financial statements due to Customers' stated intent to sell the business, was reclassified as held and used at September 30, 2017. As of September 30, 2017, Customers has decided to spin off BankMobile to Customers’ shareholders through a spin-off/merger transaction which is currently being negotiated. For more information on BankMobile's reclassification, see NOTE 3 - TAX-FREE SPIN-OFF AND MERGER.

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	Three Months Ended September 30, 2017		
	Community Business Banking	BankMobile	Consolidated
Interest income	$95,585	$ 2,700 (1)	$ 98,285
Interest expense	30,250	16	30,266
Net interest income	65,335	2,684	68,019
Provision for loan losses	1,874	478	2,352
Non-interest income	4,190	13,836	18,026
Non-interest expense	33,990	27,050	61,040
Income (loss) before income tax expense (benefit)	33,661	(11,008)	22,653
Income tax expense (benefit)	18,999	(4,100)	14,899
Net income (loss)	14,662	(6,908)	7,754
Preferred stock dividends	3,615	—	3,615
Net income (loss) available to common shareholders	$11,047	$ (6,908)	$ 4,139

	Three Months Ended September 30, 2016		
	Community Business Banking	BankMobile	Consolidated
Interest income	$82,828	$ 1,384 (1)	$ 84,212
Interest expense	19,620	7	19,627
Net interest income	63,208	1,377	64,585
Provision for loan losses	(162)	250	88
Non-interest income	11,121	16,365	27,486
Non-interest expense	36,864	19,354	56,218
Income (loss) before income tax expense (benefit)	37,627	(1,862)	35,765
Income tax expense (benefit)	15,266	(708)	14,558
Net income (loss)	22,361	(1,154)	21,207
Preferred stock dividends	2,552	—	2,552
Net income (loss) available to common shareholders	$19,809	$ (1,154)	$ 18,655

(1) - Amounts reported include funds transfer pricing of $2.7 million and 1.4 million for the three months ended September 30, 2017 and 2016, 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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	Nine Months Ended September 30, 2017		
	Community Business Banking	BankMobile	Consolidated
Interest income	$265,524	$9,708 (1)	$275,232
Interest expense	76,134	55	76,189
Net interest income	189,390	9,653	199,043
Provision for loan losses	5,459	478	5,937
Non-interest income	16,587	42,583	59,170
Non-interest expense	94,704	66,114	160,818
Income before income tax expense (benefit)	105,814	(14,356)	91,458
Income tax expense (benefit)	39,584	(5,348)	34,236
Net income (loss)	66,230	(9,008)	57,222
Preferred stock dividends	10,844	—	10,844
Net income (loss) available to common shareholders	$55,386	$(9,008)	$46,378
As of September 30, 2017			
Goodwill and other intangibles	$3,632	$12,972	$16,604
Total assets	$10,405,452	$66,377 (2)	$10,471,829
Total deposits	$6,815,994	$781,082	$7,597,076

	Nine Months Ended September 30, 2016		
	Community Business Banking	BankMobile	Consolidated
Interest income	$234,513	$4,418 (1)	$238,931
Interest expense	53,539	22	53,561
Net interest income	180,974	4,396	185,370
Provision for loan losses	2,605	249	2,854
Non-interest income	22,241	18,996	41,237
Non-interest expense	101,053	27,253	128,306
Income (loss) before income tax expense (benefit)	99,557	(4,110)	95,447
Income tax expense (benefit)	38,134	(1,562)	36,572
Net income (loss)	61,423	(2,548)	58,875
Preferred stock dividends	5,900	—	5,900
Net income (loss) available to common shareholders	$55,523	$(2,548)	$52,975
As of September 30, 2016			
Goodwill and other intangibles	$3,642	$13,282	$16,924
Total assets	$9,532,281	$70,329 (2)	$9,602,610
Total deposits	$6,855,788	$533,182	$7,388,970

(1) - Amounts reported include funds transfer pricing of $9.7 million and $4.4 million for the nine months ended September 30, 2017 and 2016, respectively, credited to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.
(2) - Amounts reported exclude intra company receivables.

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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, 2016 (the “2016 Form 10-K”), as such factors may be updated from time to time in our filings with the SEC, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Our actual results may differ materially from those reflected in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements we make, which speak only as of the date they are made. We do not undertake any obligation to release publicly or otherwise provide any revisions to any forward-looking statements we may make, including any forward-looking financial information, to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

Management’s discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, Inc. (the "Bancorp" or "Customers Bancorp") a financial holding company, and its wholly owned subsidiaries, including Customers Bank (the "Bank"), collectively referred to as "Customers" herein. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers' financial condition and results of operations as of and for the three and nine months ended September 30, 2017. 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' 2016 Form 10-K.

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 2016 Form 10-K and updated in this report on Form 10-Q for the quarterly period ended September 30, 2017.

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.

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Third Quarter Events of Note

Customers reported net income available to common shareholders of $4.1 million, or $0.13 per fully diluted common share for third quarter 2017. The reported results were impacted by several notable charges in third quarter 2017. First, Customers' previously-announced strategic decision to spin-off its BankMobile business directly to Customers' shareholders, to be followed by a merger of BankMobile into Flagship Community Bank rather than sell the business directly to a third party resulted in including BankMobile segment results as part of the continuing Customers' business rather than as discontinued operations. The reclassification as part of the continuing business resulted in the capture of depreciation and amortization expense not recognized during the period the related assets were classified as held for sale ($4.2 million pre-tax, or $0.08 per diluted share). In addition, Customers' decision to spin-off and then merge the BankMobile business eliminated Customers' tax strategy to offset capital losses on disposition of the Religare common stock with capital gains from the sale of BankMobile. Customers' decision to pursue the spin-off and merger reduced earnings by $7.7 million after tax ($0.24 per diluted share) in the third quarter due to the reversal of $4.6 million of previously recognized deferred tax assets, and inability to recognize deferred tax benefits of $3.1 million for the third quarter 2017 impairment charge of $8.3 million ($0.16 per diluted share), equal to the third quarter 2017 decrease in market value of Customers' investment in Religare.

Asset quality remained exceptional with non-performing loans of $29.8 million, or 0.33% of total loans, and total non-performing assets (non-performing loans and other real estate owned) only 0.30% of total assets at September 30, 2017, reflecting Customers' conservative lending practices and continued focus on credit risk management. Customers' level of non-performing loans at September 30, 2017 remained well below industry average non-performing loans of 1.42% and Customers' peer group non-performing loans of 0.88%. 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 September 30, 2017. Customers Bancorp's Tier 1 leverage ratio was 8.36%, and its total risk-based capital ratio was 12.40% at September 30, 2017.

Customers ended the quarter with $10.5 billion in total assets, stable asset quality trends, and stronger capital. Customers expects to strategically reduce assets below $10 billion as of December 31, 2017 to eliminate the risk of not receiving full interchange fees by qualifying for the small issuer exemption under the Durbin Amendment to the Dodd Frank legislation.

Results of Operations

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Net income available to common shareholders decreased $14.5 million, or 77.8%, to $4.1 million for the three months ended September 30, 2017 when compared to net income available to common shareholders of $18.7 million for the three months ended September 30, 2016. The decreased net income available to common shareholders primarily resulted from certain notable third quarter 2017 charges totaling $15.6 million including:

- Change in BankMobile disposition strategy ($10.4 million after tax). As further described under the "Third Quarter Events of Note" above, Customers' reclassification of BankMobile as part of the continuing business resulted in the capture of depreciation and amortization expense not recognized during the period the related assets were classified as held for sale ($4.2 million pre-tax and $2.6 million after tax). In addition, Customers' decision to spin-off and then merge the BankMobile business eliminated Customers' tax strategy to offset capital losses on disposition of the Religare common stock with capital gains from the sale of BankMobile, reducing earnings by $7.7 million after tax in third quarter 2017.
- Religare investment impairment charge of $8.3 million ($5.2 million after tax). Customers recorded an other-than-temporary impairment loss of $8.3 million for three months ended September 30, 2017 for the full amount of the decline in fair value of the Religare investment below the cost basis established at June 30, 2017.

Other contributors to the decrease in net income available to common shareholders included an increase in the provision for loan losses of $2.3 million, primarily as a result of growth in the loan portfolio and provisions on impaired loans, and increases in non-interest expenses of $4.8 million, primarily driven by increases in salaries and employee benefits and technology-related expenses, including core process system and conversion costs and noncapitalizable software development costs. These increases were offset in part by increased gains on sale of investment securities of $5.4 million and an increase in net interest income of $3.4 million.

