Customers Bancorp, Inc.
Form 10-Q
November 13, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

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

(Exact name of registrant as specified in its charter)

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	o	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 November 2, 2018, 31,687,340 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, 2018	December 31, 2017 (As Restated)
ASSETS		
Cash and due from banks	$ 12,943	$ 20,388
Interest-earning deposits	653,091	125,935
Cash and cash equivalents	666,034	146,323
Investment securities, at fair value	668,851	471,371
Loans held for sale (includes $1,383 and $1,886, respectively, at fair value)	1,383	146,077
Loans receivable, mortgage warehouse, at fair value	1,516,327	1,793,408
Loans receivable	7,239,950	6,768,258
Allowance for loan losses	(40,741)	(38,015)
Total loans receivable, net of allowance for loan losses	8,715,536	8,523,651
FHLB, Federal Reserve Bank, and other restricted stock	74,206	105,918
Accrued interest receivable	32,986	27,021
Bank premises and equipment, net	11,300	11,955
Bank-owned life insurance	263,117	257,720
Other real estate owned	1,450	1,726
Goodwill and other intangibles	16,825	16,295
Other assets	165,416	131,498
Total assets	$ 10,617,104	$ 9,839,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 1,338,167	$ 1,052,115
Interest-bearing	7,175,547	5,748,027
Total deposits	8,513,714	6,800,142
Federal funds purchased	—	155,000
FHLB advances	835,000	1,611,860
Other borrowings	123,779	186,497
Subordinated debt	108,953	108,880
Accrued interest payable and other liabilities	80,846	56,212
Total liabilities	9,662,292	8,918,591
Shareholders' equity:		
Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017	217,471	217,471
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 32,217,600 and 31,912,763 shares issued as of September 30, 2018 and December 31, 2017; 31,687,340 and 31,382,503 shares outstanding as of September 30, 2018 and December 31, 2017	32,218	31,913
Additional paid in capital	431,205	422,096
Retained earnings	302,404	258,076
Accumulated other comprehensive loss, net	(20,253)	(359)
Treasury stock, at cost (530,260 shares as of September 30, 2018 and December 31, 2017)	(8,233)	(8,233)

Total shareholders’ equity	954,812	920,964
Total liabilities and shareholders’ equity	$ 10,617,104	$ 9,839,555

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans	$97,815	$88,740	$278,986	$248,708
Investment securities	8,495	7,307	26,932	21,017
Other	3,735	2,238	8,731	5,507
Total interest income	110,045	98,285	314,649	275,232
Interest expense:				
Deposits	32,804	18,381	76,779	48,934
Other borrowings	2,431	3,168	9,082	6,767
FHLB advances	9,125	7,032	27,381	15,433
Subordinated debt	1,684	1,685	5,053	5,055
Total interest expense	46,044	30,266	118,295	76,189
Net interest income	64,001	68,019	196,354	199,043
Provision for loan losses	2,924	2,352	4,257	5,937
Net interest income after provision for loan losses	61,077	65,667	192,097	193,106
Non-interest income:				
Interchange and card revenue	7,084	9,570	23,127	31,729
Deposit fees	2,002	2,659	5,726	7,918
Bank-owned life insurance	1,869	1,672	5,769	5,297
Mortgage warehouse transactional fees	1,809	2,396	5,663	7,139
Gain on sale of SBA and other loans	1,096	1,144	3,404	3,045
Mortgage banking income	207	257	532	703
Impairment loss on investment securities	—	(8,349)	—	(12,934)
(Loss) gain on sale of investment securities	(18,659)	5,349	(18,659)	8,532
Other	6,676	3,328	13,558	7,741
Total non-interest income	2,084	18,026	39,120	59,170
Non-interest expense:				
Salaries and employee benefits	25,462	24,807	78,135	69,569
Technology, communication, and bank operations	11,657	14,401	32,923	33,227
Professional services	4,743	7,403	14,563	21,142
Merger and acquisition related expenses	2,945	—	3,920	—
Occupancy	2,901	2,857	8,876	8,228
FDIC assessments, non-income taxes, and regulatory fees	2,415	2,475	6,750	6,615
Provision for operating losses	1,171	1,509	3,930	4,901
Advertising and promotion	820	404	1,529	1,108
Loan workout	516	915	1,823	1,844
Other real estate owned expenses	66	445	164	550
Other	4,408	5,824	10,521	13,634
Total non-interest expense	57,104	61,040	163,134	160,818
Income before income tax expense	6,057	22,653	68,083	91,458
Income tax expense	28	14,899	14,250	34,236
Net income	6,029	7,754	53,833	57,222

Preferred stock dividends	3,615	3,615	10,844	10,844
Net income available to common shareholders	$2,414	$4,139	$42,989	$46,378
Basic earnings per common share	$0.08	$0.13	$1.36	$1.52
Diluted earnings per common share	$0.07	$0.13	$1.33	$1.42

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,	
	2018	2017	2018	2017
Net income	$6,029	$7,754	$53,833	$57,222
Unrealized (losses) gains on available-for-sale debt securities:				
Unrealized (losses) gains arising during the period	(1,629)	(3,570)	(47,917)	15,192
Income tax effect	423	1,393	12,458	(5,924)
Reclassification adjustments for losses (gains) on securities included in net income	18,659	(5,349)	18,659	(8,532)
Income tax effect	(4,851)	2,086	(4,851)	3,327
Net unrealized gains (losses) on available-for-sale debt securities	12,602	(5,440)	(21,651)	4,063
Unrealized gains on cash flow hedges:				
Unrealized gains (losses) arising during the period	4,062	171	6,830	(189)
Income tax effect	(1,056)	(67)	(1,775)	74
Reclassification adjustment for (gains) losses included in net income	(2,519)	572	(2,647)	2,166
Income tax effect	655	(223)	688	(845)
Net unrealized gains on cash flow hedges	1,142	453	3,096	1,206
Other comprehensive income (loss), net of income tax effect	13,744	(4,987)	(18,555)	5,269
Comprehensive income	$19,773	$2,767	$35,278	$62,491

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30, 2018								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, June 30, 2018	9,000,000	$217,471	31,669,643	$32,200	$428,796	$299,990	$(33,997)	$(8,233)	$936,227
Net income	—	—	—	—	—	6,029	—	—	6,029
Other comprehensive income	—	—	—	—	—	—	13,744	—	13,744
Preferred stock dividends	—	—	—	—	—	(3,615)	—	—	(3,615)
Share-based compensation expense	—	—	—	—	1,980	—	—	—	1,980
Issuance of common stock under share-based compensation arrangements	—	—	17,697	18	429	—	—	—	447
Balance, September 30, 2018	9,000,000	$217,471	31,687,340	$32,218	$431,205	$302,404	$(20,253)	$(8,233)	$954,812

	Three 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	Treasury Stock	Total
Balance, June 30, 2017	9,000,000	$217,471	30,730,784	$31,261	$428,488	$235,938	$5,364	$(8,233)	$910,289
Net income	—	—	—	—	—	7,754	—	—	7,754
Other comprehensive loss	—	—	—	—	—	—	(4,987)	—	(4,987)
Preferred stock dividends	—	—	—	—	—	(3,615)	—	—	(3,615)
Share-based compensation expense	—	—	—	—	1,602	—	—	—	1,602
	—	—	6,413	6	131	—	—	—	137

Exercise of warrants									
Issuance of common stock under share-based compensation arrangements	—	—	50,435	51	(588)	(1)	—	—	(538)
Balance, September 30, 2017	9,000,000	$217,471	30,787,632	$31,318	$429,633	$240,076	$377	$(8,233)	$910,642

