Customers Bancorp, Inc.
Form 10-Q/A
November 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
(Amendment No. 1)

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

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

(Exact name of registrant as specified in its charter)

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

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

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

filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

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

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EXPLANATORY NOTE

This Amendment No. 1 to Customers Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (the "June 30, 2018 Form 10-Q/A") is being filed to amend and restate the following items presented in Customers Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, which was initially filed with the Securities and Exchange Commission on August 9, 2018 (the "Original June 30, 2018 Form 10-Q"):

- The Consolidated Balance Sheet (unaudited) included in Part I, Item 1 "Customers Bancorp, Inc. Consolidated Financial Statements as of June 30, 2018 and for the three month and six month periods ended June 30, 2018 and 2017 (unaudited)" are being amended and restated as of June 30, 2018 as set forth in the Consolidated Balance Sheets (unaudited) and described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.
- The Consolidated Statements of Cash Flows (unaudited) included in Part I, Item 1 are being amended and restated for the six months ended June 30, 2018 and 2017 as set forth in the Consolidated Statements of Cash Flows (unaudited) and described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.
- NOTE 7 - LOANS HELD FOR SALE, NOTE 8 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, AND NOTE 10 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS included in Part I, Item 1 are being amended and restated as set forth in the notes accompanying the unaudited consolidated financial statements and described in NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.
- Part I, Item 4 "Controls and Procedures" is being amended to address management's re-evaluation of disclosure controls and procedures and reflect the identification of a material weakness in internal control over financial reporting in conjunction with the restatement.
- Part II, Item 1A "Risk Factors" is being amended to address risks related to the identification of a material weakness in internal control over financial reporting in conjunction with the restatement.
- Part II, Item 6 "Exhibits" also has been amended to include currently dated certifications from Customers Bancorp, Inc's Principal Executive Officer and Principal Financial Officer as required by sections 302 and 906 of the Sarbanes Oxley Act of 2002. The certifications are attached to this June 30, 2018 Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2. The Interactive Data Files have also been amended in conjunction with the restatement and are attached to this June 30, 2018 Form 10-Q/A as Exhibit 101.

This June 30, 2018 Form 10-Q/A also restates previously reported amounts included in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" to present the corrected classification of Customers Bancorp Inc.'s commercial mortgage warehouse lending activities.

As previously reported on its Current Report on Form 8-K, which was filed with the SEC on November 13, 2018, Customers Bancorp, Inc. is restating its previously issued audited consolidated financial statements for 2017, 2016 and 2015 and its interim unaudited consolidated financial statements as of and for the three months ended March 31, 2018 and 2017 and the three and six months ended June 30, 2018 and 2017, because of misclassifications of cash flow activities associated with its commercial mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale rather than held for investment on the consolidated balance sheets. Accordingly, management has concluded that the control deficiency that resulted in these incorrect classifications constituted a material weakness in internal control over financial reporting. Solely as a result of this material weakness, management revised its earlier assessment and has now concluded that its disclosure controls and procedures were not effective at June 30, 2018.

These misclassifications had no effect on total cash balances, total loans, the allowance for loan losses, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metric, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. This June 30, 2018 Form 10-Q/A has not been updated for other events or information subsequent to the date of the filing of the Original June 30, 2018 Form 10-Q, except as noted above, and should be read in conjunction with the Original June 30, 2018 Form 10-Q and our other filings with the SEC.

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

| | June 30, 2018 (As Restated) | December 31, 2017 (As Restated) |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $22,969 | $20,388 |
| Interest-earning deposits | 228,757 | 125,935 |
| Cash and cash equivalents | 251,726 | 146,323 |
| Investment securities, at fair value | 1,161,000 | 471,371 |
| Loans held for sale (includes $1,043 and $1,886, respectively, at fair value) | 1,043 | 146,077 |
| Loans receivable, mortgage warehouse, at fair value | 1,930,738 | 1,793,408 |
| 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 | 9,074,176 | 8,523,651 |
| 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 | $95,240 | $84,560 | $181,171 | $159,967 |
| 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 (As Restated) | | 2017 (As Restated) | |
|---|---|---|---|---|
| Cash Flows from Operating Activities | | | | |
| Net income | $ 47,804 | | $ 49,469 | |
| Adjustments to reconcile net income to net cash 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 | (11,554 | ) | (20,442 | ) |
| Proceeds from the sale of loans held for sale | 12,640 | | 18,721 | |
| 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 Provided By Operating Activities | 65,471 | | 12,333 | |
| 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 | ) |
| Origination of mortgage warehouse loans | (14,260,621 | ) | (14,693,838 | ) |
| Proceeds from repayments of mortgage warehouse loans | 14,123,291 | | 14,709,013 | |
| 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 | (1,179,191 | ) | (1,322,891 | ) |
| 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 | |
| | (700 | ) | (3,961 | ) |