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Net interest income of $68.0 million increased $3.4 million, or 5.3%, for the three months ended September 30, 2017 when compared to net interest income of $64.6 million for the three months ended September 30, 2016. This increase resulted primarily from an increase in the average balance of interest-earning assets of $1.2 billion for third quarter 2017, offset in part by a 21 basis point decline in net interest margin (tax-equivalent) to 2.62% for third quarter 2017 from 2.83% for third quarter 2016.

The provision for loan losses of $2.4 million increased $2.3 million for the three months ended September 30, 2017 when compared to the provision for loan losses of $0.1 million for the three months ended September 30, 2016. The third quarter 2017 provision expense included provisions of $1.4 million for loan portfolio growth and reserves of $0.8 million for impaired loans.

Non-interest income of $18.0 million decreased $9.5 million, or 34.4%, for the three months ended September 30, 2017 when compared to non-interest income of $27.5 million for the three months ended September 30, 2016. This decrease was primarily the result of an $8.3 million other-than-temporary impairment loss related to the Religare investment, decreases in other non-interest income of $2.4 million, due to a $2.2 million recovery of a previously recorded loss in third quarter 2016, decreases in interchange and card revenue and deposit fees of $2.0 million and $1.6 million, respectively, driven by lower business volumes in BankMobile Disbursements. These decreases were offset in part by increased gains on sales of investment securities of $5.4 million.

Non-interest expense of $61.0 million increased $4.8 million, or 8.6%, for the three months ended September 30, 2017 when compared to non-interest expense of $56.2 million for the three months ended September 30, 2016. This increase resulted primarily from increases in salaries and employee benefits of $2.1 million, driven primarily by salary increases as the average number of full-time equivalent employees remained relatively consistent over the past year, and increases in technology, communications and bank operations and other expenses of $1.9 million and $0.9 million, respectively, driven by technology enhancements and the capture of depreciation and amortization expenses related to BankMobile due to the reclassification of BankMobile as held and used as of September 30, 2017.

Income tax expense of $14.9 million increased $0.3 million, or 2.3%, for the three months ended September 30, 2017 when compared to income tax expense of $14.6 million for the three months ended September 30, 2016. The increase in income tax expense was driven primarily by the elimination of deferred tax benefits from other-than-temporary impairment losses on investment securities totaling $7.7 million, offset in part by a decrease in pre-tax income of $13.1 million in third quarter 2017 compared to third quarter 2016.

Preferred stock dividends of $3.6 million increased $1.1 million, or 41.7%, for the three months ended September 30, 2017 when compared to preferred stock dividends of $2.6 million for the three months ended September 30, 2016. This increase was the result of preferred stock issuances aggregating $85.0 million in September 2016 with dividends at 6.00%.

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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 September 30,					
	2017			2016		
	Average Balance	Interest Income or Expense	Average Yield or Cost (%)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)
(dollars in thousands)						
Assets						
Interest-earning deposits	$280,845	$ 923	1.30 %	$237,753	$ 326	0.55 %
Investment securities (A)	1,017,065	7,307	2.87 %	534,333	3,528	2.64 %
Loans:						
Commercial loans to mortgage companies	1,956,587	21,099	4.28 %	2,142,986	18,990	3.53 %
Multifamily loans	3,639,566	33,301	3.63 %	3,283,007	31,373	3.80 %
Commercial and industrial	1,476,083	15,792	4.24 %	1,193,906	11,887	3.96 %
Non-owner occupied commercial real estate	1,294,996	12,706	3.89 %	1,236,054	12,295	3.96 %
All other loans	561,911	5,842	4.12 %	385,511	4,554	4.70 %
Total loans (B)	8,929,143	88,740	3.94 %	8,241,464	79,099	3.82 %
Other interest-earning assets	125,341	1,315	4.16 %	90,010	1,259	5.56 %
Total interest-earning assets	10,352,394	98,285	3.77 %	9,103,560	84,212	3.68 %
Non-interest-earning assets	389,797			336,013		
Total assets	$10,742,191			$9,439,573		
Liabilities						
Interest checking accounts	$351,422	708	0.80 %	$202,645	278	0.55 %
Money market deposit accounts	3,427,682	9,866	1.14 %	3,115,076	5,200	0.66 %
Other savings accounts	40,310	29	0.28 %	36,516	22	0.24 %
Certificates of deposit	2,361,069	7,778	1.31 %	2,796,028	7,509	1.07 %
Total interest-bearing deposits	6,180,483	18,381	1.18 %	6,150,265	13,009	0.84 %
Borrowings	2,414,086	11,885	1.96 %	1,586,262	6,618	1.66 %
Total interest-bearing liabilities	8,594,569	30,266	1.40 %	7,736,527	19,627	1.01 %
Non-interest-bearing deposits	1,158,911			863,435		
Total deposits and borrowings	9,753,480		1.23 %	8,599,962		0.91 %
Other non-interest-bearing liabilities	66,220			129,208		
Total liabilities	9,819,700			8,729,170		
Shareholders’ Equity	922,491			710,403		
Total liabilities and shareholders’ equity	$10,742,191			$9,439,573		
Net interest earnings		68,019			64,585	
Tax-equivalent adjustment (C)		203			96	
Net interest earnings		$ 68,222			$ 64,681	
Interest spread			2.54 %			2.77 %
Net interest margin			2.61 %			2.82 %
Net interest margin tax equivalent (C)			2.62 %			2.83 %

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

(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 35% statutory tax rate to approximate interest income as a taxable asset.

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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 September 30, 2017 vs. 2016 Increase (Decrease) due to Change in		
	Rate	Volume	Total
(amounts in thousands)			
Interest income			
Interest-earning deposits	$528	$69	$597
Investment securities	335	3,444	3,779
Loans:			
Commercial loans to mortgage companies	3,853	(1,744)	2,109
Multifamily loans	(1,440)	3,368	1,928
Commercial and industrial	908	2,997	3,905
Non-owner occupied commercial real estate	(195)	606	411
All other loans	(610)	1,898	1,288
Total loans	2,516	7,125	9,641
Other interest-earning assets	(365)	421	56
Total interest income	3,014	11,059	14,073
Interest expense			
Interest checking accounts	167	263	430
Money market deposit accounts	4,095	571	4,666
Other savings accounts	4	3	7
Certificates of deposit	1,539	(1,270)	269
Total interest-bearing deposits	5,805	(433)	5,372
Borrowings	1,337	3,930	5,267
Total interest expense	7,142	3,497	10,639
Net interest income	$(4,128)	$7,562	$3,434

Net interest income for the three months ended September 30, 2017 was $68.0 million, an increase of $3.4 million, or 5.3%, from net interest income of $64.6 million for the three months ended September 30, 2016, as average loan and security balances increased $1.2 billion. Net interest margin (tax equivalent) narrowed by 21 basis points to 2.62% for third quarter 2017 compared to 2.83% for third quarter 2016. The net interest margin (tax equivalent) compression largely resulted from a $1.4 million reduction in prepayment penalties in the multi-family portfolio. Net interest margin (tax equivalent) was also impacted by Customers Bancorp's issuance of $100 million principal amount of 3.95% senior notes on June 30, 2017 and a one-time interest expense adjustment of approximately $0.3 million. Interest expense on total interest-bearing deposits increased $5.4 million in third quarter 2017 compared to third quarter 2016. The increase was mainly driven by the average rate on interest-bearing deposits, which increased 34 basis points for third quarter 2017 compared to third quarter 2016, 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. Deposit volumes remained relatively stable, as average interest-bearing deposits increased $30.2 million for the three months ended September 30, 2017 compared to average interest-bearing deposits for the three months ended September 30, 2016.

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Interest expense on borrowings increased $5.3 million in third quarter 2017 compared to third quarter 2016. This increase was primarily driven by a higher average rate on borrowings, which increased 30 basis points for third quarter 2017 compared to third quarter 2016, primarily as a result of an increase in the borrowing rate for short term advances, including FHLB advances and federal funds purchased, and an increase in the outstanding balance of senior note borrowings.

Provision for Loan Losses

The provision for loan losses of $2.4 million increased by $2.3 million for the three months ended September 30, 2017, compared to $0.1 million for the same period in 2016. The provision for loan losses of $2.4 million in third quarter 2017 included provisions of $1.4 million for loan portfolio growth and reserves of $0.8 million for impaired loans. In third quarter 2016, the provision for loan losses of $0.1 million was the result of minimal loan growth during the quarter, as planned, as well as exceptional asset quality.

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 September 30, 2017 and 2016.

