EXTENDICARE INC /CAN/
Form 6-K
February 25, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For February 24, 2005

EXTENDICARE INC.

(Translation of registrant s name into English)

3000 Steeles Avenue East
Markham, Ontario, Canada L3R 9W2
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
99.1	News Release dated February 22, 2005 Extendicare Inc. Delivers Record EPS of $1.78 in 2004 and Initiates Common Share Dividend

SIGNATURES

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

EXTENDICARE INC.

Date: February 24, 2005

By: /s/ RICHARD L. BERTRAND
Richard L. Bertrand
Senior Vice-President and Chief
Financial Officer

;">

Cash and cash equivalents
251,726

146,323

Investment securities, at fair value
1,161,000

471,371

Loans held for sale (includes $1,931,781 and $1,795,294, respectively, at fair value)
1,931,781

1,939,485

Loans receivable
7,181,726

6,768,258

Allowance for loan losses
(38,288
)

(38,015
)
Total loans receivable, net of allowance for loan losses
7,143,438

6,730,243

FHLB, Federal Reserve Bank, and other restricted stock
136,066

105,918

Accrued interest receivable
33,956

27,021

Bank premises and equipment, net
11,224

11,955

Bank-owned life insurance
261,121

257,720

Other real estate owned
1,705

1,726

Goodwill and other intangibles
17,150

16,295

Other assets
143,679

131,498

Total assets
$
11,092,846

$

9,839,555

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Deposits:

Demand, non-interest bearing
$
1,090,744

$
1,052,115

Interest-bearing
6,205,210

5,748,027

Total deposits
7,295,954

6,800,142

Federal funds purchased
105,000

155,000

FHLB advances
2,389,797

1,611,860

Other borrowings
186,888

186,497

Subordinated debt
108,929

108,880

Accrued interest payable and other liabilities
70,051

56,212

Total liabilities
10,156,619

8,918,591

Shareholders’ equity:

Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of June 30, 2018 and December 31, 2017
217,471

217,471

Common stock, par value $1.00 per share; 200,000,000 shares authorized; 32,199,903 and 31,912,763 shares issued as of June 30, 2018 and December 31, 2017; 31,669,643 and 31,382,503 shares outstanding as of June 30, 2018 and December 31, 2017
32,200

31,913

Additional paid in capital
428,796

422,096

Retained earnings
299,990

258,076

Accumulated other comprehensive loss, net

(33,997
)

(359
)
Treasury stock, at cost (530,260 shares as of June 30, 2018 and December 31, 2017)
(8,233
)

(8,233
)
Total shareholders’ equity
936,227

920,964

Total liabilities and shareholders’ equity
$
11,092,846

$
9,839,555

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

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

(continued)

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

Through BankMobile, a division of Customers Bank, Customers offers state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide. In October 2017, Customers announced its intent to spin-off its BankMobile business directly to Customers’ shareholders, to be followed by a merger of BankMobile into Flagship Community Bank ("Flagship"), as the most favorable option for disposition of BankMobile to Customers' shareholders rather than selling the business directly to a third party. Until execution of the spin-off and merger transaction, the assets and liabilities of BankMobile will be reported as held and used for all periods presented. Previously, Customers had stated its intention to sell BankMobile and, accordingly, all BankMobile operating results for the three and six months ended June 30, 2017 and cash flows for the six months ended June 30, 2017 were presented as discontinued operations. All prior period amounts have been reclassified to conform with the current period consolidated financial statement presentation. See NOTE 2 SPIN-OFF AND MERGER for more information regarding the spin-off and merger transaction.

Customers is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities. Customers Bancorp has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

NOTE 2 – SPIN-OFF AND MERGER

In third quarter 2017, Customers decided that the best strategy for its shareholders to realize the value of the BankMobile business was to divest BankMobile through a spin-off of BankMobile to Customers’ shareholders to be followed by a merger with Flagship Community Bank ("Flagship"). An Amended and Restated Purchase and Assumption Agreement and Plan of Merger (the "Amended Agreement") with Flagship to effect the spin-off and merger and Flagship's related purchase of BankMobile deposits from Customers was executed on November 17, 2017. Per the provisions of the Amended Agreement, the spin-off will be followed by a merger of the BankMobile spin-off subsidiary into Flagship, with Customers' shareholders first receiving shares of the BankMobile spin-off subsidiary as a dividend in the spin-off and then receiving shares of Flagship common stock in the merger of the BankMobile spin-off subsidiary into Flagship in exchange for shares of the BankMobile spin-off subsidiary common stock they receive in the spin-off. Separately, Flagship will assume the deposits and purchase certain associated assets of BankMobile for $10 million. Following completion of the spin-off and merger and other transactions contemplated in the Amended Agreement between Customers and Flagship, the BankMobile spin-off subsidiary shareholders would receive collectively more than 50% of Flagship common stock. The common stock of the merged entities, expected to be called BankMobile, is expected to be listed on a national securities exchange after completion of the transactions. In connection with the signing of the Amended Agreement on November 17, 2017, Customers deposited $1.0 million in an escrow account with a third party to be reserved for payment to Flagship in the event the Amended Agreement is terminated for reasons described in the Amended Agreement. This $1.0 million is considered restricted cash and is presented in cash and cash equivalents in the accompanying June 30, 2018 consolidated balance sheet. The Amended Agreement provides that completion of the transactions will be subject to the receipt of all necessary closing conditions. Although the possibility still exits that the spin-off and merger could close by September 30, 2018, at this time, no assurance can be given that the spin-off and merger will occur by or shortly after September 30, 2018.