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 (CONTINUED)
(amounts in thousands, except shares outstanding data)

	Nine Months Ended September 30, 2018								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2017	9,000,000	$217,471	31,382,503	$31,913	$422,096	$258,076	$(359)	$(8,233)	$920,964
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive loss	—	—	—	—	—	298	(298)	—	—
Reclassification of net unrealized gains on equity securities from accumulated other comprehensive loss	—	—	—	—	—	1,041	(1,041)	—	—
Net income	—	—	—	—	—	53,833	—	—	53,833
Other comprehensive loss	—	—	—	—	—	—	(18,555)	—	(18,555)
Preferred stock dividends	—	—	—	—	—	(10,844)	—	—	(10,844)
Share-based compensation expense	—	—	—	—	5,641	—	—	—	5,641
Exercise of warrants	—	—	5,242	5	107	—	—	—	112
Issuance of common stock under share-based compensation arrangements	—	—	299,595	300	3,361	—	—	—	3,661
Balance, September 30,	9,000,000	$217,471	31,687,340	$32,218	$431,205	$302,404	$(20,253)	$(8,233)	$954,812

2018

	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

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, 2018	2017 (As Restated)
Cash Flows from Operating Activities		
Net income	$ 53,833	$ 57,222
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,257	5,937
Depreciation and amortization	10,235	7,476
Share-based compensation expense	6,595	5,377
Deferred taxes	6,238	286
Net amortization of investment securities premiums and discounts	1,204	520
Unrealized loss recognized on equity securities	1,533	—
Loss (gain) on sale of investment securities	18,659	(8,532)
Impairment loss on investment securities	—	12,934
Gain on sale of SBA and other loans	(3,880)	(3,553)
Origination of loans held for sale	(22,978)	(32,343)
Proceeds from the sale of loans held for sale	23,936	31,718
Amortization of fair value discounts and premiums	164	93
Net (gain) loss on sales of other real estate owned	(35)	154
Valuation and other adjustments to other real estate owned	124	298
Earnings on investment in bank-owned life insurance	(5,769)	(5,297)

Increase in accrued interest receivable and other assets	(21,525	)	(27,862	)
Increase (decrease) in accrued interest payable and other liabilities	25,774		(14,106	)
Net Cash Provided By Operating Activities	98,365		30,322	
Cash Flows from Investing Activities				
Proceeds from maturities, calls and principal repayments of securities available for sale	38,926		36,461	
Proceeds from sales of investment securities available for sale	476,182		670,522	
Purchases of investment securities available for sale	(763,242	)	(796,594	)
Origination of mortgage warehouse loans	(21,739,744	)	(22,738,383	)
Proceeds from repayments of mortgage warehouse loans	22,016,825		22,893,950	
Net increase in loans, excluding mortgage warehouse loans	(20,476	)	(921,049	)
Proceeds from sales of loans	42,211		124,703	
Purchase of loans	(347,740	)	(262,641	)
Purchases of bank-owned life insurance	—		(90,000	)
Proceeds from bank-owned life insurance	529		1,418	
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	31,712		(30,203	)
Purchases of bank premises and equipment	(1,344	)	(1,725	)
Proceeds from sales of other real estate owned	421		1,680	
Purchase of university relationship intangible asset	(1,502	)	—	
	(21,849	)	—	

Purchase of leased assets under operating leases		
Net Cash Used In Investing Activities	(289,091)	(1,111,861)
Cash Flows from Financing Activities		
Net increase in deposits	1,713,572	293,301
Net (decrease) increase in short-term borrowed funds from the FHLB	(776,860)	593,543
Net (decrease) increase in federal funds purchased	(155,000)	64,000
(Repayments of) proceeds from issuance of long-term debt	(63,250)	98,564
Preferred stock dividends paid	(10,844)	(10,844)
Exercise of warrants	112	557
Payments of employee taxes withheld from share-based awards	(711)	(4,923)
Proceeds from issuance of common stock	3,418	2,112
Net Cash Provided By Financing Activities	710,437	1,036,310
Net Increase (Decrease) in Cash and Cash Equivalents	519,711	(45,229)
Cash and Cash Equivalents – Beginning	146,323	264,709
Cash and Cash Equivalents – Ending	$ 666,034	$ 219,480

(continued)

Supplementary Cash Flows Information:		
Interest paid	$ 114,973	$ 70,706
Income taxes paid	4,156	31,545
Non-cash items:		
Transfer of loans to other real estate owned	$ 234	$ 83

Transfer of loans held for investment to held for sale	—	150,638
Transfer of loans held for sale to held for investment	129,691	—

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
NOTE 1 — DESCRIPTION OF THE BUSINESS

Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank (the “Bank”), collectively referred to as “Customers” herein. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank, and non-bank subsidiaries, serve residents and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; Chicago, Illinois; and nationally for certain loan and deposit products. The Bank has 13 full-service branches and provides commercial banking products, primarily loans and deposits. In addition, Customers Bank also administratively supports loan and other financial products to customers through its limited-purpose offices in Boston, Massachusetts, Providence, Rhode Island, Portsmouth, New Hampshire, Manhattan and Melville, New York, Philadelphia, Pennsylvania, Washington, D.C., and Chicago, Illinois. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Through BankMobile, a division of Customers Bank, Customers offers state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide.

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.

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NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited consolidated financial statements of Customers have been prepared in conformity with U.S. GAAP and 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 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. On November 13, 2018, Customers Bancorp filed with the SEC a report on Form 8-K advising that its 2017, 2016, and 2015 audited consolidated financial statements and its interim unaudited consolidated financial statements as of and for the three and six month periods ended March 31, 2018 and 2017 and June 30, 2018 and 2017, respectively, should no longer be relied upon because of incorrect classifications of the cash flows used in and provided by its commercial mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investment (i.e., loans receivable) on its consolidated balance sheets. These misclassifications have no impact on total cash balances, total loans, total assets, the allowance for loan losses, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or other key performance metrics, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Customers' audited 2017 consolidated financial statements, restated to correct the classification of the mortgage warehouse loans as held for investment instead of held for sale. Because of a fair value option election that Customers made on July 1, 2012 that continues today, these loans are, and will continue to be, reported at their fair value and accordingly do not have an allowance for loan losses. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Customers included in its Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 23, 2018 (the "2017 Form 10-K") except to the extent they are affected by the restatement. That Form 10-K describes Customers Bancorp’s significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Restrictions on Cash and Amounts due from Banks; Business Combinations; Investment Securities; Loan Accounting Framework; Loans Held for Sale and Loans at Fair Value; Loans Receivable; Purchased Loans; Allowance for Loan Losses; Goodwill and Other Intangible Assets; Investments in FHLB, Federal Reserve Bank, and Other Restricted Stock; Other Real Estate Owned; Bank-Owned Life Insurance; Bank Premises and Equipment; Operating Leases; Treasury Stock; Income Taxes; Share-Based Compensation; Transfer of Financial Assets; Business Segments; Derivative Instruments and Hedging; Comprehensive Income (Loss); Earnings per Share; and Loss Contingencies. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year or any other period. There have been no material changes to Customers' significant accounting policies as disclosed in Customers' 2017 Form 10-K, except for the accounting policies related to Cash and Cash Equivalents and Statements of Cash Flows and Loans Held for Sale and Loans at Fair Value as described below.