	Three Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Interchange and card revenue	$9,570	$11,547
Gain (loss) on sale of investment securities	5,349	(1)
Deposit fees	2,659	4,218
Mortgage warehouse transactional fees	2,396	3,080
Bank-owned life insurance	1,672	1,386
Gain on sale of SBA and other loans	1,144	1,206
Mortgage banking income	257	287
Impairment loss on investment securities	(8,349)	—
Other	3,328	5,763
Total non-interest income	$18,026	$27,486

Non-interest income decreased $9.5 million during the three months ended September 30, 2017 to $18.0 million, compared to $27.5 million for the three months ended September 30, 2016. This decrease was primarily due to an $8.3 million other-than-temporary-impairment loss on equity securities, a decrease in other non-interest income of $2.4 million due to a $2.2 million recovery of a previously recorded loss in third quarter 2016, decreases in interchange and card revenue and deposit fees of $2.0 million and $1.6 million, respectively, driven by lower business volumes in BankMobile Disbursements, and a decrease in mortgage warehouse transactional fees of $0.7 million driven by a reduction in the volume of warehouse transactions. These decreases were offset in part by increases in gains realized from the sale of investment securities of $5.4 million and income from bank-owned life insurance policies of $0.3 million.

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Non-Interest Expense

The table below presents the components of non-interest expense for the three months ended September 30, 2017 and 2016.

	Three Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Salaries and employee benefits	$24,807	$22,681
Technology, communication and bank operations	14,401	12,525
Professional services	7,403	7,006
Occupancy	2,857	2,450
FDIC assessments, taxes, and regulatory fees	2,475	2,726
Provision for operating losses	1,509	1,406
Loan workout	915	592
Other real estate owned	445	1,192
Advertising and promotion	404	591
Acquisition related expenses	—	144
Other	5,824	4,905
Total non-interest expense	$61,040	$56,218

Non-interest expense was $61.0 million for the three months ended September 30, 2017, an increase of $4.8 million from non-interest expense of $56.2 million for the three months ended September 30, 2016.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $2.1 million, or 9.4%, to $24.8 million for the three months ended September 30, 2017 from $22.7 million for the three months ended September 30, 2016. The increase was primarily attributable to increases in salaries as the average number of full-time equivalent employees remained relatively consistent over the past year.

Technology, communication and bank operations expenses increased by $1.9 million, or 15.0%, to $14.4 million for the three months ended September 30, 2017 from $12.5 million for the three months ended September 30, 2016. The increase was primarily attributable to increased core processing system expenses and non-capitalizable software development costs of $2.0 million and $1.5 million, respectively, as well as the recapture of $3.2 million of depreciation expense in third quarter 2017 related to BankMobile for the period it was classified as held for sale. These increases were offset in part by a $3.9 million one-time expense in third quarter 2016 for technology-related services.

Income Taxes

Income tax expense increased $0.3 million for the three months ended September 30, 2017 to $14.9 million, compared to $14.6 million in the same period of 2016. This increase was driven primarily by the elimination of deferred tax benefits from other-than-temporary impairment losses on investment securities totaling $7.7 million, offset in part by a decrease in pre-tax income of $13.1 million in third quarter 2017 compared to third quarter 2016.

Preferred Stock Dividends

Preferred stock dividends of $3.6 million increased $1.1 million, or 41.7%, for the three months ended September 30, 2017 when compared to preferred stock dividends of $2.6 million for the three months ended September 30, 2016. This increase was the result of preferred stock issuances totaling $85.0 million issued in September 2016 with dividends at 6.00%.

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Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Net income available to common shareholders decreased $6.6 million, or 12.5%, to $46.4 million for the nine months ended September 30, 2017 when compared to net income available to common shareholders of $53.0 million for the nine months ended September 30, 2016. The decreased net income available to common shareholders primarily resulted from an increase in non-interest expense of $32.5 million, an increase in preferred stock dividends of $4.9 million, and an increase in provision for loan losses of $3.1 million. These increases were offset in part by an increase in net interest income of $13.7 million, largely reflecting the growth in interest earning assets over the past twelve months, an increase in non-interest income of $17.9 million largely as a result of a full nine months of BankMobile Disbursements operations, and a decrease in income tax expense of $2.3 million.

Net interest income increased $13.7 million, or 7.4%, for the nine months ended September 30, 2017 to $199.0 million when compared to net interest income of $185.4 million for the nine months ended September 30, 2016. This increase resulted principally from an increase in the average balance of interest-earning assets of $1.1 billion offset in part by a 13 basis point decrease in the net interest margin (tax equivalent) to 2.71% for the first nine months of 2017 when compared to the first nine months of 2016.

The provision for loan losses increased $3.1 million to $5.9 million for the nine months ended September 30, 2017 when compared to the provision for loan losses of $2.9 million for the same period in 2016. The provision for loan losses of $5.9 million included $2.3 million for loan portfolio growth and $3.9 million for impaired loans, offset in part by a $0.8 million release resulting from improved asset quality and lower incurred losses than previously estimated.

Non-interest income increased $17.9 million, or 43.5%, for the nine months ended September 30, 2017 to $59.2 million when compared to $41.2 million for the nine months ended September 30, 2016. The increase was primarily a result of an increase in interchange and card revenue of $17.9 million reflecting a full nine months of BankMobile Disbursements operations, an increase in gains on sales of investment securities of $8.5 million, an increase in deposit fees of $2.7 million, and increased bank-owned life insurance income of $1.7 million, offset in part by other-than-temporary impairment losses of $12.9 million related to the decline in market value of the Religare investment and a decrease in mortgage warehouse transactional fees of $1.6 million.

Non-interest expense increased $32.5 million, or 25.3%, for the nine months ended September 30, 2017 to $160.8 million when compared to non-interest expense of $128.3 million for the nine months ended September 30, 2016. The increase primarily resulted from increased BankMobile expenses of $38.9 million due to the acquisition of the Disbursements business in June 2016 compared to a full nine months of BankMobile Disbursements operations in 2017, offset in part by decreased FDIC assessments, taxes, and regulatory fees of $4.6 million and a one-time expense of $3.9 million in third quarter 2016 for technology-related services. The increased BankMobile expenses, largely the result of a full nine months of BankMobile Disbursements operations in 2017 and only three months in 2016, included $10.5 million of increased salaries and employee benefits, $17.0 million of increased technology, communications, and bank operations, $6.4 million of increased professional services, and $5.5 million of increased other operating expenses. Excluding the effect of BankMobile, non-interest expense decreased $6.3 million period over period as management continued its efforts to control expenses.

Income tax expense decreased $2.3 million for the nine months ended September 30, 2017 to $34.2 million when compared to income tax expense of $36.6 million for the same period of 2016. The decrease in income tax expense was driven primarily by a decrease in pre-tax income of $4.0 million in the first nine months of 2017 as well as the $4.6 million of tax benefits recognized for the increase in fair value of restricted stock units vesting and the exercise of stock options since the award date compared to $0.6 million for the the same period in 2016. Customers' effective tax rate decreased to 37.4% for the nine months ended September 30, 2017, compared to 38.3% for the same period of 2016.

Preferred stock dividends increased $4.9 million for the nine months ended September 30, 2017 to $10.8 million when compared to preferred stock dividends of $5.9 million in the same period of 2016. This increase was the result of preferred stock issuances totaling $142.5 million issued in April 2016 with dividends at 6.45% and in September 2016 with dividends at 6.00%.

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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.

	Nine Months Ended September 30,					
	2017			2016		
(amounts in thousands)	Average Balance	Interest Income or Expense	Average Yield or Cost (%)	Average Balance	Interest Income or Expense	Average Yield or Cost
Assets						
Interest-earning deposits	$327,154	$2,446	1.00 %	$211,971	$845	0.53 %
Investment securities (A)	971,710	21,017	2.88 %	548,921	10,875	2.64 %
Loans:						
Commercial loans to mortgage companies	1,734,874	53,860	4.15 %	1,931,892	50,767	3.51 %
Multifamily loans	3,496,276	96,570	3.69 %	3,235,689	91,611	3.78 %
Commercial and industrial	1,402,650	44,034	4.20 %	1,127,622	33,626	3.98 %
Non-owner occupied commercial real estate	1,290,762	37,654	3.90 %	1,170,996	33,759	3.85 %
All other loans	515,567	16,590	4.30 %	399,202	14,356	4.80 %
Total loans (B)	8,440,129	248,708	3.94 %	7,865,401	224,119	3.81 %
Other interest-earning assets	102,590	3,061	3.99 %	90,911	3,092	4.54 %
Total interest earning assets	9,841,583	275,232	3.74 %	8,717,204	238,931	3.66 %
Non-interest-earning assets	367,595			305,326		
Total assets	$10,209,178			$9,022,530		
Liabilities						
Interest checking accounts	$338,991	1,839	0.73 %	$160,525	681	0.57 %
Money market deposit accounts	3,347,661	24,462	0.98 %	3,044,696	13,674	0.60 %
Other savings accounts	41,685	87	0.28 %	39,075	66	0.23 %
Certificates of deposit	2,489,970	22,546	1.21 %	2,556,935	19,944	1.04 %
Total interest-bearing deposits	6,218,307	48,934	1.05 %	5,801,231	34,365	0.79 %
Borrowings	1,836,654	27,255	1.98 %	1,693,455	19,196	1.51 %
Total interest-bearing liabilities	8,054,961	76,189	1.26 %	7,494,686	53,561	0.95 %
Non-interest-bearing deposits	1,185,062			800,358		
Total deposits and borrowings	9,240,023		1.10 %	8,295,044		0.86 %
Other non-interest-bearing liabilities	72,622			76,774		
Total liabilities	9,312,645			8,371,818		
Shareholders' Equity	896,533			650,712		
Total liabilities and shareholders' equity	$10,209,178			$9,022,530		
Net interest earnings		199,043			185,370	
Tax-equivalent adjustment (C)		399			298	
Net interest earnings		$199,442			$185,668	
Interest spread			2.64 %			2.80 %
Net interest margin			2.70 %			2.84 %
Net interest margin tax equivalent (C)			2.71 %			2.84 %

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

(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 35% statutory tax rate to approximate interest income as a taxable asset.