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

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

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

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

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

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NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

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

Reclassifications

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

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

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Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

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

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

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Accounting Standards Adopted in 2018 (continued)

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

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

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Accounting Standards Adopted in 2018 (continued)

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

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

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

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

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

interest income, interest expense and securities gain).

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

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

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

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Accounting Standards Issued But Not Yet Adopted

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

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

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Accounting Standards Issued But Not Yet Adopted (continued)

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

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

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

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NOTE 4 — EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

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

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

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

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

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NOTE 6 — INVESTMENT SECURITIES

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

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

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

	December 31, 2017			
	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 six month periods ended June 30, 2018 and 2017:

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

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

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

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

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

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

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

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

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During the three and six month period ended June 30, 2017, Customers recorded other-than-temporary impairment losses of $2.9 million and $4.6 million, respectively, related to its equity holdings in Religare Enterprises Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through June 30, 2017 because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was $3.4 million which resulted in an unrealized gain of $1.0 million being recognized in accumulated other comprehensive income with no adjustment for deferred taxes as Customers currently does not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment.

As described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a $1.0 million reduction in accumulated other comprehensive income and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption were recorded directly in earnings, which resulted in an unrealized loss of $0.3 million being recognized in other non-interest income in the accompanying consolidated statements of income for the three and six months ended June 30, 2018, respectively.

At June 30, 2018 and December 31, 2017, Customers Bank had pledged investment securities aggregating $685.0 million and $16.9 million in fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

NOTE 7 – LOANS HELD FOR SALE

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

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

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

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

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

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NOTE 8 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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

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

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

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

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

(1) Includes past due loans that are accruing interest because collection is considered probable.
(2) Loans where next payment due is less than 30 days from the report date.
(3) Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing. Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.
(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.
(5) Manufactured housing loans purchased in 2010 are supported by cash reserves held at the Bank that are used to fund past-due payments when the loan becomes 90 days or more delinquent. Subsequent purchases are subject to

varying provisions in the event of borrowers' delinquencies.

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

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

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

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

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

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

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

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Impaired Loans - Individually Evaluated for Impairment

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

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

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

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Troubled Debt Restructurings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Quality Indicators

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

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

The risk rating grades are defined as follows:

“1” – Pass/Excellent

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

“2” – Pass/Superior

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

“3” – Pass/Strong

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

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

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

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

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

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

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

Loan Purchases and Sales

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

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

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

Loans Pledged as Collateral

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

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NOTE 9 — REGULATORY CAPITAL

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

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

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

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

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

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

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

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

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

NOTE 10 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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Financial Instruments Recorded at Fair Value on a Recurring Basis
Investment securities:
The fair values of equity securities and available for sale debt securities are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are classified as Level 1, 2 or 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
The carrying amount of investments in FHLB, Federal Reserve Bank, and other restricted stock approximates fair value, and considers the limited marketability of such securities. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans held for sale - Consumer residential mortgage loans (fair value option):
The Bank generally estimates the fair values of residential mortgage loans held for sale based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans held for sale - Commercial mortgage warehouse loans (fair value option):
The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized because at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 20 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Derivatives (Assets and Liabilities):
The fair values of interest rate swaps and credit derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Bank and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
The fair values of the residential mortgage loan commitments are derived from the estimated fair values that can be generated when the underlying mortgage loan is sold in the secondary market. The Bank generally uses commitments on hand from third- party investors to estimate an exit price and adjusts for the probability of the commitment being exercised based on the Bank's internal experience (i.e., pull-through rate). These assets and liabilities are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.
Financial Instruments Recorded at Fair Value on a Nonrecurring Basis
Impaired loans:
Impaired loans are those loans that are accounted for under ASC 310, Receivables, in which the Bank has measured impairment generally based on the fair value of the loan's collateral or discounted cash flow analysis. Fair value is generally determined based upon independent third-party appraisals of the properties that collateralize the loans or discounted cash flows based upon the expected proceeds. These assets are generally classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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

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

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

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

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

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

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

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

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

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

Residential
Mortgage

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

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

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

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

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

(1) Obtained from approved independent appraisers. Appraisals are current and in compliance with credit policy. The Bank does not generally discount appraisals.

(2) Fair value is adjusted for estimated costs to sell based on a percentage of the value as determined by the appraisal.

(3) Presented as a percentage of the value determined by appraisal for impaired loans and other real estate owned.

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NOTE 11 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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

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

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

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

Derivatives Not Designated as Hedging Instruments

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

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

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

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

Fair Value of Derivative Instruments on the Balance Sheet

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

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

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