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Restatement of Previously Issued Financial Statements

In November 2018, Customers determined that the cash flow activities associated with its commercial mortgage warehouse lending activities should have been reported as investing activities in its consolidated statements of cash flows because the related loan balances should have been classified as held for investment (i.e., loans receivable). Effective with the filing of this quarterly report on Form 10-Q, Customers changed its accounting policies such that commercial mortgage warehouse loans will be classified as held for investment and presented as "Loans receivable, mortgage warehouse, at fair value" on its consolidated balance sheets. The cash flow activities associated with these commercial mortgage warehouse lending activities will be reported as investing activities in the consolidated statements of cash flows.

The following tables set forth the effects of the correction on the consolidated balance sheet as of December 31, 2017 and the consolidated statements of cash flows for the nine months ended September 30, 2017.

	December 31, 2017		
Consolidated Balance Sheet	As Previously Reported	Adjustments	As Restated
(amounts in thousands)			
Loans held for sale	$1,939,485	$(1,793,408)	$146,077
Loans receivable, mortgage warehouse, at fair value	—	1,793,408	1,793,408
Total loans receivable, net of allowance for loan losses	6,730,243	1,793,408	8,523,651

	For the Nine Months Ended September 30, 2017		
Consolidated Statements of Cash Flows	As Previously Reported	Adjustments	As Restated
(amounts in thousands)			
Origination of loans held for sale	$(22,770,726)	$22,738,383	$(32,343)
Proceeds from the sale of loans held for sale	22,925,668	(22,893,950)	31,718
Net cash provided by operating activities	185,889	(155,567)	30,322
Origination of mortgage warehouse loans	—	(22,738,383)	(22,738,383)
Proceeds from repayments of mortgage warehouse loans	—	22,893,950	22,893,950
Net cash used in investing activities	(1,267,428)	155,567	(1,111,861)

In addition, the December 31, 2017 comparative balances disclosed in NOTE 6 - LOANS HELD FOR SALE, NOTE 7 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, and NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, and the comparative balances reported throughout Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this quarterly report on Form 10-Q, have been restated to present the corrected classification.

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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.
Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-13, Fair Value (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement Issued August 2018	Eliminates disclosure requirements for the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. Clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Expands disclosures to include unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain amendments are applied prospectively and retrospectively. Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.	Customers early adopted on September 30, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10) Issued February 2018	Clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with ASC 820, Fair Value Measurement. Provides clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date. Effective July 1, 2018 on a prospective basis with early adoption permitted.	Customers adopted on July 1, 2018 on a prospective basis. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements as Customers currently does not have any significant equity securities without readily determinable fair values.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other	Allows for reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cut and Jobs Act.	Customers early adopted on January 1, 2018. The adoption resulted in the reclassification of $0.3 million in

Comprehensive Income/(Loss) ("AOCI") Issued February 2018	Requires an entity to disclose whether it has elected to reclassify stranded tax effects from AOCI to retained earnings and its policy for releasing income tax effects from AOCI. Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted.	stranded tax effects in Customers' AOCI related to net unrealized losses on its available-for-sale debt securities and cash flow hedges. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

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Accounting Standards Adopted in 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities Issued August 2017	Aligns the entity's risk management activities and financial reporting for hedging relationships. Amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk. Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line item as the hedge item. Changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. In October 2018, the FASB issued ASU 2018-16 “Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," which permits the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes.	Customers early adopted on January 1, 2018. With the early adoption, Customers is able to pursue additional hedging strategies including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events. These additional hedging strategies will allow Customers to better align the accounting and financial reporting of its hedging activities with the economic objectives thereby reducing the earnings volatility resulting from these hedging activities. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Customers has updated its disclosures in NOTE 10 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES as a result of early adopting this ASU.
ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting Issued May 2017	Clarifies when to account for a change to the terms or conditions of a share-based-payment award as a modification in ASC 718. Provides that modification accounting is only required if the fair value, vesting conditions, or the classification of the award as equity or a liability changes as a result of the change in terms or conditions. Effective January 1, 2018 on a prospective basis for awards modified on or after the adoption date.	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	Clarifies the scope and application of the accounting guidance on the sale of nonfinancial assets to non-customers, including partial sales. Clarifies that if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

Issued February 2017	assets within the scope of Subtopic 610-20. Effective January 1, 2018 on a prospective basis.	
ASU 2017-01, Clarifying the Definition of a Business Issued January 2017	Narrows the definition of a business and clarifies that to be considered a business, the fair value of gross assets acquired (or disposed of) should not be concentrated in a single identifiable asset or a group of similar identifiable assets. Also clarifies that in order to be considered a business, an acquisition would have to include an input and a substantive process that together will significantly contribute to the ability to create an output. Effective January 1, 2018 on a prospective basis.	Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2016-18, Statement of Cash Flows: Restricted Cash Issued November 2016	Requires inclusion of restricted cash in cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. Effective January 1, 2018 and requires retrospective application to all periods presented.	Customers adopted on January 1, 2018. The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore did not result in a retrospective application.

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Accounting Standards Adopted in 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory Issued October 2016	Requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use. Effective January 1, 2018 on a modified retrospective basis.	Customers adopted on January 1, 2018. The adoption of the ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.
ASU 2016-15, Statement of Cash Flow: Classification of Certain Cash Receipts and Cash Payments Issued August 2016	Aims to reduce the existing diversity in practice with regards to the classification of the following specific items in the statement of cash flows: 1. Cash payments for debt prepayment or debt extinguishment costs should be classified as a financing activity. 2. Cash paid by an acquirer soon after a business combination for the settlement of a contingent consideration liability recognized at the acquisition date will be classified in investing activities. 3. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (i.e., the nature of the loss). 4. Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities. 5. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a non-cash activity, and cash received from beneficial interests will be classified in investing activities. Effective January 1, 2018 and requires retrospective application to all periods presented.	Customers adopted on January 1, 2018. The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore it did not result in a retrospective application.
ASU 2016-04, Liabilities - Extinguishment of Liabilities: Recognition of	Requires issuers of prepaid stored-value products (such as gift cards, telecommunication cards, and traveler's checks), to derecognize the financial liability related to those products for breakage.	Customers adopted on January 1, 2018. The adoption of this ASU did not have a significant impact on

Breakage for Certain Prepaid Stored-Value Products Issued March 2016	Breakage is the value of prepaid stored-value products that is not redeemed by consumers for goods, services or cash. The amendments in this ASU provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistent with the breakage guidance in Topic 606. Effective January 1, 2018 on a modified retrospective basis.	Customers' financial condition, results of operations and consolidated financial statements.

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Accounting Standards Adopted in 2018 (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities Issued January 2016	Requires equity investments with certain exceptions to be measured at fair value with changes in fair value recognized in net income. Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. Eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. Effective January 1, 2018 on a modified retrospective basis.	Customers adopted on January 1, 2018 using a modified retrospective approach. The adoption of this ASU resulted in a cumulative-effect adjustment that resulted in a $1.0 million reduction in AOCI and a corresponding increase in retained earnings for the same amount. The $1.0 million represented the net unrealized gain on Customers' investment in Religare equity securities at December 31, 2017, as disclosed in NOTE 5 - INVESTMENT SECURITIES. Customers also refined its calculation to determine the fair value of its held-for- investment loan portfolio for disclosure purposes using an exit price notion as part of adopting this ASU. The refined calculation did not have a significant impact on Customers' fair value disclosures.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) Issued May 2014	Supersedes the revenue recognition requirements in ASC 605. Requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or	Customers adopted on January 1, 2018 on a modified retrospective basis. Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), Customers concluded that the new guidance did not have a material impact on the elements of its consolidated

services.