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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.

	Nine Months Ended September 30, 2017 vs. 2016 Increase (Decrease) due to Change in		
	Rate	Volume	Total
(amounts in thousands)			
Interest income			
Interest-earning deposits	$989	$612	$1,601
Investment securities	1,079	9,063	10,142
Loans:			
Commercial loans to mortgage companies	8,621	(5,528)	3,093
Multifamily loans	(2,213)	7,172	4,959
Commercial and industrial	1,879	8,529	10,408
Non-owner occupied commercial real estate	434	3,461	3,895
All other loans	(1,616)	3,850	2,234
Total loans	7,105	17,484	24,589
Other interest-earning assets	(402)	371	(31)
Total interest income	8,771	27,530	36,301
Interest expense			
Interest checking accounts	233	925	1,158
Money market deposit accounts	9,313	1,475	10,788
Other savings accounts	16	5	21
Certificates of deposit	3,138	(536)	2,602
Total interest-bearing deposits	12,700	1,869	14,569
Borrowings	6,333	1,726	8,059
Total interest expense	19,033	3,595	22,628
Net interest income	$(10,262)	$23,935	$13,673

Net interest income for the nine months ended September 30, 2017 was $199.0 million, an increase of $13.7 million, or 7.4%, when compared to net interest income of $185.4 million for the nine months ended September 30, 2016. This increase was primarily driven by increased average loan and security balances of $1.0 billion.

Net interest margin (tax equivalent) narrowed by 13 basis points to 2.71% from the nine months ended September 30, 2016. The net interest margin compression largely resulted from a $1.6 million reduction in prepayment penalties in the multi-family portfolio during the nine months ended September 30, 2017 as compared to nine months ended September 30, 2016. Net interest margin (tax equivalent) was also impacted by Customers Bancorp's issuance of $100 million principal amount of 3.95% senior notes on June 30, 2017.

Interest expense on total interest-bearing deposits increased $14.6 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. This increase primarily resulted from increased deposit volume as average interest-bearing deposits for the nine months ended September 30, 2017 increased by $417.1 million when compared to average interest-bearing deposits for the nine months ended September 30, 2016. The average rate on interest-bearing deposits increased 26 basis points for the nine months ended September 30, 2017 compared to the nine months ended September 30,

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2016, 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.

Interest expense on borrowings increased $8.1 million for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. This increase was driven by a 47 basis point increase in average rates for the period due primarily to higher rates on short term borrowings used to fund commercial loans to mortgage companies. This increase was also driven by increased volume as average borrowings increased by $143.2 million when compared to average borrowings for the nine months ended September 30, 2016.

Provision for Loan Losses

The provision for loan losses increased by $3.1 million to $5.9 million for the nine months ended September 30, 2017, compared to $2.9 million for the same period in 2016. The provision for loan losses of $5.9 million included $2.3 million for loan portfolio growth and $3.9 million for impaired loans, offset in part by a $0.8 million release resulting from improved asset quality and lower incurred losses than previously estimated. The provision for loan losses of $2.9 million for the nine months ended September 30, 2016 included provisions for loan portfolio growth and reserves on impaired loans of approximately $5.0 million, offset in part by increased estimated cash flows expected to be collected on purchased credit-impaired loans, a reduction in the estimated amounts owed to the FDIC for previous FDIC assisted transactions, and other recoveries of approximately $2.1 million.

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 nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Interchange and card revenue	$31,729	$13,806
Gain on sale of investment securities	8,532	25
Deposit fees	7,918	5,260
Mortgage warehouse transactional fees	7,139	8,702
Bank-owned life insurance	5,297	3,629
Gain on sale of SBA and other loans	3,045	2,135
Mortgage banking income	703	737
Impairment loss on investment securities	(12,934)	—
Other	7,741	6,943
Total non-interest income	$59,170	$41,237

Non-interest income increased $17.9 million during the nine months ended September 30, 2017 to $59.2 million, compared to $41.2 million for the nine months ended September 30, 2016. This increase was primarily due to a $17.9 million increase in interchange and card revenues reflecting a full nine months of BankMobile Disbursements business activity in 2017 compared to three full months in 2016, an $8.5 million increase in gains on sale of investment securities, an increase in deposit fees of $2.7 million, and increased income from bank-owned life insurance policies of $1.7 million, offset in part by a $12.9 million other-than-temporary-impairment loss on equity securities and a decrease in mortgage warehouse transactional fees of $1.6 million driven by a reduction in the volume of warehouse transactions.

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Non-Interest Expense

The table below presents the components of non-interest expense for the nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30,	
	2017	2016
(amounts in thousands)		
Salaries and employee benefits	$69,569	$58,051
Technology, communication and bank operations	33,227	19,021
Professional services	21,142	13,213
Occupancy	8,228	7,248
FDIC assessments, taxes, and regulatory fees	6,615	11,191
Provision for operating losses	4,901	1,943
Loan workout	1,844	1,497
Advertising and promotion	1,108	1,178
Other real estate owned	550	1,663
Acquisition related expenses	—	1,195
Other	13,634	12,106
Total non-interest expense	$160,818	$128,306

Non-interest expense was $160.8 million for the nine months ended September 30, 2017, an increase of $32.5 million from non-interest expense of $128.3 million for the nine months ended September 30, 2016.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $11.5 million, or 19.8%, to $69.6 million for the nine months ended September 30, 2017, reflecting salary increases as well as a higher average number of full-time equivalent employees, primarily resulting from a full year of BankMobile Disbursements operations.

Technology, communication and bank operations increased by $14.2 million, or 74.7%, to $33.2 million for the nine months ended September 30, 2017 from $19.0 million for the nine months ended September 30, 2016. This increase was primarily attributable to increases in core processing system and conversion expenses of $9.0 million, interchange expenses of $4.7 million, non-capitalizable software development costs of $3.4 million, and depreciation expense primarily driven by the $3.2 catch-up adjustment recorded in third quarter 2017 for the period BankMobile was classified as held for sale. These increases were partially offset by a $3.9 million one-time expense in third quarter 2016 for technology-related services. The increased technology, communication, and bank operations expenses reflected a full nine months of BankMobile Disbursements activity in 2017 compared to three full months of activity for 2016.

Professional services expense increased by $7.9 million, or 60.0%, to $21.1 million for the nine months ended September 30, 2017 from $13.2 million for the nine months ended September 30, 2016. This increase was primarily driven by the transitional services agreement which was in effect for the twelve months following the acquisition of the Disbursement business from Higher One and ended in second quarter 2017 and increases in consulting and other professional services to support a $10.5 billion bank.

FDIC assessments, taxes, and regulatory fees decreased by $4.6 million, or 40.9%, to $6.6 million for the nine months ended September 30, 2017 from $11.2 million for the nine months ended September 30, 2016. This decrease was primarily related to a lower insurance assessment charged by the FDIC as the FDIC's Deposit Insurance Fund reached a targeted ratio.

Provision for operating losses increased by $3.0 million, or 152.2%, to $4.9 million for the nine months ended September 30, 2017 from $1.9 million for the nine months ended September 30, 2016. The provision for operating losses represents Customers' estimated liability for losses resulting from fraud or theft-based transactions that have generally been disputed by deposit account holders mainly from its BankMobile Disbursements business but where such disputes have not been resolved as of the end of the reporting period. The reserve is based on historical rates of loss on such transactions. The increase is mainly attributable to the accrual for the estimated liability for a full nine months of operations of the BankMobile Disbursements business in 2017.