| | | | | |
|---|---|---|---|---|
| Payments of employee taxes withheld from share-based awards | | | | |
| Proceeds from issuance of common stock | 3,191 | | 1,900 | |
| Net Cash Provided By Financing Activities | 1,219,123 | | 1,459,091 | |
| 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<br>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 - As Restated
Basis of Presentation
The interim unaudited consolidated financial statements of Customers have been prepared in conformity with U.S. GAAP and pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. On November 13, 2018, Customers Bancorp filed with the SEC a report on Form 8-K advising that its 2017, 2016, and 2015 audited consolidated financial statements and its interim unaudited consolidated financial statements as of and for the three months ended March 31, 2018 and 2017 and the three and six months ended June 30, 2018 and 2017, respectively, should no longer be relied upon because of incorrect classifications of the cash flows used in and provided by its commercial mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investment (i.e., loans receivable) on its consolidated balance sheets. These misclassifications have no impact on total cash balances, total loans, total assets, the allowance for loan losses, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or other key performance metrics, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Customers' audited 2017 consolidated financial statements included in its Annual Report on Form 10-K/A filed with the SEC on November 30, 2018 (the "2017 Form 10-K/A"). Because of a fair value option election that Customers made on July 1, 2012 that continues today, these loans are, and will continue to be, reported at their fair value and accordingly do not have an allowance for loan losses. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Customers included in the 2017 Form 10-K/A. The 2017 Form 10-K/A 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, Mortgage Warehouse, at Fair Value; Loans Receivable; Purchased Loans; Allowance for Loan Losses; Goodwill and Other Intangible Assets; Investments in FHLB, Federal Reserve Bank, and Other Restricted Stock; Other Real Estate Owned; Bank-Owned Life Insurance; Bank Premises and Equipment; Operating Leases; Treasury Stock; Income Taxes; Share-Based Compensation; Transfer of Financial Assets; Business Segments; Derivative Instruments and Hedging; Comprehensive Income (Loss); Earnings per Share; and Loss Contingencies. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year or any other period.

Restatement of Previously Issued Financial Statements

In November 2018, Customers determined that the cash flow activities associated with its commercial mortgage warehouse lending activities should have been reported as investing activities in its consolidated statements of cash flows because the related loan balances should have been classified as held for investment (i.e., loans receivable). Customers changed its accounting policies such that commercial mortgage warehouse loans are classified as held for investment and presented as "Loans receivable, mortgage warehouse, at fair value" on its consolidated balance sheets. The cash flow activities associated with these commercial mortgage warehouse lending activities are reported as investing activities in the consolidated statements of cash flows. Accordingly, Customers has restated the consolidated balance sheet as of June 30, 2018 and statements of cash flows for the six months ended June 30, 2018 and 2017 herein.

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The following tables set forth the effects of the correction on the consolidated balance sheet as of June 30, 2018 and the consolidated statements of cash flows for the six months ended June 30, 2018 and 2017.

| | June 30, 2018 | | |
|---|---|---|---|
| Consolidated Balance Sheet | As Previously Reported | Adjustments | As Restated |
| (amounts in thousands) | | | |
| Loans held for sale | $1,931,781 | $(1,930,738) | $1,043 |
| Loans receivable, mortgage warehouse, at fair value | — | 1,930,738 | 1,930,738 |
| Total loans receivable, net of allowance for loan losses | $7,143,438 | $1,930,738 | $9,074,176 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| Consolidated Statements of Cash Flows | As Previously Reported | Adjustments | As Restated | As Previously Reported | Adjustments | As Restated |
| (amounts in thousands) | | | | | | |
| Origination of loans held for sale | $(14,272,175) | $14,260,621 | $(11,554) | $(14,714,280) | $14,693,838 | $(20,442) |
| Proceeds from the sale of loans held for sale | 14,135,931 | (14,123,291) | 12,640 | 14,727,734 | (14,709,013) | 18,721 |
| Net Cash Provided by (Used in) Operating Activities | (71,859) | 137,330 | 65,471 | 27,508 | (15,175) | 12,333 |
| Origination of mortgage warehouse loans | — | (14,260,621) | (14,260,621) | — | (14,693,838) | (14,693,838) |
| Proceeds from repayments of mortgage warehouse loans | — | 14,123,291 | 14,123,291 | — | 14,709,013 | 14,709,013 |
| Net Cash Used In Investing Activities | $(1,041,861) | $(137,330) | $(1,179,191) | $(1,338,066) | $15,175 | $(1,322,891) |