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

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

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

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

statements of operations most closely associated with leases and financial instruments (such as interest income, interest expense and securities gains or losses).

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

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

The adoption of this ASU, did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Additional discussion related to the adoption and the required quantitative and qualitative disclosures are included in NOTE 12 - NON-INTEREST REVENUES.

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Accounting Standards Issued But Not Yet Adopted

Standard	Summary of guidance	Effects on Financial Statements
ASU 2018-15, Internal-Use Software (Subtopic 350-40): Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract Issued August 2018	Clarifies that service contracts with hosting arrangements must follow internal-use software guidance Subtopic 350-40 when determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Also clarifies that capitalized implementation costs of a hosting arrangement that is a service contract are to be amortized over the term of the hosting arrangement, which includes the noncancelable period of the arrangement plus options to extend the arrangement if reasonably certain to exercise. Clarifies that existing impairment guidance in Subtopic 350-40 must be applied to the capitalized implementation costs as if they were long-lived assets. Applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.	Customers is currently evaluating the expected impact of this ASU on its financial condition, results of operations and consolidated financial statements.
ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting Issued June 2018	Expands the scope of Topic 718, Compensation - Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to non-employees for goods and services. Applies to all share-based payment transactions in which a grantor acquires goods or services from non-employees to be used or consumed in a grantor's own operations by issuing share-based payment awards. With the amended guidance from ASU 2018-07, non-employees share-based payments are measured with an estimate of the fair value of the equity the business is obligated to issue at the grant date (the date that the business and the stock award recipient agree to the terms	Customers currently does not grant share-based payment awards to non-employees and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.

of the award).

Compensation would be recognized in the same period and in the same manner as if the entity had paid cash for goods or services instead of stock.

Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

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Accounting Standards Issued But Not Yet Adopted (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features Issued July 2017	Changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) would no longer be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity-classified financial instruments, the amendments require entities to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of net income available to common shareholders in basic earnings per share ("EPS"). Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.	Customers currently does not have any equity-linked financial instruments (or embedded features) with down round features and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities Issued March 2017	Requires that premiums for certain callable debt securities held be amortized to their earliest call date. Effective for Customers beginning after December 15, 2018, with early adoption permitted. Adoption of this new guidance must be applied on a modified retrospective approach.	Customers currently has an immaterial amount of callable debt securities purchased at a premium and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact through the adoption date.
ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments Issued June 2016	Requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the	Customers has established a company-wide, cross-discipline governance structure, which provides implementation oversight and continues evaluating the impact of this ASU and reviewing the loss modeling

financial asset (including HTM securities), presents the net amount expected to be collected on the financial asset.

Replaces today's "incurred loss" approach and is expected to result in earlier recognition of credit losses.

For available-for-sale debt securities, entities will be required to record allowances for credit losses rather than reduce the carrying amount, as they do today under the OTTI model, and will be allowed to reverse previously established allowances in the event the credit of the issuer improves.

Simplifies the accounting model for purchased credit-impaired debt securities and loans.

Effective beginning after December 15, 2019 with early adoption permitted.

Adoption can be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.

requirements consistent with lifetime expected loss estimates.

Customers has selected a third-party vendor to assist in the implementation process of its new model, which 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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Accounting Standards Issued But Not Yet Adopted (continued)

Standard	Summary of guidance	Effects on Financial Statements
ASU 2016-02, Leases Issued February 2016	Supersedes the current lease accounting guidance for both lessees and lessors under ASC 840, Leases. From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees. This ASU will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. Effective beginning after December 15, 2018 with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements,” which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date.	Customers is in the process of its implementation, which includes evaluating its leasing activities and certain contracts for embedded leases. Customers will be utilizing a lease accounting software solution for its real estate leases and updating processing and internal controls for its leasing activities. Customers expects to recognize a lease liability and a corresponding right-of-use asset, at their present value, to predominately all of the $22 million of future minimum payments required under operating leases as disclosed in Note 10 of Customers’ 2017 Form 10-K, along with any leases entered into or extended during 2018. However, the population of contracts subject to balance sheet recognition and their initial measurement remains under evaluation. Customers does not expect material changes to the recognition of operating lease expense in its consolidated statements of income. Customers expects to adopt certain practical expedients available under the new guidance, which will not require it to (1) reassess whether any expired or existing contracts contain leases, (2) reassess the lease classification for any expired or existing leases, or (3) reassess initial direct costs for any existing leases. Additionally, Customers will elect to apply the new lease guidance at the adoption date, rather than at the beginning of the earliest period presented and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, while continuing to present the comparative periods under Topic 840. Customers does not intend to early adopt this new guidance.

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NOTE 3 — 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,	
	2018	2017	2018	2017
(amounts in thousands, except share and per share data)				
Net income available to common shareholders	$2,414	$ 4,139	$42,989	$ 46,378
Weighted-average number of common shares outstanding - basic	31,671,131	30,739,671	31,554,407	30,597,314
Share-based compensation plans	601,622	1,754,480	750,573	2,004,917
Warrants	4,846	18,541	7,475	24,392
Weighted-average number of common shares - diluted	32,277,599	32,512,692	32,312,455	32,626,623
Basic earnings per common share	$0.08	$ 0.13	$1.36	$ 1.52
Diluted earnings per common share	$0.07	$ 0.13	$1.33	$ 1.42

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Anti-dilutive securities:				
Share-based compensation awards	1,787,670	409,225	1,105,287	409,225
Warrants	—	52,242	—	52,242
Total anti-dilutive securities	1,787,670	461,467	1,105,287	461,467

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NOTE 4 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

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

	Three Months Ended September 30, 2018				
	Available-for-sale debt securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - June 30, 2018	$(35,711)	$ —	$(35,711)	$ 1,714	$(33,997)
Other comprehensive income (loss) before reclassifications	(1,206)	—	(1,206)	3,006	1,800
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	13,808	—	13,808	(1,864)	11,944
Net current-period other comprehensive income	12,602	—	12,602	1,142	13,744
Balance - September 30, 2018	$(23,109)	$ —	$(23,109)	$ 2,856	$(20,253)

	Nine Months Ended September 30, 2018				
	Available-for-sale securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - December 31, 2017	$(249)	$ 88	$(161)	$ (198)	$(359)
Reclassification of the income tax effects of the Tax Cuts and Jobs Act (2)	(256)	—	(256)	(42)	(298)
Reclassification of net unrealized gains on equity securities (2)	(953)	(88)	(1,041)	—	(1,041)
Balance after reclassification adjustments on January 1, 2018	(1,458)	—	(1,458)	(240)	(1,698)
Other comprehensive income (loss) before reclassifications	(35,459)	—	(35,459)	5,055	(30,404)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	13,808	—	13,808	(1,959)	11,849
Net current-period other comprehensive income (loss)	(21,651)	—	(21,651)	3,096	(18,555)
Balance - September 30, 2018	$(23,109)	$ —	$(23,109)	$ 2,856	$(20,253)

(1) Reclassification amounts for available-for-sale debt securities are reported as loss on sale of investment securities on the consolidated statements of income. During the three and nine months ended September 30, 2018, reclassification amounts of $18.7 million ($13.8 million net of taxes), respectively, were reported as loss on sale of investment securities on the consolidated statements of income. Reclassification amounts for cash flow hedges are reported as either interest expense on FHLB advances on the consolidated statements of income or other non-interest income on the consolidated statements of income for gains from the discontinuance of cash flow hedge accounting for certain interest rate swaps. During the three and nine months ended September 30, 2018, reclassification amounts of $303 thousand ($224 thousand net of taxes) and $175 thousand ($129 thousand net of taxes) were reported as interest expense on FHLB advances on the consolidated statements of income. During the three and nine months ended September 30, 2018, reclassification amounts of $2.8 million ($2.1 million net of taxes), respectively, were reported as other non-interest income on the consolidated statements of income from the discontinuance of cash flow hedge

accounting for certain interest rate swaps.