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Income Taxes

Income tax expense decreased $2.3 million for the nine months ended September 30, 2017 to $34.2 million when compared to income tax expense of $36.6 million for the same period of 2016. The decrease in income tax expense was driven primarily by a decrease in pre-tax income of $4.0 million in the first nine months of 2017. Customers' effective tax rate decreased to 37.4% for the nine months ended September 30, 2017, compared to 38.3% for the same period of 2016. The decrease in the effective tax rate was primarily driven by the lower taxable income as well as the $4.6 million of tax benefits recognized during the nine months ended September 30, 2017 for the increase in fair value of restricted stock units vesting and the exercise of stock options since the award date compared to $0.6 million for the the same period in 2016.

Preferred Stock Dividends

Preferred stock dividends increased $4.9 million in the nine months ended September 30, 2017 to $10.8 million, compared to $5.9 million for the nine months ended September 30, 2016. This increase was the result of preferred stock issuances totaling $142.5 million issued in April 2016 with dividends at 6.45% and in September 2016 with dividends at 6.00%.

Financial Condition

General

Customers crossed the $10 billion asset threshold during the second quarter of 2017 and continued to exceed $10 billion of total assets at September 30, 2017 with total assets of $10.5 billion. This represented a $1.1 billion, or 11.6%, increase from total assets of $9.4 billion at December 31, 2016. The change in Customers' financial position occurred primarily as the result of an increase in total loans outstanding of $0.9 billion since December 31, 2016, or 10.9%, primarily driven by growth in multifamily, commercial and industrial loans, and consumer residential loans. Commercial loans held for investment increased $0.7 billion, or 11.5%, to $6.5 billion at September 30, 2017 compared to $5.9 billion at December 31, 2016, and consumer loans held for investment increased $233.2 million to $531.9 million at September 30, 2017 from $298.7 million at December 31, 2016.

Given the change in disposition strategy related to BankMobile as of September 30, 2017, Customers has decided to strategically reduce its total assets to below $10 billion as of December 31, 2017 in order to continue to qualify for the small issuer exemption rules of the Durbin Amendment to optimize interchange revenue through June 30, 2019. Customers plans to reduce total assets by approximately $500 million by year-end 2017 through normal seasonality of the mortgage warehouse business, which tends to decline in the winter months, selling multi-family and residential mortgage loans, and selling investment securities as needed. In addition, Customers expects to moderately grow its commercial and industrial loan portfolio while limiting growth in its multi-family loan portfolio by disciplined pricing.

Total liabilities were $9.6 billion at September 30, 2017. This represented a $1.0 billion, or 12.1%, increase from $8.5 billion at December 31, 2016. The increase in total liabilities resulted primarily from FHLB borrowings, which increased by $0.6 billion, or 68.3%, to $1.5 billion at September 30, 2017 from $0.9 billion at December 31, 2016, other borrowings, which increased $99.1 million, or 113.8%, to $186.3 million at September 30, 2017 from $87.1 million at December 31, 2016 resulting from the issuance of the $100 million senior notes on June 30, 2017, and federal funds purchased, which increased $64.0 million, or 77.1%, to $147.0 million at September 30, 2017 from $83.0 million at December 31, 2016. Overall deposits increased $293.3 million, or 4.0%, to $7.6 billion at September 30, 2017 from $7.3 billion at December 31, 2016.

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The following table sets forth certain key condensed balance sheet data as of September 30, 2017 and December 31, 2016:

(amounts in thousands)	September 30, 2017	December 31, 2016
Cash and cash equivalents	$ 219,480	$ 264,709
Investment securities available for sale, at fair value	584,823	493,474
Loans held for sale (includes $1,963,076 and $2,117,510, respectively, at fair value)	2,113,293	2,117,510
Loans receivable	7,061,338	6,154,637
Allowance for loan losses	(38,314)	(37,315)
Total assets	10,471,829	9,382,736
Total deposits	7,597,076	7,303,775
Federal funds purchased	147,000	83,000
FHLB advances	1,462,343	868,800
Other borrowings	186,258	87,123
Subordinated debt	108,856	108,783
Total liabilities	9,561,187	8,526,864
Total shareholders' equity	910,642	855,872
Total liabilities and shareholders' equity	10,471,829	9,382,736

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 $13.3 million at September 30, 2017. This represents a $24.2 million decrease from $37.5 million at December 31, 2016. These balances vary from day to day, primarily due to variations in customers' deposits with the Bank. 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 $227.2 million at September 30, 2017 and December 31, 2016, respectively. Included in the reported balances of cash and cash equivalents at September 30, 2017 and December 31, 2016 was $10.0 million and $20.0 million, respectively, of restricted cash placed in escrow for payment to Higher One in connection with the acquisition of the Disbursement business.

Investment Securities

The investment securities portfolio is an important source of interest income and liquidity. At September 30, 2017, investments consisted of residential and commercial real estate mortgage-backed securities guaranteed by an agency of the United States government, corporate notes and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity and collateral for 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 September 30, 2017, investment securities were $584.8 million compared to $493.5 million at December 31, 2016, an increase of $91.3 million. The increase was primarily the result of purchases of agency-guaranteed mortgage-backed securities of $796.6 million during the nine months ended September 30, 2017, offset in part by sales and principal repayments of $698.5 million and impairment charges of $12.9 million. Customers held all of the investment securities sold in 2017 for more than 90 days.

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Loans

Existing lending relationships are primarily with small and middle market businesses and individual consumers primarily in Bucks, Berks, Chester, Montgomery, Delaware, and Philadelphia Counties, Pennsylvania; Camden and Mercer Counties, New Jersey; Westchester County and New York City, New York; and the New England area. The loans to mortgage banking companies is a nation-wide portfolio. The loan portfolio consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate, and commercial and industrial loans. The Bank 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 four groups: Business Banking, Small and Middle Market Business Banking, Multi-family and Commercial Real Estate Lending, and Mortgage Banking Lending. This grouping is designed to allow for more effective resource deployment, higher standards of risk management, stronger oversight of asset quality, better management of 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 provide liquidity to mortgage 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 the Bank's commercial loans to the mortgage companies. As of September 30, 2017, loans in the warehouse lending portfolio totaled $2.0 billion and are designated as held for sale.

The goal of the Bank's multi-family lending group is to build a portfolio of high-quality multi-family loans within the Bank's covered markets, while cross selling other products and services. This product primarily targets refinancing existing loans with other banks using conservative underwriting standards and provides 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 September 30, 2017, the Bank had multi-family loans of $3.8 billion outstanding, making up approximately 41.1% of the Bank's total loan portfolio, including loans held for sale, compared to $3.2 billion, or approximately 38.9% of the total loan portfolio, including loans held for sale, at December 31, 2016.

As of September 30, 2017, the Bank had $8.6 billion in commercial loans outstanding, totaling approximately 94.2% of its total loan portfolio, which includes loans held for sale, compared to $8.0 billion commercial loans outstanding, composing approximately 96.4% of its loan portfolio, including loans held for sale, at December 31, 2016.

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 September 30, 2017, the Bank had $533.8 million in consumer loans outstanding, or

5.8% of the Bank's total loan portfolio, which includes loans held for sale. The Bank plans to expand its product offerings in real estate secured consumer lending.

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Customers Bank has launched a community outreach program in Philadelphia to finance homeownership in urban communities. As part of this program, the Bank 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 limited purpose 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 Bank's assessment areas.

Loans Held for Sale

The composition of loans held for sale as of September 30, 2017 and December 31, 2016 was as follows:

	September 30, 2017	December 31, 2016
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans, at fair value	$1,961,248	$ 2,116,815
Multi-family loans at lower of cost or fair value	150,217	—
Total commercial loans held for sale	2,111,465	2,116,815
Consumer Loans:		
Residential mortgage loans, at fair value	1,828	695
Loans held for sale	$2,113,293	$ 2,117,510

At September 30, 2017, loans held for sale totaled $2.1 billion, or 23.0% of the total loan portfolio, and $2.1 billion, or 25.6% of the total loan portfolio, at December 31, 2016.

Mortgage warehouse loans held for sale at September 30, 2017 decreased $155.6 million when compared to December 31, 2016. Mortgage warehouse loan balances are typically elevated during the summer months when home-purchasing activity is usually stronger. However, Customers expects that mortgage warehouse loan growth will moderate and return to more normal seasonal patterns as interest rates and the interest rate yield curve return to more normal levels and spreads.