In addition to the restatement of Customers' consolidated balance sheet and statements of cash flows summarized above, the following notes to the consolidated financial statements have been restated to reflect the corrected classification of Customers' commercial warehouse lending activities:

- NOTE 7 - LOANS HELD FOR SALE;
- NOTE 8 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES; and
- NOTE 10 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS.

In addition, the comparative balances reported throughout Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 2 in this Quarterly Report on Form 10-Q/A, have been restated to present the corrected classification of Customers' commercial mortgage warehouse lending activities.

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' 2017 Form 10-K/A.

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

Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

| Standard | Summary of guidance | Effects on Financial Statements |
| --- | --- | --- |
| ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)<br><br>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.<br>Provides clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date.<br>Effective July 1, 2018 on a prospective basis with early adoption permitted. | Customers adopted on July 1, 2018 on a prospective basis.<br>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")<br><br>Issued February 2018 | Allows for reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cut and Jobs Act.<br>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.<br>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.<br>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.<br>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<br><br>Issued August 2017 | Aligns the entity's risk management activities and financial reporting for hedging relationships.<br>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.<br>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. | Customers early adopted on January 1, 2018.<br>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.<br>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 |

| | | |
|---|---|---|
| | Changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. | activities. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Customers has updated its disclosures in NOTE 11 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES as a result of early adopting this ASU. |
| ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting<br><br>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<br><br>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<br><br>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.<br>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.<br>Effective January 1, 2018 on a prospective basis. | Customers adopted on January 1, 2018.<br>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<br><br>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.<br>Effective January 1, 2018 and requires retrospective application to all periods presented. | Customers adopted on January 1, 2018.<br>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<br><br>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.<br>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.<br>Effective January 1, 2018 on a modified retrospective basis. | Customers adopted on January 1, 2018.<br>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<br><br>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:<br>1.<br>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.<br>2.<br>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.<br>3. | Customers adopted on January 1, 2018.<br>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. |

| | | |
|---|---|---|
| | Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (i.e., the nature of the loss).<br>4.<br>Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities.<br>5.<br>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.<br><br>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<br><br>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.<br>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.<br>Effective January 1, 2018 on a modified retrospective basis. | Customers adopted on January 1, 2018.<br>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<br><br>Issued January 2016 | Requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income.<br>Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.<br>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.<br>Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.<br>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.<br>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.<br>Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities.<br>Effective January 1, 2018 on a modified retrospective basis. | Customers adopted on January 1, 2018 using a modified retrospective approach.<br>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.<br>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.<br>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)<br><br>Issued May 2014 | Supersedes the revenue recognition requirements in ASC 605.<br>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.<br>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 |

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).

with leases and financial instruments (such as interest income, interest expense and securities gain).

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

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

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

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Accounting Standards Issued But Not Yet Adopted

| Standard | Summary of guidance | Effects on Financial Statements |
|---|---|---|
| ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting<br><br>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.<br>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.<br>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).<br>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.<br>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<br><br>Issued July 2017 | Changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.<br>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.<br>For freestanding equity-classified financial instruments, the amendments require | 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. |

| | | |
|---|---|---|
| | entities to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of net income available to common shareholders in basic earnings per share ("EPS").<br>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<br><br>Issued March 2017 | Requires that premiums for certain callable debt securities held be amortized to their earliest call date.<br>Effective for Customers beginning after December 15, 2018, with early adoption permitted.<br>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<br><br>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.<br>Replaces today's "incurred loss" approach and is expected to result in earlier recognition of credit losses.<br>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.<br>Simplifies the accounting model for purchased credit-impaired debt securities and loans.<br>Effective beginning after December 15, 2019 with early adoption permitted.<br>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.<br>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.<br>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.<br>Customers currently does not intend to early adopt this new guidance. |
| ASU 2016-02, Leases<br><br>Issued February 2016 | Supersedes the current lease accounting guidance for both lessees and lessors under ASC 840, Leases.<br>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.<br>Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees.<br>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.<br>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.<br>Customers expects to apply the new transition option under ASU 2018-11.<br>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) | | | | |