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

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	Three Months Ended September 30, 2017		
(amounts in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) 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 (1)	(3,263)	349	(2,914)
Net current-period other comprehensive income (loss)	(5,440)	453	(4,987)
Balance - September 30, 2017	$1,382	$(1,005)	$377

	Nine Months Ended September 30, 2017		
(amounts in thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total
Balance - December 31, 2016	$(2,681)	$(2,211)	$(4,892)
Other comprehensive income (loss) before reclassifications	9,268	(115)	9,153
Amounts reclassified from accumulated other comprehensive income (loss) to net income (1)	(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) Reclassification amounts for available-for-sale debt securities are reported as gain on sale of investment securities on the consolidated statements of income. During the three and nine months ended September 30, 2017, reclassification amounts of $5.3 million ($3.3 million net of taxes) and $8.5 million ($5.2 million net of taxes), respectively, were 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. During the three and nine months ended September 30, 2017, reclassification amounts of $572 thousand ($349 thousand net of taxes) and $2.2 million ($1.3 million net of taxes) were reported as interest expense on FHLB advances on the consolidated statements of income.

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NOTE 5 — INVESTMENT SECURITIES

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

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available-for-sale debt securities:				
Agency-guaranteed residential mortgage-backed securities	$316,785	$ —	$(11,367)	$305,418
Corporate notes	381,475	347	(20,208)	361,614
Available-for-sale debt securities	$698,260	$ 347	$(31,575)	667,032
Equity securities [1]				1,819
Total investment securities, at fair value				$668,851

(1) Includes equity securities issued by a foreign entity that are being measured at fair value with changes in fair value recognized directly in earnings
effective January 1, 2018 as a result of adopting ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (see NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of this new standard).

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(amounts in thousands)				
Proceeds from sale of available-for-sale securities	$476,182	$554,540	$476,182	$670,522
Gross gains	$—	$5,349	$—	$8,532
Gross losses	(18,659)	—	(18,659)	—
Net (losses)/gains	$(18,659)	$5,349	$(18,659)	$8,532

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

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The following table shows debt 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, 2018	
	Amortized Cost	Fair Value
(amounts in thousands)		
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	229,807	218,904
Due after ten years	151,668	142,710
Agency-guaranteed residential mortgage-backed securities	316,785	305,418
Total debt securities	$698,260	$667,032

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

	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available-for-sale debt securities:						
Agency-guaranteed residential mortgage-backed securities	$305,418	$(11,367)	$—	$—	$305,418	$(11,367)
Corporate notes	321,303	(20,208)	—	—	321,303	(20,208)
Total	$626,721	$(31,575)	$—	$—	$626,721	$(31,575)

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

At September 30, 2018, there were twenty-eight available-for-sale debt securities in the less-than-twelve-month category and no available-for-sale debt securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. The unrealized losses on the corporate notes relate to securities with no company specific concentration. The unrealized losses were due to an upward shift in interest rates that resulted in a negative impact on the respective note's fair value. All amounts related to the mortgage-backed securities and the corporate notes are expected to be recovered when market prices recover or at maturity. Customers does not intend to sell these securities and it is not more likely than not that Customers will be required to sell the securities before recovery of the amortized cost basis.

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During the three and nine month periods ended September 30, 2017, Customers recorded other-than-temporary impairment losses of $8.3 million and $12.9 million, respectively, related to its equity holdings in Religare Enterprises Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017 because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was $3.4 million, which resulted in an unrealized gain of $1.0 million being recognized in accumulated other comprehensive income with no adjustment for deferred taxes as Customers currently does not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment.

As described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a $1.0 million reduction in accumulated other comprehensive income and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of $1.2 million and $1.5 million being recognized in other non-interest income in the accompanying consolidated statements of income for the three and nine months ended September 30, 2018, respectively.

At September 30, 2018 and December 31, 2017, Customers Bank had pledged investment securities aggregating $187.1 million and $16.9 million in fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

NOTE 6 – LOANS HELD FOR SALE - As Restated

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

(amounts in thousands)	September 30, 2018	December 31, 2017 (As Restated)
Commercial loans:		
Multi-family loans at lower of cost or fair value	$ —	$ 144,191
Total commercial loans held for sale	—	144,191
Consumer loans:		
Residential mortgage loans, at fair value	1,383	1,886
Loans held for sale	$ 1,383	$ 146,077

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

On June 30, 2017, Customers Bank transferred $150.6 million of multi-family loans from held for investment to loans held for sale. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer. At December 31, 2017, the carrying value of these loans approximated their fair value. Accordingly, a lower of cost or fair value adjustment was not recorded as of December 31, 2017. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for more information on the reclassification of loans previously reported as held for sale.

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NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES - As Restated

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

(amounts in thousands)	September 30, 2018	December 31, 2017 (As Restated)
Loans receivable, mortgage warehouse, at fair value	$ 1,516,327	$ 1,793,408
Loans receivable:		
Commercial:		
Multi-family	3,504,540	3,502,381
Commercial and industrial (including owner occupied commercial real estate)	1,841,704	1,633,818
Commercial real estate non-owner occupied	1,157,849	1,218,719
Construction	95,250	85,393
Total commercial loans receivable	6,599,343	6,440,311
Consumer:		
Residential real estate	509,853	234,090
Manufactured housing	82,589	90,227
Other	51,210	3,547
Total consumer loans receivable	643,652	327,864
Loans receivable	7,242,995	6,768,175
Deferred (fees)/costs and unamortized (discounts)/premiums, net	(3,045)	83
Allowance for loan losses	(40,741)	(38,015)
Total loans receivable, net of allowance for loan losses	$ 8,715,536	$ 8,523,651

Customers' total loans receivable portfolio includes loans receivable which are reported at fair value based on an election made to account for these loans at fair value and loans receivable which are predominately reported at their outstanding unpaid principal balance, net of charge-offs and deferred costs and fees and unamortized premiums and discounts and are evaluated for impairment.

Loans receivable mortgage warehouse, at fair value:

Mortgage warehouse loans consist of commercial loans to mortgage companies. These mortgage warehouse lending transactions are subject to master repurchase agreements. As a result of the contractual provisions, for accounting purposes control of the underlying mortgage loan has not transferred and the rewards and risks of the mortgage loans are not assumed by Customers. The mortgage warehouse loans receivable are designated as loans held for investment 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 mortgage loans and receives proceeds directly from third party investors when the underlying mortgage loans are sold into the secondary market. 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 25 days from purchase to sale. The primary goal of these lending transactions is to provide liquidity to mortgage companies.

At September 30, 2018 and December 31, 2017, all of Customers' commercial mortgage warehouse loans were current in terms of payment. Because these loans are reported at their fair value, they do not have an allowance for loan loss and are therefore excluded from allowance for loan losses related disclosures.