Held-for-sale loans are carried on the balance sheet at either fair value (due to the election of the fair value option) or the lower of cost or fair value. An allowance for loan losses is not recorded on loans that are 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 $905.7 million to $7.0 billion at September 30, 2017 from $6.1 billion at December 31, 2016. Loans receivable as of September 30, 2017 and December 31, 2016 consisted of the following:

(amounts in thousands)	September 30, 2017	December 31, 2016
Commercial:		
Multi-family	$3,618,989	$3,214,999
Commercial and industrial (including owner occupied commercial real estate)	1,601,789	1,382,343
Commercial real estate non-owner occupied	1,237,849	1,193,715
Construction	73,203	64,789
Total commercial loans	6,531,830	5,855,846
Consumer:		
Residential real estate	435,188	193,502
Manufactured housing	92,938	101,730
Other	3,819	3,483
Total consumer loans	531,945	298,715
Total loans receivable	7,063,775	6,154,561
Deferred (fees)/costs and unamortized (discounts)/premiums, net	(2,437)	76
Allowance for loan losses	(38,314)	(37,315)
Loans receivable, net of allowance for loan losses	$7,023,024	$6,117,322

Credit Risk

Customers manages credit risk by maintaining diversification in its loan portfolio, establishing and enforcing prudent underwriting standards, diligent collection efforts and continuous and periodic loan classification reviews. Management also considers the effect of credit risk on financial performance by maintaining an adequate allowance for loan losses. Credit losses are charged to the allowance for loan losses when they are identified, and provisions are added to the allowance for loan losses when and as appropriate. The adequacy of the allowance for loan losses, maintained at a level to absorb estimated incurred losses in the held-for-investment loan portfolio as of the last day of the reporting period, is evaluated at least quarterly.

The provision for loan losses was $2.4 million and $0.1 million for the three months ended September 30, 2017 and 2016, respectively, and $5.9 million and $2.9 million for the nine months ended September 30, 2017 and 2016, respectively. The allowance for loan losses maintained for loans receivable (excludes loans held for sale) was $38.3 million, or 0.54% of loans receivable, at September 30, 2017 and $37.3 million, or 0.61% of loans receivable, at December 31, 2016. Net charge-offs were $2.5 million for the three months ended September 30, 2017, an increase of $2.2 million compared to the same period in 2016. Net charge-offs were $4.9 million for the nine months ended September 30, 2017, an increase of $4.0 million compared to the same period in 2016. The increase in net charge-offs period over period was largely driven by the charge-off of $1.6 million and $1.8 million during the third quarter 2017 and second quarter 2017, respectively, related to two relationships in the commercial and industrial post-2009 originated loan portfolio.

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The chart below depicts changes in the Bank's allowance for loan losses for the periods indicated. The amounts presented for the provision for loan losses below do not include the effect of changes to estimated benefits resulting from the FDIC loss share arrangements for the covered loans for periods prior to the termination of the FDIC loss sharing agreements.

Analysis of the Allowance for Loan Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(amounts in thousands)				
Balance at the beginning of the period	$38,458	$38,097	$37,315	$35,647
Loan charge-offs (1)				
Commercial and industrial	2,032	237	4,079	774
Commercial real estate non-owner occupied	77	140	485	140
Residential real estate	120	43	410	456
Other consumer	356	246	602	478
Total Charge-offs	2,585	666	5,576	1,848
Loan recoveries (1)				
Commercial and industrial	54	62	337	173
Commercial real estate owner occupied	—	—	9	—
Commercial real estate non-owner occupied	—	—	—	8
Construction	27	8	157	465
Residential real estate	7	298	34	299
Other consumer	1	10	101	10
Total Recoveries	89	378	638	955
Total net charge-offs	2,496	288	4,938	893
Provision for loan losses	2,352	88	5,937	3,143
Balance at the end of the period	$38,314	$37,897	$38,314	$37,897

(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. See "Asset Quality" for further discussion of the allowance for loan losses.

Approximately 85% of the Bank's 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"). The Bank's 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 the Bank's 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 fifteen 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 impaired and individually evaluated for impairment, the collateral value, discounted cash flow, or loan market value analysis is used to estimate the amount of proceeds expected to be collected, and that estimated amount, net of estimated selling costs as applicable, is compared to the outstanding loan balance to estimate the amount of impairment, 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

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receivable and inventory aging reports and relevant supplemental financial data to estimate the fair value of the loan and compared, net of estimated selling costs, to the outstanding loan balance to estimate the required reserve, if any. 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 loans placed on non-accrual, restructured under troubled debt restructurings loans, or charged-off to their net realizable value, are considered in the methodology for determining the allowance for loan losses. Impaired loans are generally evaluated based on the expected future cash flows if principal is expected to come from the operation of such collateral or the fair value of the underlying collateral (less estimated costs to sell) if principal repayment is expected to come from the sale 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.

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Asset Quality at September 30, 2017

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	$3,616,313	$3,616,313	$—	$ —	$—	$—	$—	— %	— %
Commercial & Industrial (1)	1,507,395	1,484,400	—	—	22,995	—	22,995	1.53 %	1.53 %
Commercial Real Estate Non-Owner Occupied	1,215,099	1,215,099	—	—	—	—	—	— %	— %
Residential	108,786	107,569	636	—	581	—	581	0.53 %	0.53 %
Construction	73,203	73,203	—	—	—	—	—	— %	— %
Other consumer	1,450	1,437	13	—	—	—	—	— %	— %
Total Originated Loans	6,522,246	6,498,021	649	—	23,576	—	23,576	0.36 %	0.36 %
Loans Acquired									
Bank Acquisitions	153,772	147,172	1,352	941	4,307	782	5,089	2.80 %	3.29 %
Loan Purchases	387,757	379,026	2,984	3,788	1,959	277	2,236	0.51 %	0.58 %
Total Loans Acquired	541,529	526,198	4,336	4,729	6,266	1,059	7,325	1.16 %	1.35 %
Deferred fees and unamortized discounts, net	(2,437)	(2,437)	—	—	—	—	—		
Total Loans Receivable	7,061,338	7,021,782	4,985	4,729	29,842	1,059	30,901	0.42 %	0.44 %
Total Loans Held for Sale	2,113,293	2,113,293	—	—	—	—	—		
Total Portfolio	$9,174,631	$9,135,075	$4,985	$ 4,729	$29,842	$1,059	$30,901	0.33 %	0.34 %

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

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Asset Quality at September 30, 2017 (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	$3,616,313	$—	$12,696	$ —	$12,696	0.35 %	— %
Commercial & Industrial (1)	1,507,395	22,995	13,084	—	13,084	0.87 %	56.90 %
Commercial Real Estate Non-Owner Occupied	1,215,099	—	4,665	—	4,665	0.38 %	— %
Residential	108,786	581	2,130	—	2,130	1.96 %	366.61 %
Construction	73,203	—	847	—	847	1.16 %	— %
Other consumer	1,450	—	59	—	59	4.07 %	— %
Total Originated Loans	6,522,246	23,576	33,481	—	33,481	0.51 %	142.01 %
Loans Acquired							
Bank Acquisitions	153,772	4,307	4,642	—	4,642	3.02 %	107.78 %
Loan Purchases	387,757	1,959	191	728	919	0.24 %	46.91 %
Total Loans Acquired	541,529	6,266	4,833	728	5,561	1.03 %	88.75 %
Deferred fees and unamortized discounts, net	(2,437)	—	—	—	—		
Total Loans Receivable	7,061,338	29,842	38,314	728	39,042	0.55 %	130.83 %
Total Loans Held for Sale	2,113,293	—	—	—	—		
Total Portfolio	$9,174,631	$29,842	$38,314	$ 728	$39,042	0.43 %	130.83 %

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

Originated Loans

Post 2009 originated loans (excluding held-for-sale loans) totaled $6.5 billion, or 92.4% of total loans receivable at September 30, 2017, compared to $5.8 billion, or 94.8% of total loans receivable at December 31, 2016. The management team adopted new underwriting standards that management believes better limits risks of loss in 2009 and have worked to monitor these standards. Only $23.6 million, or 0.36% of post 2009 originated loans were non-performing at September 30, 2017, compared to $10.5 million, or 0.18% of post 2009 loans, at December 31, 2016. The post 2009 loans were supported by an allowance for loan losses of $33.5 million (0.51% of post 2009 originated loans) and $31.8 million (0.55% of post 2009 originated loans), respectively, at September 30, 2017 and December 31, 2016.

Loans Acquired

At September 30, 2017, total acquired loans were $0.5 billion, or 7.7% of total loans receivable, compared to $0.3 billion, or 5.2% of total loans receivable, at December 31, 2016. Non-performing acquired loans totaled $6.3 million and $7.3 million, respectively, at September 30, 2017 and December 31, 2016. When loans are acquired, they are recorded on the balance sheet at fair value. Acquired loans include purchased portfolios, FDIC assisted failed-bank acquisitions, and unassisted acquisitions. Of the manufactured housing loans purchased from Tammac prior to 2012, $53.1 million were supported by a $0.7 million cash reserve at September 30, 2017, compared to $57.6 million supported by a cash reserve of $1.0 million at December 31, 2016. 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. 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 September 30, 2017, $32.8 million of these loans were outstanding, compared to $36.6 million at December 31, 2016.

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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 $5.6 million (1.03% of total acquired loans) and $6.5 million (2.03% of total acquired loans), respectively, at September 30, 2017 and December 31, 2016.

Deposits

The Bank offers a variety of deposit accounts, including checking, savings, money market deposit accounts ("MMDA") and time deposits. Deposits are generally obtained primarily from our geographic service area. Customers also acquires deposits nationwide through deposit brokers, listing services and other relationships. Total deposits were $7.6 billion at September 30, 2017, an increase of $0.3 billion, or 4.0%, from $7.3 billion at December 31, 2016. Demand deposits were $1.8 billion at September 30, 2017, compared to $1.3 billion at December 31, 2016, an increase of $484.1 million, or 37.1%. These amounts consist primarily of non-interest bearing demand deposits. Savings, including MMDA, totaled $3.5 billion at September 30, 2017, an increase of $340.5 million, or 10.8%, from $3.2 billion at December 31, 2016. This increase was primarily attributed to an increase in money market deposit accounts, including accounts held by municipalities. Total time deposits were $2.3 billion at September 30, 2017, a decrease of $531.3 million, or 18.8%, from $2.8 billion at December 31, 2016. At September 30, 2017, the Bank had $1.4 billion in state and municipal deposits to which Customers has pledged available borrowing capacity through the FHLB to the depositor through a letter of credit arrangement. State and municipal deposits under this program decreased $44.5 million, or 3.1% from December 31, 2016.

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

	September 30, 2017	December 31, 2016
(amounts in thousands)		
Demand	$ 1,789,573	$ 1,305,455
Savings, including MMDA	3,507,063	3,166,558
Time, $100,000 and over	1,406,899	2,106,905
Time, other	893,541	724,857
Total deposits	$ 7,597,076	$ 7,303,775

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 September 30, 2017 and December 31, 2016, total outstanding borrowings were $1.9 billion and $1.1 billion, respectively, which represented an increase of $0.8 billion, or 65.9%. This increase was primarily the result of an increase in investments and loans receivable increasing the need for short-term borrowings. In June 2017, Customers Bancorp issued $100 million of senior notes at 99.775% of face value that will mature in June 2022. Customers will use the net proceeds for general corporate purposes, which may include working capital and the funding of organic growth at Customers Bank. For more information about Customers' borrowings, refer to NOTE 10 - BORROWINGS.

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Capital Adequacy and Shareholders’ Equity

Shareholders’ equity increased $54.8 million to $910.6 million at September 30, 2017 when compared to shareholders' equity of $855.9 million at December 31, 2016, a 6.4% increase in the first nine months of 2017. The primary components of the net increase were as follows:

- net income of $57.2 million for the nine months ended September 30, 2017;
- other comprehensive income of $5.3 million for the nine months ended September 30, 2017, arising primarily from unrealized gains on available-for-sale securities;
- share-based compensation expense of $4.5 million for the nine months ended September 30, 2017;
- offset in part by preferred stock dividends of $10.8 million for the nine months ended September 30, 2017; and
- issuance of common stock under share-based compensation arrangements of $2.0 million for the nine months ended September 30, 2017.

The Bank and Customers Bancorp are subject to various regulatory capital requirements that are monitored by federal banking agencies. Failure to meet minimum capital requirements can lead to supervisory actions by regulators; any supervisory action could have a direct material effect on Customers' financial performance. At September 30, 2017, the Bank and Customers Bancorp met all capital adequacy requirements to which they were subject. Capital levels continue to exceed the well-capitalized threshold established by regulation at the Bank and exceed the applicable Basel III regulatory thresholds for Customers Bancorp and the Bank.

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The capital ratios for the Bank and the Bancorp at September 30, 2017 and December 31, 2016 were as follows:

	Actual		For Capital Adequacy Purposes (Minimum Plus Capital Buffer)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2017:						
Common equity Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$677,976	8.284 %	$470,603	5.750 %	N/A	N/A
Customers Bank	$1,009,380	12.342 %	$470,242	5.750 %	$531,578	6.500 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$895,447	10.941 %	$593,369	7.250 %	N/A	N/A
Customers Bank	$1,009,380	12.342 %	$592,914	7.250 %	$654,250	8.000 %
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$1,014,784	12.399 %	$757,057	9.250 %	N/A	N/A
Customers Bank	$1,156,766	14.145 %	$756,477	9.250 %	$817,813	10.000 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$895,447	8.355 %	$428,709	4.000 %	N/A	N/A
Customers Bank	$1,009,380	9.434 %	$427,963	4.000 %	$534,954	5.000 %
As of December 31, 2016:						
Common equity Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$628,139	8.487 %	$379,306	5.125 %	N/A	N/A
Customers Bank	$857,421	11.626 %	$377,973	5.125 %	$479,380	6.500 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$844,755	11.414 %	$490,322	6.625 %	N/A	N/A
Customers Bank	$857,421	11.626 %	$488,599	6.625 %	$590,006	8.000 %
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$966,097	13.053 %	$638,343	8.625 %	N/A	N/A
Customers Bank	$1,003,609	13.608 %	$636,101	8.625 %	$737,508	10.000 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$844,755	9.067 %	$372,652	4.000 %	N/A	N/A
Customers Bank	$857,421	9.233 %	$371,466	4.000 %	$464,333	5.000 %

The capital ratios above reflect the capital requirements under "Basel III" effective during first quarter 2015 and the capital conservation buffer effective January 1, 2017. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. As of September 30, 2017, the Bank and Bancorp were in compliance with the Basel III requirements. See "NOTE 11 - REGULATORY CAPITAL" for additional discussion regarding regulatory capital requirements.

Off-Balance Sheet Arrangements

The Bank 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.

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As of September 30, 2017 and December 31, 2016, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

(amounts in thousands)	September 30, 2017	December 31, 2016
Commitments to fund loans	$261,878	$244,784
Unfunded commitments to fund mortgage warehouse loans	1,385,192	1,230,596
Unfunded commitments under lines of credit	498,316	480,446
Letters of credit	38,842	40,223

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.

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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. Our principal sources of funds are deposits, proceeds from debt issuances, principal and interest payments on loans, other funds from operations, and proceeds from 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 September 30, 2017, our borrowing capacity with the Federal Home Loan Bank was $4.7 billion, of which $1.5 billion was utilized in borrowings and $1.9 billion of available capacity was utilized to collateralize state and municipal deposits. As of December 31, 2016, our borrowing capacity with the Federal Home Loan Bank was $4.1 billion, of which $0.9 billion was utilized in borrowings and $1.7 billion of available capacity was utilized to collateralize state and municipal deposits. As of September 30, 2017 and December 31, 2016, our borrowing capacity with the Federal Reserve Bank of Philadelphia was $151.1 million and $158.6 million, respectively.

Net cash flows provided by operating activities were $185.9 million during the nine months ended September 30, 2017, compared to net cash flows used in operating activities of $528.7 million during the nine months ended September 30, 2016. During the nine months ended September 30, 2017, proceeds from sales of loans held for sale exceeded originations of loans held for sale by $154.9 million. During the nine months ended September 30, 2016, originations of loans held for sale exceeded proceeds from sales of loans held for sale by $619.1 million.

Investing activities used net cash flows of $1.3 billion during the nine months ended September 30, 2017, compared to net cash flows used in investing activities of $507.4 million during the nine months ended September 30, 2016. Purchases of investment securities available for sale totaled $796.6 million during the nine months ended September 30, 2017, compared to $5.0 million during the nine months ended September 30, 2016. Proceeds from sales of investment securities available for sale were $698.5 million for the nine month ended September 30, 2017, compared to $2.9 million during the nine months ended September 30, 2016. Purchases of loans held for investment and bank owned life insurance policies totaled $262.6 million and $90.0 million, respectively, for the nine months ended September 30, 2017, compared to no similar purchases during the nine months ended September 30, 2016. Proceeds from the sale of loans held for investment totaled $124.7 million during the nine months ended September 30, 2017, compared to $91.9 million during the nine months ended September 30, 2016. Cash flows used to fund new loans held for investment totaled $921.0 million and $641.1 million during the nine months ended September 30, 2017 and 2016, respectively.