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

	September 30, 2018						
(amounts in thousands)	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit-Impaired Loans (3)	Total Loans (4)
Multi-family	$—	$—	$—	$1,343	$3,501,450	$ 1,747	$3,504,540
Commercial and industrial	418	—	418	13,287	1,271,813	572	1,286,090
Commercial real estate owner occupied	—	—	—	1,298	545,647	8,669	555,614
Commercial real estate non-owner occupied	—	—	—	158	1,153,107	4,584	1,157,849
Construction	—	—	—	—	95,250	—	95,250
Residential real estate	2,321	—	2,321	5,522	497,211	4,799	509,853
Manufactured housing (5)	3,475	2,300	5,775	1,921	72,777	2,116	82,589
Other consumer	45	—	45	112	50,832	221	51,210
Total	$6,259	$ 2,300	$ 8,559	$23,641	$7,188,087	$ 22,708	$7,242,995

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

(1) Includes past due loans that are accruing interest because collection is considered probable.
(2) Loans where next payment due is less than 30 days from the report date.
(3) Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Due to the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing. Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

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

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

As of September 30, 2018 and December 31, 2017, the Bank had $0.4 million and $0.3 million, respectively, of residential real estate held in other real estate owned. As of September 30, 2018 and December 31, 2017, the Bank had initiated foreclosure proceedings on $2.1 million and $1.6 million, respectively, in loans secured by residential real estate.

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Allowance for loan losses

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

Three Months Ended September 30, 2018 (amounts in thousands)	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Ending Balance, June 30, 2018	$12,069	$12,258	$2,988	$6,698	$992	$2,908	$149	$226	$38,288
Charge-offs	—	(90)	—	—	—	—	—	(437)	(527)
Recoveries	—	30	—	5	11	6	—	4	56
Provision for loan losses	(240)	516	164	(254)	59	987	(55)	1,747	2,924
Ending Balance, September 30, 2018	$11,829	$12,714	$3,152	$6,449	$1,062	$3,901	$94	$1,540	$40,741
Nine Months Ended September 30, 2018									
Ending Balance, December 31, 2017	$12,168	$10,918	$3,232	$7,437	$979	$2,929	$180	$172	$38,015
Charge-offs	—	(314)	(501)	—	—	(407)	—	(1,155)	(2,377)
Recoveries	—	205	326	5	231	69	—	10	846
Provision for loan losses	(339)	1,905	95	(993)	(148)	1,310	(86)	2,513	4,257
Ending Balance, September 30, 2018	$11,829	$12,714	$3,152	$6,449	$1,062	$3,901	$94	$1,540	$40,741

As of September 30, 2018									
Loans:									
Individually evaluated for impairment	$1,343	$13,353	$1,335	$158	$—	$8,581	$10,378	$112	$35,260
Collectively evaluated for	3,501,450	1,272,165	545,610	1,153,107	95,250	496,473	70,095	50,877	7,185,027

impairment									
Loans acquired with credit deterioration	1,747	572	8,669	4,584	—	4,799	2,116	221	22,708
Total loans receivable (1)	$3,504,540	$1,286,090	$555,614	$1,157,849	$95,250	$509,853	$82,589	$51,210	$7,242,995
Allowance for loan losses:									
Individually evaluated for impairment	$—	$1,381	$80	$—	$—	$306	$4	$—	$1,771
Collectively evaluated for impairment	11,829	10,881	3,072	4,298	1,062	3,072	88	1,471	35,773
Loans acquired with credit deterioration	—	452	—	2,151	—	523	2	69	3,197
Allowance for loan losses	$11,829	$12,714	$3,152	$6,449	$1,062	$3,901	$94	$1,540	$40,741

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 December 31, 2017									
Loans:									
Individually evaluated for impairment	$—	$17,461	$1,448	$160	$—	$9,247	$10,089	$30	$38,435
Collectively evaluated for impairment	3,500,500	1,130,865	472,708	1,213,309	85,393	219,162	77,587	3,301	6,702,825
Loans acquired with credit deterioration	1,881	764	10,572	5,250	—	5,681	2,551	216	26,915

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

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

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Impaired Loans - Individually Evaluated for Impairment

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

	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(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 recorded allowance:							
Multi-family	$1,343	$1,343	$ —	$1,343	$ —	$672	$ 8
Commercial and industrial	9,888	10,224	—	7,765	166	7,623	168
Commercial real estate owner occupied	704	1,187	—	711	—	711	—
Commercial real estate non-owner occupied	158	271	—	1,347	—	774	8
Other consumer	112	112	—	103	1	83	1
Residential real estate	4,259	4,504	—	4,281	23	3,952	25
Manufactured housing	10,152	10,152	—	10,147	144	10,011	421
With an allowance recorded:							
Commercial and industrial	3,465	3,648	1,381	5,787	27	7,089	39
Commercial real estate owner occupied	631	631	80	336	9	546	11
Residential real estate	4,322	4,329	306	4,398	61	4,760	124
Manufactured housing	226	226	4	227	4	225	10
Total	$35,260	$36,627	$ 1,771	$36,445	$ 435	$36,446	$ 815

	December 31, 2017			Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(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 recorded allowance:							
Commercial and industrial	$9,138	$9,287	$ —	$13,345	$ 354	$8,796	$ 450
Commercial real estate owner occupied	806	806	—	1,744	15	1,589	18
Commercial real estate non-owner occupied	160	272	—	184	91	989	93
Other consumer	30	30	—	44	—	50	—
Residential real estate	3,628	3,801	—	5,228	125	4,865	126
Manufactured housing	9,865	9,865	—	10,243	164	10,038	457
With an allowance recorded:							
Commercial and industrial	8,323	8,506	650	1,963	—	5,400	22
Commercial real estate owner occupied	642	642	642	1,056	1	950	3
Commercial real estate non-owner occupied	—	—	—	51	—	94	—
Other consumer	—	—	—	12	—	6	—
Residential real estate	5,619	5,656	155	2,862	—	2,729	84
Manufactured housing	224	224	4	114	—	108	8

Total	$38,435	$39,089	$ 1,451	$36,846	$ 750	$35,614	$ 1,261

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Troubled Debt Restructurings

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

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

	September 30, 2018			December 31, 2017		
	Accruing TDRs	Nonaccrual TDRs	Total	Accruing TDRs	Nonaccrual TDRs	Total
(amounts in thousands)						
Commercial and industrial	$66	$ 5,311	$5,377	$63	$ 5,939	$6,002
Commercial real estate owner occupied	37	—	37	—	—	—
Manufactured housing	8,457	1,781	10,238	8,130	1,766	9,896
Residential real estate	3,059	698	3,757	3,828	703	4,531
Other consumer	—	13	13	—	—	—
Total TDRs	$11,619	$ 7,803	$19,422	$12,021	$ 8,408	$20,429

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

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	—	$ —	1	$ 60
Interest-rate reductions	8	473	3	122
Total	8	$ 473	4	$ 182

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	1	$ 56	4	$ 6,263
Interest-rate reductions	32	1,402	32	1,297
Total	33	$ 1,458	36	$ 7,560

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

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Manufactured housing	7	$ 321	4	$ 182
Residential real estate	1	152	—	—
Total loans	8	$ 473	4	$ 182

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Commercial and industrial	—	$ —	3	$ 6,203
Manufactured housing	30	1,093	33	1,357
Residential real estate	2	352	—	—
Other consumer	1	13	—	—
Total loans	33	$ 1,458	36	$ 7,560

As of September 30, 2018 and December 31, 2017, except for one commercial and industrial loan with an outstanding commitment of $1.5 million and $2.1 million, respectively, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.
As of September 30, 2018, there were no loans modified in a TDR within the past twelve months that defaulted on payments. 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.

Loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses. There was no allowance recorded as a result of TDR modifications during the three and nine months ended September 30, 2018. 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.