Financing activities provided a net aggregate of $1.0 billion for each of the nine months ended September 30, 2017 and 2016. During the nine months ended September 30, 2017, increases in deposits provided net cash flows of $293.3 million, net increases in short-term borrowed funds provided $593.5 million, net increases in federal funds provided $64.0 million, proceeds from the issuance of five-year senior notes provided $98.6 million, payment of preferred stock dividends used $10.8 million, and net proceeds from the issuance of common stock provided $2.1 million. During the nine months ended September 30, 2016, increases in deposits provided $1.5 billion, net repayments of short-term borrowed funds used $663.6 million, net decrease in federal funds purchased used $18.0 million, net proceeds from long-term FHLB advances provided $75.0 million, net proceeds from the issuance of preferred stock provided $162.0 million, payment of preferred stock dividends used $5.5 million, and net proceeds from the issuance of common stock provided $7.3 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.

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 our net income is net interest income, and the majority of our 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. Our Asset/Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

We use 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 our exposure to time factors and changes in interest rate environments.

Income simulation modeling is used to measure our interest rate sensitivity and manage our 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, we have estimated the net interest income for the period ending September 30, 2018, based upon the assets, liabilities and off-balance sheet financial instruments in existence at September 30, 2017. We have 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 following table reflects the estimated percentage change in estimated net interest income for the period ending September 30, 2018, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change
Up 3%	(8.2)%
Up 2%	(3.0)%
Up 1%	(0.3)%
Down 1%	(2.4)%

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. 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 September 30, 2017, resulting from shocks to interest rates.

Rate Shocks	From base
Up 3%	(30.9)%

Up 2%	(18.7)%
Up 1%	(8.3)%
Down 1%	4.2%

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

Item 4. Controls and Procedures

As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp’s management, including Customers Bancorp’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp’s disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp’s disclosure controls and procedures were effective at September 30, 2017.

During the quarter ended September 30, 2017, 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 2016 Form 10-K, as supplemented and amended within our quarterly report on Form 10-Q for the quarter ended March 31, 2017.

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 2016 Form 10-K and our quarterly reports on Form 10-Q for the quarter ended March 31, 2017 ("the March 31, 2017 Quarterly Report") and for the quarter ended June 30, 2017 ("the June 30, 2017 Quarterly Report"). There are no material changes from the risk factors included within the 2016 Form 10-K, March 31, 2017 Quarterly Report, and June 30, 2017 Quarterly Report other than the risks described below. The risks described within the 2016 Form 10-K, the March 31, 2017 Quarterly Report, the June 30, 2017 Quarterly Report and below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial also may materially adversely affect our business, financial condition and/or operating results. See “Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements.”

We face a number of risks relating to our announced plans to dispose of BankMobile through a spin-off and merger.

We have announced our plans to dispose of our BankMobile business through a spin-off of BankMobile to our shareholders, to be followed by a merger of our BankMobile Technologies, Inc. subsidiary, which we refer to as BMT, into Flagship Community Bank, which we refer to as Flagship. While we currently expect to execute a definitive agreement with Flagship for this transaction, as of the date of filing of this Form 10-Q, a definitive agreement has not been executed. We expect that completion of the spin-off and merger will be subject to a number of conditions, including receipt of all necessary regulatory approvals, receipt by Flagship of shareholder approvals of certain matters relating to its acquisition of BMT, Flagship’s ability to raise approximately $100 million through the issuance of shares of its common stock, and other conditions. Certain of the conditions will not be within our control and we cannot guarantee you that we will enter into a definitive agreement or that we will be able to complete the spin-off and merger on the terms we have agreed to with Flagship, or at all.

Our announcement of the spin-off and merger and the steps we take to complete those transactions may adversely affect our business and the value of Customers and/or BankMobile. Uncertainty as to our ability to execute a definitive agreement or to complete the transactions and uncertainty as to the timing of the execution of a definitive agreement or the completion of the transactions may adversely affect analyst and shareholder views of our business and prospects, which could adversely affect our share price. These uncertainties also may adversely impact our relationships with our current and potential higher education institution customers and our BankMobile employees, and could result in the loss of customers and key employees. Because we cannot be certain of completing the spin-off and merger by July 1, 2018, we are also taking steps to reduce our assets below $10 billion at December 31, 2017 in order to eliminate the risk of not receiving full interchange fees, which would occur if we no longer qualified for the smaller issuer exemption from the Durbin Amendment for 2018.

Executing the spin-off and merger also may result in the diversion of management’s attention from Customers’ day-to-day operations generally, and the expenses we incur in executing the transactions may exceed our expectations, which may adversely affect our results of operations. In addition, even if we are successful in completing the spin-off and merger, it is possible that Customers and our shareholders may not receive the benefits we presently anticipate from these transactions.

If we are unable to reduce our total assets to below $10 billion as of December 31, 2017, our business and potential for future success could be materially adversely affected.
Under federal law and regulation, if our total assets exceed $10 billion as of December 31, 2017, we will no longer qualify as a small issuer of debit cards and we will not receive the optimal debit card processing fee. Failure to qualify for the small issuer exception would result in a significant reduction in interchange fee income beginning July 1, 2018 and could result in the BankMobile segment operating unprofitably or charging additional fees to students to replace the lost revenue. Customers plans to reduce total assets by approximately $500 million by year-end 2017 through normal seasonality of the mortgage warehouse business, which tends to decline in the winter months, selling multi-family and residential mortgage loans, and selling investment securities as needed. In addition, Customers expects to moderately grow its commercial and industrial loan portfolio while limiting growth in its multi-family loan portfolio by disciplined pricing. If Customers is unable to reduce total

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assets to below $10 billion as of December 31, 2017, our financial condition and results of operations could be adversely affected.

The fair value of our investment securities can fluctuate due to market conditions. Adverse economic performance can lead to adverse security performance and other-than-temporary impairment.

As of September 30, 2017, the fair value of our investment securities portfolio was $584.8 million. We have historically followed a conservative investment strategy, with concentrations in securities that are backed by government sponsored enterprises. In the future, we may seek to increase yields through more aggressive strategies, which may include a greater percentage of corporate securities, structured credit products or non-agency mortgage backed securities. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, such as a change in management's intent to hold the securities until recovery in fair value, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

As of September 30, 2017, management evaluated its equity holdings issued by Religare for other-than-temporary impairment. Because management no longer has the intent to hold these securities until a recovery in fair value, Customers recorded other-than-temporary impairment losses of $8.3 million in third quarter 2017, $2.9 million in second quarter 2017, $1.7 million in first quarter 2017, and $7.3 million in fourth quarter 2016 for the full amount of the decline in fair value below the cost basis. The fair value of the equity securities at September 30, 2017 of $2.3 million became the new cost basis of the securities.

We may suffer losses due to minority investments in other financial institutions or related companies.

From time to time, we may make or consider making minority investments in other financial institutions or technology companies in the financial services business. If we do so, we may not be able to influence the activities of companies in which we invest, and may suffer losses due to these activities. Investments in foreign companies could pose additional risks as a result of distance, language barriers and potential lack of information (for example, foreign institutions, including foreign financial institutions, may not be obligated to provide as much information regarding their operations as those in the United States). Our investment in Religare, which is a diversified financial services company in India, represents such an investment. In fourth quarter 2016, we announced our decision to exit our investment in Religare. As a result of that decision, we recorded an other-than-temporary impairment loss of $7.3 million in earnings in fourth quarter 2016 and adjusted our cost basis of the Religare securities to their estimated fair value of $15.2 million at December 31, 2016. In first quarter 2017, we recognized an other-than-temporary impairment loss of $1.7 million and adjusted our cost basis of the Religare securities to their estimated fair value of $13.5 million at March 31, 2017. In second quarter 2017, we recognized an other-than-temporary impairment loss of $2.9 million and adjusted our cost basis of the Religare securities to their estimated fair value of $10.7 million at June 30, 2017. In third quarter 2017, we recognized an other-than-temporary impairment loss of $8.3 million and adjusted our cost of the Religare equity securities to their estimated fair value of $2.3 million at September 30, 2017. To the extent we are unable to exit the Religare investment as planned, and pursuant to the terms contemplated, further declines in the market price per share of the Religare common stock and adverse changes in foreign currency exchange rates, may have an adverse effect on our financial condition and results of operations.

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

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

During the three and nine months ended September 30, 2017, 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

None.

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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.	
November 3, 2017	By:	/s/ Jay S. Sidhu
	Name:	Jay S. Sidhu
	Title:	Chairman and Chief Executive Officer (Principal Executive Officer)
November 3, 2017	By:	/s/ Robert E. Wahlman
	Name:	Robert E. Wahlman
	Title:	Chief Financial Officer (Principal Financial Officer)

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