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

	Three Months Ended September 30,	
	2018	2017
(amounts in thousands)		
Accretable yield balance as of June 30,	$7,403	$9,006

Accretion to interest income	(310)	(368)
Reclassification from nonaccretable difference and disposals, net	(4)	(276)
Accretable yield balance as of September 30,	$7,089	$8,362

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(amounts in thousands)	Nine Months Ended September 30, 2018	2017
Accretable yield balance as of December 31,	$7,825	$10,202
Accretion to interest income	(1,164)	(1,326)
Reclassification from nonaccretable difference and disposals, net	428	(514)
Accretable yield balance as of September 30,	$7,089	$8,362

Credit Quality Indicators

The allowance for loan losses represents management's estimate of probable losses in Customers loans receivable portfolio, excluding mortgage warehouse loans carried under the fair value option. Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic, or on an "as needed" basis. Residential real estate loans, manufactured housing and other consumer loans are evaluated based on the payment activity of the loan.

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

The risk rating grades are defined as follows:

"1" – Pass/Excellent

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

"2" – Pass/Superior

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

"3" – Pass/Strong

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

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

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

September 30, 2018									
(amounts in thousands)	Multi-Family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total (3)
Pass/Satisfactory	$3,399,892	$1,235,945	$539,252	$1,084,388	$95,250	$—	$—	$—	$6,354,727
Special Mention	81,253	7,756	8,793	30,406	—	—	—	—	128,208
Substandard	23,395	42,389	7,569	43,055	—	—	—	—	116,408
Performing (1)	—	—	—	—	—	502,010	74,893	51,053	627,956
Non-performing (2)	—	—	—	—	—	7,843	7,696	157	15,696
Total	$3,504,540	$1,286,090	$555,614	$1,157,849	$95,250	$509,853	$82,589	$51,210	$7,242,995

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

(1) Includes residential real estate, manufactured housing, and other consumer loans not subject to risk ratings.
(2) Includes residential real estate, manufactured housing, and other consumer loans that are past due and still accruing interest or on nonaccrual status.
(3) Excludes mortgage warehouse loans carried under the fair value option.

Loan Purchases and Sales

During third quarter 2018, Customers purchased $72.7 million of mortgage and consumer loans from third party financial institutions. The purchase price was 95.3% of loans outstanding. During third quarter 2018, Customers sold $12.1 million of Small Business Administration (SBA) loans resulting in a gain on sale of $1.1 million. There were no loan purchases during third quarter 2017. In third quarter 2017, Customers sold $11.0 million of SBA loans resulting in a gain on sale of $1.1 million.

In second quarter 2018, Customers purchased $277.4 million of thirty-year fixed-rate residential mortgage loans from a third party financial institution. The purchase price was 100.4% of loans outstanding. During second quarter 2018, Customers sold $11.7 million of SBA loans resulting in a gain on sale of $0.9 million. In second quarter 2017, Customers purchased $90 million of thirty-year fixed-rate residential mortgage loans from a third party financial institution. The purchase price was 101.0% of loans outstanding. In second quarter 2017, Customers sold $7.0 million of SBA loans resulting in a gain on sale of $0.6 million.

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

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

Loans Pledged as Collateral

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

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NOTE 8 — REGULATORY CAPITAL

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

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

			Minimum Capital Levels to be Classified as:					
	Actual		Adequately Capitalized		Well Capitalized		Basel III Compliant	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2018:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$740,968	8.703 %	$383,113	4.500%	N/A	N/A	$542,744	6.375%
Customers Bank	$1,054,869	12.393%	$383,042	4.500%	$553,282	6.500 %	$542,642	6.375%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$958,418	11.257%	$510,818	6.000%	N/A	N/A	$670,448	7.875%
Customers Bank	$1,054,869	12.393%	$510,722	6.000%	$680,963	8.000 %	$670,323	7.875%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,080,245	12.688%	$681,090	8.000%	N/A	N/A	$840,721	9.875%
Customers Bank	$1,204,825	14.154%	$680,963	8.000%	$851,204	10.000%	$840,563	9.875%
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	$958,418	8.913 %	$430,099	4.000%	N/A	N/A	$430,099	4.000%
Customers Bank	$1,054,869	9.814 %	$429,939	4.000%	$537,423	5.000 %	$429,939	4.000%
As of December 31, 2017:								
Common equity Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$689,494	8.805 %	$352,368	4.500%	N/A	N/A	$450,248	5.750%
Customers Bank	$1,023,564	13.081%	$352,122	4.500%	$508,621	6.500 %	$449,934	5.750%
Tier 1 capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$906,963	11.583%	$469,824	6.000%	N/A	N/A	$567,704	7.250%
Customers Bank	$1,023,564	13.081%	$469,496	6.000%	$625,994	8.000 %	$567,307	7.250%
Total capital (to risk-weighted assets)								
Customers Bancorp, Inc.	$1,021,601	13.047%	$626,432	8.000%	N/A	N/A	$724,313	9.250%

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

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

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

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

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

NOTE 9 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS - As Restated

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, 2018 and December 31, 2017:

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Financial Instruments Recorded at Fair Value on a Recurring Basis
Investment securities:
The fair values of equity securities and available-for-sale debt securities are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are classified as Level 1, 2 or 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
The carrying amount of investments in FHLB, Federal Reserve Bank, and other restricted stock approximates fair value, and considers the limited marketability of such securities. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans held for sale - Consumer residential mortgage loans (fair value option):
The Bank generally estimates the fair values of residential mortgage loans held for sale based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans receivable - Commercial mortgage warehouse loans (fair value option):
The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized because at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 25 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Derivatives (Assets and Liabilities):
The fair values of interest rate swaps and credit derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Bank and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
The fair values of the residential mortgage loan commitments are derived from the estimated fair values that can be generated when the underlying mortgage loan is sold in the secondary market. The Bank generally uses commitments on hand from third- party investors to estimate an exit price and adjusts for the probability of the commitment being exercised based on the Bank's internal experience (i.e., pull-through rate). These assets and liabilities are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.
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, 2018 and December 31, 2017 were as follows.

			Fair Value Measurements at September 30, 2018		
(amounts in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$666,034	$666,034	$666,034	$—	$ —
Debt securities, available for sale	667,032	667,032	—	667,032	—
Equity securities	1,819	1,819	1,819	—	—
Loans held for sale	1,383	1,383	—	1,383	—
Total loans receivable, net of allowance for loan losses	8,715,536	8,646,346	—	1,516,327	7,130,019
FHLB, Federal Reserve Bank and other restricted stock	74,206	74,206	—	74,206	—
Derivatives	22,613	22,613	—	22,491	122
Liabilities:					
Deposits	$8,513,714	$8,506,804	$6,120,233	$2,386,571	$ —
FHLB advances	835,000	834,968	—	834,968	—
Other borrowings	123,779	124,724	—	124,724	—
Subordinated debt	108,953	114,400	—	114,400	—
Derivatives	15,684	15,684	—	15,684	—

			Fair Value Measurements at December 31, 2017		
(amounts in thousands) (as restated)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$146,323	$146,323	$146,323	$—	$ —
Investment securities, available for sale	471,371	471,371	3,352	468,019	—
Loans held for sale (as restated)	146,077	146,251	—	1,886	144,365
Total loans receivable, net of allowance for loan losses (as restated)	8,523,651	8,470,171	—	1,793,408	6,676,763
FHLB, Federal Reserve Bank and other restricted stock	105,918	105,918	—	105,918	—
Derivatives	9,752	9,752	—	9,692	60
Liabilities:					
Deposits	$6,800,142	$6,796,095	$4,894,449	$1,901,646	$ —

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

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

	September 30, 2018 Fair Value Measurements at the End of the Reporting Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(amounts in thousands)				
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale debt securities:				
Agency-guaranteed residential mortgage-backed securities	$—	$ 305,418	$ —	$305,418
Corporate notes	—	361,614	—	361,614
Equity securities	1,819	—	—	1,819
Derivatives	—	22,491	122	22,613
Loans held for sale – fair value option	—	1,383	—	1,383
Loans receivable, mortgage warehouse - fair value option	—	1,516,327	—	1,516,327
Total assets - recurring fair value measurements	$1,819	$ 2,207,233	$ 122	$2,209,174
Liabilities				
Derivatives	$—	$ 15,684	$ —	$15,684
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,771	$—	$ —	$ 7,295	$7,295
Other real estate owned	—	—	1,078	1,078
Total assets - nonrecurring fair value measurements	$—	$ —	$ 8,373	$8,373

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	December 31, 2017 Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands) (as restated)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Agency-guaranteed residential mortgage-backed securities	$—	$ 183,458	$ —	$183,458
Agency-guaranteed commercial real estate mortgage-backed securities	—	238,472	—	238,472
Corporate notes	—	46,089	—	46,089
Equity securities	3,352	—	—	3,352
Derivatives	—	9,692	60	9,752
Loans held for sale – fair value option (as restated)	—	1,886	—	1,886
Loans receivable, mortgage warehouse - fair value option (as restated)	—	1,793,408	—	1,793,408
Total assets - recurring fair value measurements	$3,352	$ 2,273,005	$ 60	$2,276,417
Liabilities				
Derivatives	$—	$ 10,074	$ —	$10,074
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of reserves of $1,451	$—	$ —	$ 13,902	$13,902
Other real estate owned	—	—	1,449	1,449
Total assets - nonrecurring fair value measurements	$—	$ —	$ 15,351	$15,351

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The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2018 and 2017 are summarized in the tables below. Additional information about residential mortgage loan commitments can be found in NOTE 10 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES.

	Residential Mortgage Loan Commitments Three Months Ended September 30,	
	2018	2017
(amounts in thousands)		
Balance at June 30	$ 133	$ 102
Issuances	122	103
Settlements	(133)	(102)
Balance at September 30	$ 122	$ 103

	Residential Mortgage Loan Commitments Nine Months Ended September 30,	
	2018	2017
(amounts in thousands)		
Balance at December 31	$ 60	$ 45
Issuances	338	300
Settlements	(276)	(242)
Balance at September 30	$ 122	$ 103

There were no transfers between levels during the three and nine months ended September 30, 2018 and 2017.
The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2018 and December 31, 2017 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value. The unobservable Level 3 inputs noted below contain a level of uncertainty that may differ from what is realized in an immediate settlement of the assets. Therefore, Customers may realize a value higher or lower than the current estimated fair value of the assets.

	Quantitative Information about Level 3 Fair Value Measurements			
September 30, 2018	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
(amounts in thousands)				
Impaired loans - Real Estate	$5,211	Collateral appraisal (1)	Liquidation expenses (2)	8% - 8% (8%)
Impaired loans - C&I	2,084	Business asset valuation (3)	Business asset valuation adjustments (4)	6% - 63% (12%)
Other real estate owned	1,078	Collateral appraisal (1)	Liquidation expenses (2)	8% - 10% (8%)
	122	Adjusted market bid	Pull-through rate	

Residential mortgage loan commitments	90% - 90% (90%)

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

(1) Obtained from approved independent appraisers. Appraisals are current and in compliance with credit policy. The Bank does not generally discount appraisals.
(2) Appraisals are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percentage of the appraisal.
(3) Business asset valuation obtained from independent party.
(4) Business asset valuations may be adjusted by management for qualitative factors including economic conditions and the condition of the business assets. The range and weighted average of the business asset adjustments are presented as a percent of the business asset valuation.

NOTE 10 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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

Customers discontinues cash flow hedge accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in accumulated other comprehensive income are reclassified immediately into earnings and any subsequent changes in the fair value of such derivatives are recognized directly in earnings. During the three months ended September 30, 2018, Customers recognized gains of $2.8 million in other non-interest income on discontinued cash flow hedge accounting for three interest rate swaps with notional amounts totaling $500 million.

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 $1.0 million from accumulated other comprehensive income as a reduction to interest expense during the next 12 months. Customers is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 33 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

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At September 30, 2018, Customers had eight outstanding interest rate derivatives with notional amounts totaling $835.0 million that were designated as cash flow hedges of interest rate risk. At December 31, 2017, Customers had nine outstanding interest rate derivatives with notional amounts totaling $550.0 million that were designated as cash flow hedges of interest rate risk. The outstanding cash flow hedges at September 30, 2018 expire between October 2018 and July 2021.

Derivatives Not Designated as Hedging Instruments

Customers executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan for a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that Customers executes with a third party in order to minimize interest rate risk exposure resulting from such transactions. As 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, 2018, Customers had 98 interest rate swaps with an aggregate notional amount of $956.8 million related to this program. At December 31, 2017, Customers had 76 interest rate swaps with an aggregate notional amount of $800.5 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its consumer mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under the applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At September 30, 2018 and December 31, 2017, Customers had an outstanding notional balance of residential mortgage loan commitments of $6.1 million and $2.7 million, respectively.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value recorded directly in earnings. At September 30, 2018 and December 31, 2017, Customers had outstanding notional balances of credit derivatives of $95.5 million and $80.5 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

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

	September 30, 2018			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$ 3,859	Other liabilities	$ —
Total		$ 3,859		$ —
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$ 18,596	Other liabilities	$ 15,653
Credit contracts	Other assets	36	Other liabilities	31
Residential mortgage loan commitments	Other assets	122	Other liabilities	—
Total		$ 18,754		$ 15,684

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

Effect of Derivative Instruments on Comprehensive Income

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

	Three Months Ended September 30, 2018	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 1,139
Credit contracts	Other non-interest income	156
Residential mortgage loan commitments	Mortgage banking income	(11)
Total		$ 1,284

	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

	Nine Months Ended September 30, 2018	
	Income Statement Location	Amount of Income Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 1,472
Credit contracts	Other non-interest income	119
Residential mortgage loan commitments	Mortgage banking income	62
Total		$ 1,653

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	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

	Three Months Ended September 30, 2018		
(amounts in thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$3,006	Interest expense	$ (303)
		Other non-interest income (2)	2,822
Total			$ 2,519

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

	Nine Months Ended September 30, 2018		
(amounts in thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income

Derivative in cash flow hedging relationships:			
Interest rate swaps	$5,055	Interest expense	$ (175)
		Other non-interest income (2)	2,822
Total			$ 2,647

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

(1) Amounts presented are net of taxes. See NOTE 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges for the periods presented.
(2) Includes income recognized from discontinued cash flow hedges.

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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, 2018, all derivatives with major derivative dealer counterparties were in a net asset position.

Disclosures about Offsetting Assets and Liabilities

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

Offsetting of Financial Assets and Derivative Assets

At September 30, 2018

(amounts in thousands) Description	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet Cash Collateral Received	Net Amount
Interest rate swap derivatives with institutional counterparties	$ 20,688	$ —	$ 20,688	$ —	$ 19,330	$ 1,358

Offsetting of Financial Liabilities and Derivative Liabilities

At September 30, 2018

(amounts in thousands) Description	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet Cash Collateral Pledged	Net Amount
Interest rate swap derivatives with institutional counterparties	$ 1,924	$ —	$ 1,924	$ —	$ 2	$ 1,922

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

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

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

Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet