Customers Bancorp, Inc.
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015

¨ Transition report pursuant 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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

On October 30, 2015, 26,882,383 shares of Voting Common Stock were issued and outstanding.

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$80,475	$62,746
Interest-earning deposits	302,924	308,277
Cash and cash equivalents	383,399	371,023
Investment securities available for sale, at fair value	418,945	416,685
Loans held for sale (includes $1,680,010 and $1,335,668, respectively, at fair value)	1,730,002	1,435,459
Loans receivable	4,769,102	4,312,173
Allowance for loan losses	(33,823)	(30,932)
Total loans receivable, net of allowance for loan losses	4,735,279	4,281,241
FHLB, Federal Reserve Bank, and other restricted stock	63,514	82,002
Accrued interest receivable	16,512	15,205
FDIC loss sharing receivable	202	2,320
Bank premises and equipment, net	11,567	10,810
Bank-owned life insurance	156,909	138,676
Other real estate owned	8,433	15,371
Goodwill and other intangibles	3,654	3,664
Other assets	71,055	52,914
Total assets	$7,599,471	$6,825,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$777,478	$546,436
Interest-bearing	5,007,716	3,986,102
Total deposits	5,785,194	4,532,538
Federal funds purchased	50,000	—
FHLB advances	985,900	1,618,000
Other borrowings	88,250	88,250
Subordinated debt	110,000	110,000
Accrued interest payable and other liabilities	42,149	33,437
Total liabilities	7,061,493	6,382,225
Shareholders' equity:		
Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 2,300,000 and 0 shares issued and outstanding as of September 30, 2015 and December 31, 2014	55,569	—
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 27,412,643 and 27,277,789 shares issued as of September 30, 2015 and December 31, 2014; 26,882,383 and 26,745,529 shares outstanding as of September 30, 2015 and December 31, 2014	27,413	27,278
Additional paid in capital	360,903	355,822
Retained earnings	107,731	68,421
Accumulated other comprehensive loss, net	(5,405)	(122)
	(8,233)	(8,254)

Treasury stock, at cost (530,260 shares as of September 30, 2015 and 532,260 shares as of December 31, 2014)		
Total shareholders’ equity	537,978	443,145
Total liabilities and shareholders’ equity	$7,599,471	$6,825,370

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans receivable	$46,291	$39,640	$132,185	$103,216
Loans held for sale	14,006	8,503	38,428	20,301
Investment securities	2,283	2,361	6,899	7,944
Other	1,156	794	4,625	1,805
Total interest income	63,736	51,298	182,137	133,266
Interest expense:				
Deposits	9,022	6,179	24,693	17,321
Other borrowings	1,539	1,494	4,523	3,834
FHLB advances	1,556	1,711	5,044	3,348
Subordinated debt	1,685	1,700	5,055	1,826
Total interest expense	13,802	11,084	39,315	26,329
Net interest income	49,934	40,214	142,822	106,937
Provision for loan losses	2,094	5,035	14,393	12,288
Net interest income after provision for loan losses	47,840	35,179	128,429	94,649
Non-interest income:				
Mortgage warehouse transactional fees	2,792	2,154	7,864	6,128
Bank-owned life insurance	1,177	976	3,407	2,646
Gain on sale of loans	1,131	695	3,189	1,266
Deposit fees	265	192	691	618
Mortgage loans and banking income	167	212	605	2,175
Gain (loss) on sale of investment securities	(16)	—	(85)	3,191
Other	655	873	2,626	3,298
Total non-interest income	6,171	5,102	18,297	19,322
Non-interest expense:				
Salaries and employee benefits	14,981	12,070	43,381	33,012
FDIC assessments, taxes, and regulatory fees	3,222	3,320	7,495	8,529
Professional services	2,673	1,671	7,378	5,834
Technology, communication and bank operations	2,422	2,297	7,791	6,767
Occupancy	2,169	2,119	6,469	6,061
Other real estate owned	1,722	603	2,026	1,845
Advertising and promotion	330	261	1,106	1,104
Loan workout	285	388	541	1,306
Other	2,503	1,950	7,245	6,592
Total non-interest expense	30,307	24,679	83,432	71,050
Income before income tax expense	23,704	15,602	63,294	42,921
Income tax expense	8,415	3,940	22,497	12,885
Net income	15,289	11,662	40,797	30,036
Preferred stock dividend	980	—	1,487	—
Net income available to common shareholders	$14,309	$11,662	$39,310	$30,036
Basic earnings per common share	$0.53	$0.44	$1.47	$1.12

Diluted earnings per common share	0.50	0.42	1.37	1.08

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$15,289	$11,662	$40,797	$30,036
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on securities arising during the period	261	(1,886)	(4,703)	11,335
Income tax effect	(98)	660	1,720	(3,967)
Less: reclassification adjustment for (gains) losses on securities included in net income	16	—	85	(3,191)
Income tax effect	(6)	—	(32)	1,117
Net unrealized gains (losses)	173	(1,226)	(2,930)	5,294
Unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) on cash flow hedges arising during the period	(2,341)	661	(3,841)	(296)
Income tax effect	877	(235)	1,488	100
Net unrealized gains (losses)	(1,464)	426	(2,353)	(196)
Other comprehensive income (loss), net of tax	(1,291)	(800)	(5,283)	5,098
Comprehensive income	$13,998	$10,862	$35,514	$35,134

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2015								
	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, January 1, 2015	—	$—	26,745,529	$27,278	$355,822	$68,421	$ (122)	$(8,254)	$443,145
Net income	—	—	—	—	—	40,797	—	—	40,797
Other comprehensive loss	—	—	—	—	—	—	(5,283)	—	(5,283)
Issuance of preferred stock, net of offering costs	2,300,000	55,569	—	—	—	—	—	—	55,569
Preferred stock dividend	—	—	—	—	—	(1,487)	—	—	(1,487)
Share-based compensation expense	—	—	—	—	3,541	—	—	—	3,541
Issuance of common stock under share-based compensation arrangements	—	—	136,854	135	1,540	—	—	21	1,696
Balance, September 30, 2015	2,300,000	$55,569	26,882,383	$27,413	$360,903	$107,731	$ (5,405)	$(8,233)	$537,978

	Nine Months Ended September 30, 2014								
	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, January 1, 2014	—	$—	24,224,151	$24,756	$307,231	$71,008	$ (8,118)	$(8,254)	$386,623
Net income	—	—	—	—	—	30,036	—	—	30,036
Other comprehensive income	—	—	—	—	—	—	5,098	—	5,098
Stock dividend	—	—	2,429,375	2,429	43,364	(45,799)	—		(6)
	—	—	—	—	3,124	—	—	—	3,124

Share-based compensation expense									
Issuance of common stock under share-based compensation arrangements	—	—	81,509	82	842	—	—	—	924
Balance, September 30, 2014	—	$—	26,735,035	$27,267	$354,561	$55,245	$(3,020)	$(8,254)	$425,799

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities		
Net income	$40,797	$30,036
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses, net of change to FDIC receivable and clawback liability	14,393	12,288
Provision for depreciation and amortization	3,034	2,782
Share-based compensation	4,112	4,048
Deferred taxes	(7,580)	117
Net amortization of investment securities premiums and discounts	623	574
Loss (gain) on sale of investment securities	85	(3,191)
Gain on sale of mortgages and other loans	(3,135)	(3,401)
Origination of loans held for sale	(23,148,641)	(12,298,823)
Proceeds from the sale of loans held for sale	22,804,119	11,817,512
Increase in FDIC loss sharing receivable net of clawback liability	(530)	(2,713)
Amortization (accretion) of fair value discounts	(794)	(231)
Net loss on sales of other real estate owned	509	728
Valuation and other adjustments to other real estate owned, net of FDIC receivable	917	641
Earnings on investment in bank-owned life insurance	(3,407)	(2,646)
Increase in accrued interest receivable and other assets	(9,860)	(8,874)
Increase in accrued interest payable and other liabilities	5,087	5,550
Net Cash Used In Operating Activities	(300,271)	(445,603)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	60,966	35,716
Proceeds from sales of investment securities available for sale	806	213,249
Purchases of investment securities available for sale	(69,358)	(149,940)
Net increase in loans	(606,168)	(1,625,024)
Purchase of loan portfolios	—	(308,242)
Proceeds from sales of loans	192,275	109,913
Purchases of bank-owned life insurance	(15,000)	(30,465)
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	18,488	(42,218)
Reimbursements from the FDIC on loss sharing agreements	1,940	3,329
Purchases of bank premises and equipment	(2,439)	(1,321)
Proceeds from sales of other real estate owned	5,572	6,509
Net Cash Used In Investing Activities	(412,918)	(1,788,494)
Cash Flows from Financing Activities		
Net increase in deposits	1,252,674	1,324,193
Net (decrease) increase in short-term borrowed funds from the FHLB	(657,100)	610,000
Net increase in federal funds purchased	50,000	—
Proceeds from long-term FHLB borrowings	25,000	265,000
Net proceeds from issuance of long-term debt	—	133,142
Net proceeds from issuance of preferred stock	55,569	—
Preferred stock dividends paid	(1,308)	—

Proceeds from issuance of common stock	730	—
Net Cash Provided by Financing Activities	725,565	2,332,335
Net Increase in Cash and Cash Equivalents	12,376	98,238
Cash and Cash Equivalents – Beginning	371,023	233,068
Cash and Cash Equivalents – Ending	$383,399	$331,306

(continued)

Supplementary Cash Flows Information		
Interest paid	$36,128	$23,840
Income taxes paid	30,159	18,375
Non-cash items:		
Transfer of loans to other real estate owned	$3,198	$13,368
Transfer of loans held for investment to held for sale	—	164,681
Transfer of loans held for sale to held for investment	30,365	—

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. Customers Bancorp also has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.
The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).
Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank and non-bank subsidiaries, serve residents and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties), Rye, New York (Westchester County), Hamilton, New Jersey (Mercer County), Boston, Massachusetts, Providence, Rhode Island, Portsmouth, New Hampshire, and Manhattan, New York. The Bank has 14 branches and provides commercial banking products, primarily loans and deposits. Customers Bank provides loan products to customers through its loan production offices in Boston, Massachusetts, Providence, Rhode Island, Portsmouth, New Hampshire, Manhattan and Melville, New York and Philadelphia, Pennsylvania. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Customers Bank 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.
NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION
Basis of Presentation
The interim unaudited consolidated financial statements of Customers Bancorp, Inc. 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, 2014 consolidated balance sheet presented in this report has been derived from Customers Bancorp’s audited 2014 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 2014 consolidated financial statements of Customers Bancorp and subsidiaries included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 27, 2015. That Form 10-K describes Customers Bancorp’s significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents; Restrictions on Cash and Amounts Due from Banks; Investment Securities; Loan Accounting Framework; Allowance for Loan Losses; Goodwill; Investments in FHLB, Federal Reserve Bank, and other restricted stock; Other Real Estate Owned; FDIC Loss Sharing Receivable; Bank Owned Life Insurance; Bank Premises and Equipment; Treasury Stock; Income Taxes; Share-Based Compensation; Derivative Instruments and Hedging; Comprehensive Income; Earnings per Share; Segment Information; and Accounting Changes. Certain prior period amounts have been reclassified to conform to current period presentation. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.
Recently Issued Accounting Standards
In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update (“ASU”) 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the guidance in this ASU eliminates the requirement to retrospectively account for those adjustments and requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had

been recognized as of the acquisition date. The guidance in this ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and should be applied prospectively to adjustment to provisional amounts that occur after the effective date of this ASU. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In April 2015 and August 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements-

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Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, respectively. The guidance in these ASUs is intended to simplify presentation of debt issuance costs, and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The guidance in these ASUs is effective for interim and annual periods beginning after December 15, 2015. Customers does not expect these ASUs to have a significant impact on its financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. The guidance in this ASU is intended to amend the update, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this update affect the following areas:

1. Limited partnerships and similar legal entities.
2. Evaluating fees paid to a decision maker or a service provider as a variable interest.
3. The effect of fee arrangements on the primary beneficiary determination.
4. The effect of related parties on the primary beneficiary determination.
5. Certain investment funds.

The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The guidance in this ASU was issued as part of the FASB's initiative to reduce complexity in accounting standards and eliminates from GAAP the concept of extraordinary items. The guidance in this update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In November 2014, the FASB issued ASU 2014-16, Determining Whether the Host contract in a Hybrid Financial Instrument in the Form of a Share is More Akin to Debt or to Equity. The guidance in this ASU requires entities that issue or invest in a hybrid financial instrument to separate an embedded derivative feature from a host contract and account for the feature as a derivative. In the case of derivatives embedded in a hybrid financial instrument that is issued in the form of a share, that criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. If the host contract is akin to equity, then equity-like features (for example, a conversion option) are considered clearly and closely related to the host contract and, thus, would not be separated from the host contract. If the host contract is akin to debt, then equity-like features are not considered clearly and closely related to the host contract. In the latter case, an entity may be required to separate the equity-like embedded derivative feature from the debt host contract if certain other criteria in Subtopic 815-15 are met. Similarly, debt-like embedded derivative features may require separate accounting from an equity-like host contract. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The guidance in this ASU affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.
2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and
interest) expected to be recovered from the guarantor. The guidance in this ASU was effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The guidance may be applied using a prospective transition method in which a reporting entity applies the guidance to foreclosures that occur after the date of adoption, or a modified retrospective transition using a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. Prior periods should not be adjusted. A

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reporting entity must apply the same method of transition as elected under ASU 2014-04. The adoption of this ASU in first quarter 2015 did not have a significant impact on Customers' financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The guidance in this ASU applies to a reporting entity that is required to consolidate a collateralized financing entity under the Variable Interest Entities guidance when: (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Codification Topics; and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance in this ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation. The guidance in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite period, the remaining unrecognized cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing. The amendments in this update require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The guidance in this ASU was effective in the second quarter 2015. The adoption of this ASU did not have a significant impact on Customers financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard’s core principal is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S.

GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force. The guidance in this ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of

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residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The ASU also requires additional related interim and annual disclosures. The guidance in this ASU was effective in first quarter 2015. The adoption of this ASU did not have a significant impact on Customers' financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, a consensus of the FASB Emerging Issues Task Force. This ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The guidance in this ASU was effective for annual periods and interim reporting periods beginning after December 15, 2014. The adoption of this ASU in first quarter 2015 did not have a significant impact on Customers' financial condition or results of operations.

NOTE 3 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT (1)

The following tables present the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30, 2015				
	Available-for-sale Securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Loss on Cash Flow Hedge	Total
Beginning balance - July 1, 2015	$(1,825)	$(136)	$(1,961)	$(2,153)	$(4,114)
Other comprehensive income (loss) before reclassifications	598	(435)	163	(1,464)	(1,301)
Amounts reclassified from accumulated other comprehensive loss to net income (3)	10	—	10	—	10
Net current-period other comprehensive income (loss)	608	(435)	173	(1,464)	(1,291)
Ending balance - September 30, 2015	$(1,217)	$(571)	$(1,788)	$(3,617)	$(5,405)

	Nine Months Ended September 30, 2015				
	Available-for-sale Securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Loss on Cash Flow Hedge	Total
Beginning balance - January 1, 2015	$1,156	$(14)	$1,142	$(1,264)	$(122)
Other comprehensive (loss) before reclassifications	(2,426)	(557)	(2,983)	(2,353)	(5,336)
Amounts reclassified from accumulated other comprehensive loss to net income (3)	53	—	53	—	53
Net current-period other comprehensive (loss)	(2,373)	(557)	(2,930)	(2,353)	(5,283)
Ending balance - September 30, 2015	$(1,217)	$(571)	$(1,788)	$(3,617)	$(5,405)

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(amounts in thousands)	Three Months Ended September 30, 2014 Unrealized Losses on Available-for-sale Securities (2)	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Beginning balance - July 1, 2014	$(1,598)	$(622)	$(2,220)
Other comprehensive income (loss) before reclassifications	(1,226)	426	(800)
Amounts reclassified from accumulated other comprehensive loss to net income (3)	—	—	—
Net current-period other comprehensive income (loss)	(1,226)	426	(800)
Ending balance - September 30, 2014	$(2,824)	$(196)	$(3,020)

(amounts in thousands)	Nine Months Ended September 30, 2014 Unrealized Gains (Losses) on Available-for-sale Securities (2)	Unrealized Loss on Cash Flow Hedge	Total
Beginning balance - January 1, 2014	$(8,118)	$—	$(8,118)
Other comprehensive income (loss) before reclassifications	7,368	(196)	7,172
Amounts reclassified from accumulated other comprehensive loss to net income (3)	(2,074)	—	(2,074)
Net current-period other comprehensive income (loss)	5,294	(196)	5,098
Ending balance - September 30, 2014	$(2,824)	$(196)	$(3,020)

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

(2) Includes immaterial gains or losses on foreign currency items for the three and nine months ended September 30, 2014.

(3) Reclassification amounts are reported as gain or loss on sale of investment securities on the Consolidated Statements of Income.

NOTE 4 — EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(amounts in thousands, except share and per share data)				
Net income available to common shareholders	$14,309	$11,662	$39,310	$30,036
Weighted-average number of common shares outstanding - basic	26,872,787	26,730,347	26,830,341	26,713,953
Share-based compensation plans	1,538,436	1,001,966	1,453,378	949,584
Warrants	329,906	252,527	315,276	252,043
Weighted-average number of common shares - diluted	28,741,129	27,984,840	28,598,995	27,915,580
Basic earnings per common share	$0.53	$0.44	$1.47	$1.12
Diluted earnings per common share	$0.50	$0.42	$1.37	$1.08

The following is a summary of securities that could potentially dilute basic earnings per common share in future periods that were not included in the computation of diluted earnings per common share because to do so would have

been anti-dilutive for the periods presented.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Anti-dilutive securities:				
Share-based compensation awards	607,678	116,370	608,778	116,420
Warrants	52,242	118,745	52,242	118,745
Total anti-dilutive securities	659,920	235,115	661,020	235,165

NOTE 5 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of September 30, 2015 and December 31, 2014 are summarized in the tables below:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	$364,292	$3,327	$(1,859)	$365,760
Corporate notes	35,000	451	(129)	35,322
Equity securities (2)	22,514	—	(4,651)	17,863
	$421,806	$3,778	$(6,639)	$418,945

(1) Comprised of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.
(2) Comprised primarily of equity securities in a foreign entity.

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	$376,854	$2,805	$(2,348)	$377,311
Corporate notes	15,000	104	—	15,104
Equity securities (2)	23,074	1,197	(1)	24,270
	$414,928	$4,106	$(2,349)	$416,685

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.
(2) Comprised primarily of equity securities in a foreign entity.

The following table presents proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(amounts in thousands)				
Proceeds from sale of available-for-sale securities	$314	$—	$806	$213,249
Gross gains	$—	—	$—	$3,191
Gross losses	(16)	—	(85)	—
Net gains (losses)	$(16)	$—	$(85)	$3,191

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

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

	September 30, 2015	
	Amortized Cost	Fair Value
(amounts in thousands)		
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	28,000	28,403
Due after ten years	7,000	6,919
Mortgage-backed securities	364,292	365,760
Total debt securities	$399,292	$401,082

Customers' investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (1)	$—	$—	$67,264	$(1,859)	$67,264	$(1,859)
Corporate notes	8,871	(129)	—	—	8,871	(129)
Equity securities (2)	17,857	(4,650)	6	(1)	17,863	(4,651)
Total	$26,728	$(4,779)	$67,270	$(1,860)	$93,998	$(6,639)

	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (3)	$60,388	$(81)	$80,426	$(2,267)	140,814	$(2,348)
Equity securities (2)	—	—	5	(1)	5	(1)
Total	$60,388	$(81)	$80,431	$(2,268)	$140,819	$(2,349)

(1) Comprised of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA at September 30, 2015.

(2) Comprised primarily of equity securities in a foreign entity.

(3) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA at December 31, 2014.

At September 30, 2015, there were four available-for-sale investment securities in the less-than-twelve-month category and sixteen available-for-sale investment securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. All amounts are expected to be recovered when market prices recover or at maturity. The unrealized losses on the equity securities reflect decreases in market price and adverse changes in foreign currency exchange rates. Customers evaluated the financial condition and capital strength of the issuer of these securities and concluded that the decline in fair value was temporary and would recover by way of increases in market price or positive changes in foreign currency exchange rates. Customers intends to hold these securities for the foreseeable future and does not intend to sell the securities before the price recovers. Customers considers it more

likely than not that it will not be required to sell the securities. Accordingly, Customers has concluded that the securities are not other-than-temporarily impaired as of September 30, 2015.

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At September 30, 2015 and December 31, 2014, Customers Bank had pledged investment securities aggregating $318.1 million and $376.9 million fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

NOTE 6 – LOANS HELD FOR SALE

The composition of loans held for sale as of September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015	December 31, 2014
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans at fair value	$1,677,995	$1,332,019
Multi-family loans at lower of cost or fair value	49,992	99,791
Commercial loans held for sale	1,727,987	1,431,810
Consumer loans:		
Residential mortgage loans at fair value	2,015	3,649
Loans held for sale	$1,730,002	$1,435,459

Effective September 30, 2015, Customers Bank transferred $30.4 million of multi-family loans from held for sale to loans receivable (held for investment) because the Bank no longer has the intent to sell these loans. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer.

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NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of September 30, 2015 and December 31, 2014:

(amounts in thousands)	September 30, 2015	December 31, 2014
Commercial:		
Multi-family	$2,405,400	$2,206,403
Commercial and industrial (including owner occupied commercial real estate)	967,958	777,220
Commercial real estate non-owner occupied	912,971	827,940
Construction	89,616	44,642
Total commercial loans	4,375,945	3,856,205
Consumer:		
Residential real estate	260,967	285,003
Manufactured housing	116,742	126,731
Other	1,076	1,541
Total consumer loans	378,785	413,275
Total loans receivable not covered under FDIC loss sharing agreements	4,754,730	4,269,480
Commercial:		
Multi-family	—	2,002
Commercial and industrial (including owner occupied commercial real estate)	—	8,449
Commercial real estate non-owner occupied	—	11,370
Construction	—	5,076
Total commercial loans	—	26,897
Consumer:		
Residential real estate	11,181	12,392
Other	2,668	2,892
Total consumer loans	13,849	15,284
Total loans receivable covered under FDIC loss sharing agreements (1)	13,849	42,181
Total loans receivable	4,768,579	4,311,661
Deferred costs and unamortized premiums, net	523	512
Allowance for loan losses	(33,823)	(30,932)
Loans receivable, net of allowance for loan losses	$4,735,279	$4,281,241

(1) Loans that were acquired in two FDIC-assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as "covered" loans throughout these financial statements. The period to submit losses under the FDIC loss sharing agreements for non-single family loans expired in third quarter 2015. The period to submit losses under the FDIC loss sharing agreements for single family loans expires in third quarter 2017.

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Non-Covered Loans

The following tables summarize non-covered loans by loan type and performance status as of September 30, 2015 and December 31, 2014:

	September 30, 2015						
	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)
(amounts in thousands)							
Multi-family	$—	$—	$—	$—	$2,401,727	$3,673	$2,405,400
Commercial and industrial	—	—	—	6,381	675,939	1,620	683,940
Commercial real estate - owner occupied	191	—	191	1,851	268,206	13,770	284,018
Commercial real estate - non-owner occupied	1,047	—	1,047	4,478	894,449	12,997	912,971
Construction	—	—	—	—	89,382	234	89,616
Residential real estate	512	—	512	1,232	251,090	8,133	260,967
Manufactured housing (5)	3,196	3,036	6,232	2,653	104,399	3,458	116,742
Other consumer	—	—	—	—	861	215	1,076
Total	$4,946	$3,036	$7,982	$16,595	$4,686,053	$44,100	$4,754,730

	December 31, 2014						
	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)
(amounts in thousands)							
Multi-family	$—	$—	$—	$—	$2,203,686	$2,717	$2,206,403
Commercial and industrial	366	—	366	2,257	542,667	2,102	547,392
Commercial real estate - owner occupied	—	—	—	2,342	211,453	16,033	229,828
Commercial real estate - non-owner occupied	—	—	—	1,108	816,114	10,718	827,940
Construction	—	—	—	—	44,483	159	44,642
Residential real estate	1,226	—	1,226	849	273,565	9,363	285,003
Manufactured housing (5)	6,324	4,388	10,712	931	111,072	4,016	126,731
Other consumer	—	—	—	—	1,333	208	1,541
Total	$7,916	$4,388	$12,304	$7,487	$4,204,373	$45,316	$4,269,480

(1) Includes past due loans that are accruing interest because collection is considered probable.

(2) Loans where next payment due is less than 30 days from the report date.

(3) Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing.

Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

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

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

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Covered Loans

The following tables summarize covered loans by loan type and performance status as of September 30, 2015 and December 31, 2014:

	September 30, 2015						
	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)
(amounts in thousands)							
Residential real estate	$—	$—	$—	$1,046	$9,533	$602	$11,181
Other consumer	80	—	80	141	2,423	24	2,668
Total	$80	$—	$80	$1,187	$11,956	$626	$13,849

	December 31, 2014						
	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)
(amounts in thousands)							
Commercial and industrial	$518	$—	$518	$256	$578	$1,191	$2,543
Commercial real estate owner occupied	—	—	—	172	5,734	—	5,906
Commercial real estate non-owner occupied	—	—	—	352	5,932	5,086	11,370
Construction	—	—	—	2,325	—	2,751	5,076
Multi-family	—	—	—	—	373	1,629	2,002
Residential real estate	—	—	—	1,006	10,782	604	12,392
Other consumer	147	—	147	135	2,570	40	2,892
Total	$665	$—	$665	$4,246	$25,969	$11,301	$42,181

(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.

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

Losses incurred on covered loans are eligible for partial reimbursement by the FDIC. Subsequent to the purchase date, the expected cash flows on the covered loans are subject to evaluation. Decreases in the present value of expected cash flows on the covered loans are recognized by increasing the allowance for loan losses with a related charge to the provision for loan losses. At the same time, the FDIC indemnification asset is increased reflecting an estimated future collection from the FDIC, which is recorded as a reduction to the provision for loan losses. If the expected cash flows on the covered loans increase such that a previously recorded impairment can be reversed, the Bank records a

reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC receivable balance (with a related charge to the provision for loan losses). Increases in expected cash flows on covered loans and decreases in expected cash flows of the FDIC loss sharing receivable, when there are no previously recorded impairments, are considered together and recognized over the remaining life of the loans as interest income. Decreases in the valuations of other real estate owned covered by the loss sharing agreements are recorded net of the estimated FDIC receivable as an increase to other real estate owned expense (a component of non-interest expense). The FDIC loss sharing receivable balance will be reduced through a charge to the provision for loan losses, with no offsetting reduction to the allowance for loan losses, as the period to submit

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losses under the FDIC loss sharing arrangements approaches expiration and the estimated losses in the covered loans have not yet emerged or been realized in a final disposition event. The period to submit losses under the FDIC loss sharing arrangements for non-single family loans expired in third quarter 2015. The period to submit losses under the FDIC loss sharing arrangements for single family loans expires in third quarter 2017. The final maturity of the FDIC loss sharing arrangements occurs in third quarter 2020.

As part of the FDIC loss sharing arrangements, the Bank also assumed a liability to be paid within 45 days subsequent to the maturity or termination of the loss sharing arrangements that is contingent upon actual losses incurred over the life of the arrangements relative to expected losses and the consideration paid upon acquisition of the failed institutions ("the Clawback Liability”). Due to cash received on the covered assets in excess of the original cash to be received expectations of the FDIC, the Bank anticipates that it will be required to pay the FDIC at the end of its loss sharing arrangements. As of September 30, 2015, a clawback liability of $2.3 million has been recorded. To the extent actual losses on the covered assets are less than estimated losses, the clawback liability will increase. To the extent actual losses on the covered assets are more than the estimated losses, the clawback liability will decrease.

As of September 30, 2015, the Bank expected to collect $2.5 million from the FDIC for estimated losses and reimbursement of external costs, such as legal fees, real estate taxes and appraisal expenses, and estimated the clawback liability due to the FDIC in 2020 at $2.3 million. The net amount of $0.2 million is presented as the "FDIC loss sharing receivable" in the accompanying consolidated balance sheet.
The following table presents changes in the allowance for loan losses and the FDIC loss sharing receivable, including the effect of the estimated clawback liability for the three months and nine months ended September 30, 2015 and 2014.

	Allowance for Loan Losses	
	Three Months Ended September 30,	
(amounts in thousands)	2015	2014
Beginning balance	$37,491	$28,186
Provision for loan losses (1)	1,989	3,222
Charge-offs	(5,932)	(792)
Recoveries	275	467
Ending balance	$33,823	$31,083

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(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Three Months Ended September 30, 2015	2014
Beginning balance	$(1,455)	$8,919
Decreased estimated cash flows from covered loans (2)	(105)	(1,813)
Increased estimated cash flows from covered OREO (a)	3,138	—
Other activity, net (b)	61	741
Cash receipts from FDIC	(1,437)	(1,852)
Ending balance	$202	$5,995
(1) Provision for loan losses	$1,989	$3,222
(2) Effect attributable to FDIC loss share arrangements	105	1,813
Net amount reported as provision for loan losses	$2,094	$5,035

(a) Recorded as a reduction to Other Real Estate Owned expense (a component of non-interest expense).
(b) Includes external costs, such as legal fees, real estate taxes, and appraisal expenses, which qualify for reimbursement under loss sharing arrangements.

(amounts in thousands)	Allowance for Loan Losses Nine Months Ended September 30, 2015	2014
Beginning balance	$30,932	$23,998
Provision for loan losses (1)	10,548	8,853
Charge-offs	(8,880)	(2,733)
Recoveries	1,223	965
Ending balance	$33,823	$31,083

(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Nine Months Ended September 30, 2015	2014
Beginning balance	$2,320	$10,046
Decreased estimated cash flows from covered loans (2)	(3,845)	(3,435)
Increased estimated cash flows from covered OREO (a)	3,138	—
Other activity, net (b)	529	2,713
Cash receipts from FDIC	(1,940)	(3,329)
Ending balance	$202	$5,995
(1) Provision for loan losses	$10,548	$8,853
(2) Effect attributable to FDIC loss share arrangements	3,845	3,435
Net amount reported as provision for loan losses	$14,393	$12,288

(a) Recorded as a reduction to Other Real Estate Owned expense (a component of non-interest expense).
(b) Includes external costs, such as legal fees, real estate taxes, and appraisal expenses, which qualify for reimbursement under loss sharing arrangements.

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Loans Individually Evaluated for Impairment — Covered and Non-Covered

The following tables present the recorded investment (net of charge-offs), unpaid principal balance, and related allowance by loan type for loans that are individually evaluated for impairment as of September 30, 2015 and December 31, 2014 and the average recorded investment and interest income recognized for the three and nine months ended September 30, 2015 and 2014. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	September 30, 2015			Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(amounts in thousands)	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Multi-family	$405	$405	$—	$203	$5	$101	$5
Commercial and industrial	7,872	7,872	—	7,597	102	9,179	500
Commercial real estate owner occupied	7,474	7,474	—	6,416	44	7,597	229
Commercial real estate non-owner occupied	8,536	8,536	—	7,803	137	6,937	514
Construction	—	—	—	335	—	1,330	—
Other consumer	48	48	—	49	1	35	1
Residential real estate	1,644	1,644	—	1,624	—	1,535	—
With an allowance recorded:							
Commercial and industrial	10,385	16,550	4,581	12,640	26	8,420	332
Commercial real estate owner occupied	12	12	2	13	66	200	66
Commercial real estate non-owner occupied	568	568	129	664	4	821	9
Construction	—	—	—	—	—	—	—
Other consumer	93	93	38	93	—	88	—
Residential real estate	403	403	92	474	1	419	1
Total	$37,440	$43,605	$4,842	$37,911	$386	$36,662	$1,657

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	December 31, 2014			Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
(amounts in thousands)	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Commercial and industrial	$14,600	$16,122	$ —	$15,377	$ 216	$13,690	$ 520
Commercial real estate owner occupied	12,599	12,744	—	11,818	163	10,774	360
Commercial real estate non-owner occupied	5,602	5,602	—	8,999	125	8,204	274
Construction	2,325	2,325	—	2,325	—	2,438	—
Other consumer	21	21	—	52	—	27	—
Residential real estate	1,455	3,697	—	1,924	—	2,157	19
With an allowance recorded:							
Commercial and industrial	1,923	1,923	857	1,888	11	1,770	26
Commercial real estate owner occupied	750	750	95	1,202	2	1,268	3
Commercial real estate non-owner occupied	571	571	170	916	1	966	2
Construction	—	—	—	1,548	—	1,449	—
Other consumer	114	114	32	84	—	74	1
Residential real estate	365	365	188	296	—	273	1
Total	$40,325	$44,234	$ 1,342	$46,429	$ 518	$43,090	$ 1,206

Troubled Debt Restructurings

At September 30, 2015 and December 31, 2014, there were $10.5 million and $5.0 million, respectively, in loans reported as troubled debt restructurings (“TDRs”). TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, the Bank requires sustained performance for nine months before returning a TDR to accrual status.

Modification of purchased-credit-impaired loans that are accounted for within loan pools in accordance with the accounting standards for purchased-credit-impaired loans do not result in the removal of these loans from the pool even if 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.

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The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three and nine months ended September 30, 2015 and 2014. There were no modifications that involved forgiveness of debt.

(amounts in thousands)	TDRs in Compliance with Their Modified Terms and Accruing Interest	TDRs in Compliance with Their Modified Terms and Not Accruing Interest	Total
Three Months Ended September 30, 2015			
Extended under forbearance	$—	$183	$183
Interest-rate reductions	437	268	705
Total	$437	$451	$888
Nine Months Ended September 30, 2015			
Extended under forbearance	$—	$183	$183
Interest-rate reductions	3,189	2,558	5,747
Total	$3,189	$2,741	$5,930
Three Months Ended September 30, 2014			
Extended under forbearance	$81	$—	$81
Interest-rate reductions	—	168	168
Total	$81	$168	$249
Nine Months Ended September 30, 2014			
Extended under forbearance	$448	$—	$448
Interest-rate reductions	47	471	518
Total	$495	$471	$966

The following table provides, by loan type, the number of loans modified in troubled debt restructurings and the related recorded investment during the three and nine months ended September 30, 2015 and 2014.

	TDRs in Compliance with Their Modified Terms and Accruing Interest		TDRs in Compliance with Their Modified Terms and Not Accruing Interest	
(amounts in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Three Months Ended September 30, 2015				
Commercial and industrial	—	$—	1	$183
Manufactured housing	14	431	6	268
Residential real estate	1	6	—	—
Total	15	$437	7	$451
Nine Months Ended September 30, 2015				
Commercial and industrial	—	$—	2	$527
Commercial real estate non-owner occupied	—	—	1	209
Manufactured housing	90	2,988	37	2,005
Residential real estate	2	201	—	—
Total	92	$3,189	40	$2,741
Three Months Ended September 30, 2014				
Manufactured housing	—	$—	2	$168
Other consumer	2	81	—	—
Total	2	$81	2	$168
Nine Months Ended September 30, 2014				
Manufactured housing	1	$47	7	$471

Other consumer	9	448	—	—
Total	10	$495	7	$471

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At September 30, 2015 and December 31, 2014, there were no commitments to lend additional funds to debtors whose terms have been modified in TDRs.

For the three and nine months ended September 30, 2015, the recorded investment of loans determined to be TDRs was $0.9 million and $5.9 million, respectively, both before and after restructuring. During the three month period ended September 30, 2015, six manufactured housing TDR loans defaulted with a recorded investment of $0.3 million, and one commercial and industrial TDR loan defaulted with a recorded investment of $0.2 million. During the nine month period ended September 30, 2015, thirty-seven manufactured housing TDR loans defaulted with a recorded investment of $2.0 million, two commercial and industrial TDR loans defaulted with a recorded investment of $0.5 million, one commercial real estate non-owner-occupied TDR loan defaulted with a recorded investment of $0.2 million.

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 one specific allowance resulting from TDR modifications during the three months ended September 30, 2015, totaling $0.1 million for one commercial and industrial loan. There were three specific allowances resulting from TDR modifications during the nine months ended September 30, 2015, totaling $0.2 million for two commercial and industrial loans, and $0.1 million for one commercial real estate non-owner-occupied loan. There were no specific allowances resulting from TDR modifications during the three and nine months ended September 30, 2014.

Credit Quality Indicators

Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, residential real estate, construction, and mortgage warehouse 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. Mortgage warehouse loans are assigned a risk rating at the facility level and are primarily based on the underlying collateral pledged to support the loan. Consumer and manufactured housing loans are evaluated based on the payment activity of the loan and individual loans are not assigned an internal risk rating unless delinquent.

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

The risk rating grades are defined as follows:

"1" – Pass/Excellent

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

"2" – Pass/Superior

Loans rated 2 are those for which the borrower has a strong financial condition, balance sheet, operations, cash flow, debt capacity and coverage with ratios better than industry norms. The borrowers of these loans exhibit a limited

leverage position, are virtually immune to local economies in stable growing industries, and management is well respected and the company has ready access to public markets.

"3" – Pass/Strong
Loans rated 3 are those loans for which the borrower has 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, have little industry risk, move in diversified markets and are experienced and competent in their industry. These borrowers' access to capital markets is limited mostly to private sources, often secured, but the borrower typically has access to a wide range of refinancing alternatives.
"4" – Pass/Good
Loans rated 4 have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher grade borrower. These loans carry a normal level of risk, with very low loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the higher quality loans.
"5" – Satisfactory
Loans rated 5 are extended to borrowers who are determined to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower's historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.
"6" – Satisfactory/Bankable with Care
Loans rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.
"7" – Special Mention
Loans rated Special Mention are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event that 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 classified Substandard when the loans are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the company will sustain some loss if the weaknesses are not corrected.
"9" – Doubtful
The Bank assigns a doubtful rating to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.
"10" – Loss

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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 home equity loans, consumer loans, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and non-performing.

The following tables present the credit ratings of the non-covered loan portfolio as of September 30, 2015 and December 31, 2014:

	September 30, 2015								
(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
Pass/Satisfactory	$2,403,599	$665,484	$270,857	$903,357	$89,616	$259,299	$—	$—	$4,592,212
Special Mention	405	11,822	9,007	4,626	—	—	—	—	25,860
Substandard	1,396	6,634	4,154	4,988	—	1,668	—	—	18,840
Performing (1)	—	—	—	—	—	—	107,857	1,076	108,933
Non-performing (2)	—	—	—	—	—	—	8,885	—	8,885
Total	$2,405,400	$683,940	$284,018	$912,971	$89,616	$260,967	$116,742	$1,076	$4,754,730

	December 31, 2014								
(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
Pass/Satisfactory	$2,206,403	$530,468	$212,326	$824,279	$44,642	$283,240	$—	$—	$4,101,358
Special Mention	—	14,565	12,352	2,322	—	243	—	—	29,482
Substandard	—	2,359	5,150	1,339	—	1,520	—	—	10,368
Performing (1)	—	—	—	—	—	—	115,088	1,541	116,629
Non-performing (2)	—	—	—	—	—	—	11,643	—	11,643
Total	$2,206,403	$547,392	$229,828	$827,940	$44,642	$285,003	$126,731	$1,541	$4,269,480

(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.

The following tables present the credit ratings of the covered loan portfolio as of September 30, 2015 and December 31, 2014:

	September 30, 2015							
(amounts in thousands)	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Multi-family	Residential Real Estate	Other Consumer	Total

Pass/Satisfactory	$—	$—	$—	$—	$ —	$9,733	$—	$9,733
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1,448	—	1,448
Performing (1)	—	—	—	—	—	—	2,447	2,447
Non-performing (2)	—	—	—	—	—	—	221	221
Total	$—	$—	$—	$—	$ —	$11,181	$2,668	$13,849

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	December 31, 2014							
	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Multi-family	Residential Real Estate	Other Consumer	Total
(amounts in thousands)								
Pass/Satisfactory	$1,322	$5,030	$4,959	$—	$ 373	$10,985	$—	$22,669
Special Mention	—	704	4,372	—	—	—	—	5,076
Substandard	1,221	172	2,039	5,076	1,629	1,407	—	11,544
Performing (1)	—	—	—	—	—	—	2,610	2,610
Non-performing (2)	—	—	—	—	—	—	282	282
Total	$2,543	$5,906	$11,370	$5,076	$ 2,002	$12,392	$2,892	$42,181

(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.

As of September 30, 2015, the Bank had $2.2 million of residential real estate held in other real estate owned. As of September 30, 2015, the Bank had not initiated foreclosure proceedings on any loans secured by residential real estate.

Allowance for loan losses

During second quarter 2015, the Bank refined its methodology for estimating the general allowance for loan losses. Previously, the general allowance for the portion of the loan portfolio originated after December 31, 2009 ("Post 2009 loan portfolio") was based generally on qualitative factors due to insufficient historical loss data on the portfolio. During second quarter 2015, the Bank began using objectively verifiable industry and peer loss data to estimate probable incurred losses as of the balance sheet date for the Post 2009 loan portfolio until sufficient internal loss history is available. The same methodology was also adopted for the portion of the loan portfolio originated on or before December 31, 2009 ("Legacy loan portfolio") that had no loss history over the past two years.

The changes in the allowance for loan losses for the three and nine months ended September 30, 2015 and 2014 and the loans and allowance for loan losses by loan class based on impairment evaluation method are as follows. The amounts presented for the provision for loan losses below do not include the effect of changes to estimated benefits resulting from the FDIC loss share arrangements for the covered loans.

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Three Months Ended September 30, 2015	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)									
Beginning Balance, July 1, 2015	$8,734	$14,062	$3,651	$6,310	$844	$3,455	$316	$119	$37,491
Charge-offs	—	(5,559)	(35)	(82)	—	(256)	—	—	(5,932)
Recoveries	—	248	13	—	8	—	—	6	275
Provision for loan losses	472	1,678	(370)	(109)	258	(5)	70	(5)	1,989
Ending Balance, September 30, 2015	$9,206	$10,429	$3,259	$6,119	$1,110	$3,194	$386	$120	$33,823
Nine Months Ended September 30, 2015									
Beginning Balance, January 1, 2015	$8,493	$4,784	$4,336	$9,198	$1,047	$2,698	$262	$114	$30,932
Charge-offs	—	(6,793)	(378)	(327)	(1,064)	(282)	—	(36)	(8,880)
Recoveries	—	351	14	—	195	572	—	91	1,223
Provision for loan losses	713	12,087	(713)	(2,752)	932	206	124	(49)	10,548
Ending Balance, September 30, 2015	$9,206	$10,429	$3,259	$6,119	$1,110	$3,194	$386	$120	$33,823
Loans:									
Individually evaluated for impairment	$405	$18,257	$7,486	$9,104	$—	$2,047	$—	$141	$37,440
Collectively evaluated for impairment	2,401,322	664,063	262,762	890,870	89,382	261,366	113,284	3,364	4,686,413
Loans acquired with credit deterioration	3,673	1,620	13,770	12,997	234	8,735	3,458	239	44,726
	$2,405,400	$683,940	$284,018	$912,971	$89,616	$272,148	$116,742	$3,744	$4,768,579
Allowance for loan losses:									

Individually evaluated for impairment	$—	$4,581	$2	$129	$—	$92	$—	$38	$4,842
Collectively evaluated for impairment	9,206	5,625	1,167	3,700	1,106	2,010	97	28	22,939
Loans acquired with credit deterioration	—	223	2,090	2,290	4	1,092	289	54	6,042
Ending Balance, September 30, 2015	$9,206	$10,429	$3,259	$6,119	$1,110	$3,194	$386	$120	$33,823

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Three Months Ended September 30, 2014 (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
Beginning Balance, July 1, 2014	$7,205	$3,341	$2,826	$10,060	$2,187	$2,028	$401	$138	$28,186
Charge-offs	—	(91)	(64)	(214)	(284)	(139)	—		(792)
Recoveries	—	67	85	284	4	23	—	4	467
Provision for loan losses	767	1,187	301	1,069	(208)	217	(80)	(31)	3,222
Ending Balance, September 30, 2014	$7,972	$4,504	$3,148	$11,199	$1,699	$2,129	$321	$111	$31,083
Nine Months Ended September 30, 2014									
Beginning Balance, January 1, 2014	$4,227	$2,674	$2,517	$8,961	$2,385	$2,490	$614	$130	$23,998
Charge-offs	—	(536)	(318)	(1,120)	(284)	(442)	—	(33)	(2,733)
Recoveries	—	292	91	304	7	265	—	6	965
Provision for loan losses	3,745	2,074	858	3,054	(409)	(184)	(293)	8	8,853
Ending Balance, September 30, 2014	$7,972	$4,504	$3,148	$11,199	$1,699	$2,129	$321	$111	$31,083
As of December 31, 2014									
Loans:									
Individually evaluated for impairment	$—	$16,523	$13,349	$6,173	$2,325	$1,820	$—	$135	$40,325
Collectively evaluated for impairment	2,204,059	530,119	206,352	817,333	44,483	285,608	122,715	4,050	4,214,719
Loans acquired with credit deterioration	4,346	3,293	16,033	15,804	2,910	9,967	4,016	248	56,617
	$2,208,405	$549,935	$235,734	$839,310	$49,718	$297,395	$126,731	$4,433	$4,311,661

Allowance for loan losses:									
Individually evaluated for impairment	$—	$856	$96	$170	$—	$188	$—	$32	$1,342
Collectively evaluated for impairment	8,493	3,766	1,756	6,580	424	1,436	92	28	22,575
Loans acquired with credit deterioration	—	162	2,484	2,448	623	1,074	170	54	7,015
Ending Balance, December 31, 2014	$8,493	$4,784	$4,336	$9,198	$1,047	$2,698	$262	$114	$30,932

The non-covered manufactured housing portfolio was purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the purchase agreement for defaults of the underlying borrower and other specified items. At September 30, 2015 and December 31, 2014, funds available for reimbursement, if necessary, were $1.2 million and $3.0 million, respectively. Each quarter, these funds are evaluated to determine if they would be sufficient to absorb the probable incurred losses within the manufactured housing portfolio.

The changes in accretable yield related to purchased-credit-impaired loans for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,	
	2015	2014
(amounts in thousands)		
Accretable yield balance, beginning of period	$14,302	$19,691
Accretion to interest income	(551)	(839)
Reclassification from nonaccretable difference and disposals, net	10	(378)
Accretable yield balance, end of period	$13,761	$18,474

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(amounts in thousands)	Nine Months Ended September 30, 2015	2014
Accretable yield balance, beginning of period	$17,606	$22,557
Accretion to interest income	(1,790)	(2,462)
Reclassification from nonaccretable difference and disposals, net	(2,055)	(1,621)
Accretable yield balance, end of period	$13,761	$18,474

NOTE 8 - SHAREHOLDERS' EQUITY

On May 18, 2015, Customers Bancorp issued 2,300,000 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, par value $1.00 per share, with a liquidation preference of $25.00 per share.

Customers Bancorp will pay dividends on the Series C Preferred Stock only when, as, and if declared by the board of directors or a duly authorized committee of the board and to the extent that it has lawfully available funds to pay dividends. Dividends on the Series C Preferred Stock will accrue and be payable quarterly in arrears, on the 15th day of March, June, September, and December of each year, commencing on September 15, 2015, at a fixed rate per annum equal to 7.00% from the original issue date to, but excluding, June 15, 2020, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.30% per annum.

Dividends on the Series C Preferred Stock will not be cumulative. If Customers Bancorp's board of directors or a duly authorized committee of the board does not declare a dividend on the Series C Preferred Stock in respect of a dividend period, then no dividend shall be deemed to have accrued for such dividend period, be payable on the applicable dividend payment date, or be cumulative, and Customers Bancorp will have no obligation to pay any dividend for that dividend period, whether or not the board of directors or a duly authorized committee of the board declares a dividend on the Series C Preferred Stock for any future dividend period.

The Series C Preferred Stock has no stated maturity, is not subject to any mandatory redemption, sinking fund or other similar provisions and will remain outstanding unless redeemed at Customers Bancorp's option. Customers Bancorp may redeem the Series C Preferred Stock at its option, at a redemption price equal to $25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), (i) in whole or in part, from time to time, on any dividend payment date on or after June 15, 2020 or (ii) in whole but not in part, within 90 days following the occurrence of a regulatory capital treatment event. Any redemption of the Series C Preferred Stock is subject to prior approval of the Board of Governors of the Federal Reserve System. The Series C Preferred Stock qualifies as Tier 1 capital under regulatory capital guidelines.

Except in limited circumstances, the Series C Preferred Stock does not have any voting rights.

On August 24, 2015, Customers Bancorp's board of directors declared a cash dividend on its Series C Preferred Stock of $0.56875 per share. The dividend was paid on September 15, 2015 to shareholders of record on August 31, 2015.

NOTE 9 — SHARE-BASED COMPENSATION

During the nine months ended September 30, 2015, options to purchase an aggregate of 596,995 shares of Customers Bancorp voting common stock were granted to certain officers and team members. The exercise price for the options granted is equal to the closing price of Customers Bancorp's voting common stock on the date of grant. The options are subject to a five-year cliff vesting and expire after ten years. In addition to the five-year service requirement, one of the following conditions must be met in order for the options to become exercisable:

- Total shareholder returns over the five-year vesting period must be a minimum of 50%, or
-

Customers Bancorp must have achieved a compound annual growth rate in diluted EPS of at least 10% over the five-year vesting period.

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Customers evaluated the likelihood that at least one of these conditions would be met over the requisite service period and determined that it was more likely than not that one of the conditions would be satisfied (based upon historical performance). Accordingly, the grant-date fair value of these awards is being recognized as expense over the five-year vesting period. The fair value of the options was estimated using the Black-Scholes option pricing model.
The following table presents the weighted-average assumptions used and the resulting weighted-average fair value of each option granted.

	September 30, 2015	
Weighted-average risk-free interest rate	1.90	%
Expected dividend yield	0.00	%
Weighted-average expected volatility	21.18	%
Weighted-average expected life (in years)	7	
Weighted-average fair value of each option granted	$6.42	

Stock Options
The following table summarizes stock option activity for the nine months ended September 30, 2015.

	Number of Options		Weighted-average Exercise Price	Weighted-average Remaining Contractual Term in Years	Aggregate Intrinsic Value
(amounts in thousands, except Weighted-average exercise price)					
Outstanding at January 1, 2015	3,168,067		$12.61		
Granted	596,995		23.36		
Exercised	(31,168	)	10.53		$455
Forfeited	(2,200	)	17.65		
Outstanding at September 30, 2015	3,731,694		$14.34	7.03	$42,392
Exercisable at September 30, 2015	607,118		$8.97	4.51	$10,165

Cash received from the exercise of options during the nine months ended September 30, 2015 was $0.3 million with a related tax benefit of $0.2 million.
Restricted Stock Units
There were 158,581 restricted stock units granted during the nine months ended September 30, 2015. Of the aggregate restricted stock units granted, 84,392 were granted under the Bonus Recognition and Retention Program and are subject to five-year cliff vesting. The remaining units were granted under the Bancorp's Restated and Amended 2004 Incentive Equity and Deferred Compensation Plan and are subject to either a three-year waterfall vesting with one third of the amount vesting annually or a three-year cliff vesting. The following table summarizes restricted stock unit activity for the nine months ended September 30, 2015.

	Restricted Stock Units		Weighted-average Grant-date Fair Value
Outstanding and unvested at January 1, 2015	788,971		$13.00
Granted	158,581		19.67
Vested	(65,166	)	12.01
Forfeited	(8,214	)	17.23
Outstanding and unvested at September 30, 2015	874,172		$14.24

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Total share-based compensation expense for the three months ended September 30, 2015 and 2014 was $1.2 million and $1.1 million, respectively. Total share-based compensation expense for the nine months ended September 30, 2015 and 2014 was $3.6 million and $3.1 million, respectively.

Customers Bancorp has a policy that permits its directors to elect to receive shares of voting common stock in lieu of their cash retainers. During the nine months ended September 30, 2015, Customers Bancorp issued 21,993 shares of voting common stock with a fair value of $0.6 million to directors as compensation for their services during the first nine months of 2015. The fair values were determined based on the opening price of the common stock on the day the shares were issued.

NOTE 10 — REGULATORY MATTERS

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 the Bancorp's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Bancorp to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (as defined in the regulations). At September 30, 2015 and December 31, 2014, the Bank and Bancorp met all capital adequacy requirements to which they were subject.

The Dodd-Frank Act required the FRB to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depositary subsidiaries. In 2013, the federal banking agencies approved rules that implemented the Dodd-Frank requirements and certain other regulatory capital reforms effective January 1, 2015, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk rated assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier 1 risk based capital ratios to 6% and 8%, respectively, (iii) changed the treatment of certain capital components for determining Tier 1 and Tier 2 capital, and (iv) changed the risk weighting of certain assets and off balance sheet items in determining risk weighted assets.

To be categorized as well capitalized, an institution must maintain minimum common equity Tier 1, total risk based, Tier 1 risk based and Tier 1 leveraged ratios as set forth in the following table:

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	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015:						
Common equity Tier 1 (to risk weighted assets)						
Customers Bancorp, Inc.	$481,277	8.24 %	$262,811	4.5 %	N/A	N/A
Customers Bank	$549,276	9.45 %	$261,566	4.5 %	$377,818	6.5 %
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$667,532	11.43 %	$467,219	8.0 %	N/A	N/A
Customers Bank	$693,099	11.92 %	$465,007	8.0 %	$581,259	10.0 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$536,846	9.19 %	$350,414	6.0 %	N/A	N/A
Customers Bank	$549,276	9.45 %	$348,755	6.0 %	$465,007	8.0 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$536,846	7.27 %	$295,328	4.0 %	N/A	N/A
Customers Bank	$549,276	7.46 %	$294,713	4.0 %	$368,392	5.0 %
As of December 31, 2014:						
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$578,644	11.09 %	$417,473	8.0 %	N/A	N/A
Customers Bank	$621,894	11.98 %	$415,141	8.0 %	$518,926	10.0 %
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$437,712	8.39 %	$208,737	4.0 %	N/A	N/A
Customers Bank	$480,963	9.27 %	$207,570	4.0 %	$311,356	6.0 %
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$437,712	6.69 %	$261,622	4.0 %	N/A	N/A
Customers Bank	$480,963	7.39 %	$260,462	4.0 %	$325,577	5.0 %

The new risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer will be 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. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

NOTE 11 — 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. FASB ASC 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. However, many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. For fair value disclosure purposes, Customers utilized certain fair value measurement criteria under the FASB ASC 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.

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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 inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

The following methods and assumptions were used to estimate the fair values of Customers' financial instruments as of September 30, 2015 and December 31, 2014:

Cash and cash equivalents:

The carrying amounts reported on the balance sheet for cash and cash equivalents approximate those assets' fair values. These assets are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Investment securities:

The fair values of investment securities available for sale are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are included 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 FHLB, Federal Reserve Bank, and other restricted stock approximates fair value, and considers the limited marketability of such securities. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Residential mortgage loans:

The Bank generally estimates the fair values of residential mortgage loans held for sale based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Mortgage warehouse loans:

The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized since 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 19 days from purchase to sale. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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Loans held for sale – Multi-family loans:
The fair values of multi-family loans held for sale are estimated using pricing indications from letters of intent with third-party investors, recent sale transactions within the secondary markets for loans with similar characteristics, or non-binding indicative bids from brokers. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Loans receivable, net of allowance for loan losses:
The fair values of loans held for investment are estimated using discounted cash flows, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Impaired loans:
Impaired loans are those that are accounted for under ASC 450, Contingencies, in which the Bank has measured impairment generally based on the fair value of the loan's collateral. 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 included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Other real estate owned:
The fair value of OREO is determined using appraisals, which may be discounted based on management's review and changes in market conditions. 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 included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Deposit liabilities:
The fair values disclosed for interest and non-interest checking, passbook savings and money market deposit accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). These liabilities are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. These liabilities are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Federal funds purchased:
For these short-term instruments, the carrying amount is considered a reasonable estimate of fair value. These liabilities are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.
Borrowings:
Borrowings consist of long-term and short-term FHLB advances, five-year senior unsecured notes, and subordinated debt. For the short-term borrowings, the carrying amount is considered a reasonable estimate of fair value and is included as Level 1. Fair values of long-term FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. Fair values of privately placed subordinated and senior unsecured debt are estimated by a third-party financial adviser using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit-risk characteristics, terms and remaining maturity. These liabilities are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The $63 million senior unsecured notes issued during third quarter 2013 are traded on The New York Stock Exchange, and their price can be obtained daily. This fair value measurement is classified as Level 1.

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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 fixed cash receipts and the discounted expected variable cash payments. The discounted variable cash 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 included 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 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 included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Off-balance-sheet financial instruments:

The fair values of unused commitments to lend and standby letters of credit are considered to be the same as their contractual amounts.

The following information should not be interpreted as an estimate of Customers' fair value in its entirety since 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 were as follows at September 30, 2015 and December 31, 2014.

			Fair Value Measurements at September 30, 2015		
(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	$383,399	$383,399	$383,399	$—	$—
Investment securities, available for sale	418,945	418,945	17,863	401,082	—
Loans held for sale	1,730,002	1,730,501	—	1,680,010	50,491
Loans receivable, net of allowance for loan losses	4,735,279	4,737,189	—	—	4,737,189
FHLB, Federal Reserve Bank and other restricted stock	63,514	63,514	—	63,514	—
Derivatives	10,938	10,938	—	10,868	70
Liabilities:					
Deposits	$5,785,194	$5,799,266	$3,497,023	$2,302,243	$—
Federal funds purchased	50,000	50,000	50,000	—	—
FHLB advances	985,900	988,859	715,900	272,959	—
Other borrowings	88,250	93,222	68,285	24,937	—
Subordinated debt	110,000	111,100	—	111,100	—
Derivatives	16,951	16,951	—	16,951	—

			Fair Value Measurements at December 31, 2014		
(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	$371,023	$371,023	$371,023	$—	$—
Investment securities, available for sale	416,685	416,685	24,270	392,415	—
Loans held for sale	1,435,459	1,436,460	—	1,335,668	100,792
Loans receivable, net of allowance for loan losses	4,281,241	4,285,537	—	—	4,285,537
FHLB, Federal Reserve Bank and other stock	82,002	82,002	—	82,002	—
Derivatives	7,552	7,552	—	7,509	43
Liabilities:					
Deposits	$4,532,538	$4,540,507	$2,820,875	$1,719,632	$—
FHLB advances	1,618,000	1,619,858	1,298,000	321,858	—
Other borrowings	88,250	92,069	66,944	25,125	—
Subordinated debt	110,000	111,925	—	111,925	—
Derivatives	9,716	9,716	—	9,716	—

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For financial assets and liabilities measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015 Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Mortgage-backed securities	$—	$ 365,760	$—	$365,760
Corporate notes	—	35,322	—	35,322
Equity securities	17,863	—	—	17,863
Derivatives (1)	—	10,868	70	10,938
Loans held for sale – fair value option	—	1,680,010	—	1,680,010
Total assets - recurring fair value measurements	$17,863	$ 2,091,960	$70	$2,109,893
Liabilities				
Derivatives (2)	$—	$ 16,951	$—	$16,951
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of specific reserves of $4,842	$—	$ —	$6,619	$6,619
Other real estate owned	—	—	2,975	2,975
Total assets - nonrecurring fair value measurements	$—	$ —	$9,594	$9,594

	December 31, 2014 Fair Value Measurements at the End of the Reporting Period Using			
(amounts in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Mortgage-backed securities	$—	$ 377,311	$—	$377,311
Corporate notes	—	15,104	—	15,104
Equity securities	24,270	—	—	24,270
Derivatives (1)	—	7,509	43	$7,552
Loans held for sale – fair value option	—	1,335,668	—	1,335,668
Total assets - recurring fair value measurements	$24,270	$ 1,735,592	$43	$1,759,905
Liabilities				
Derivatives (2)	—	$ 9,716	—	$9,716
Measured at Fair Value on a Nonrecurring Basis:				

Assets				
Impaired loans, net of specific reserves of $1,342	$—	$ —	$ 2,380	$ 2,380
Other real estate owned	—	—	9,149	9,149
Total assets - nonrecurring fair value measurements	$—	$ —	$ 11,529	$ 11,529

(1) Included in Other Assets
(2) Included in Other Liabilities

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The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2015 and 2014 are summarized as follows.

	Three Months Ended September 30,	
	2015	2014
	Residential Mortgage Loan Commitments	
(amounts in thousands)		
Balance at July 1	$71	$54
Issuances	70	35
Settlements	(71)	(54)
Balance at September 30	$70	$35

	Nine Months Ended September 30,	
	2015	2014
	Residential Mortgage Loan Commitments	
(amounts in thousands)		
Balance at January 1	$43	$240
Issuances	228	192
Settlements	(201)	(397)
Balance at September 30	$70	$35

Customers' policy is to recognize transfers between fair value levels when events or circumstances warrant transfers. There were no transfers between levels during the three and nine months ended September 30, 2015 and 2014.
The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2015 and December 31, 2014 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value.

	Quantitative Information about Level 3 Fair Value Measurements			
September 30, 2015	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	$6,619	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	2,975	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	70	Adjusted market bid	Pull-through rate	92%

	Quantitative Information about Level 3 Fair Value Measurements			
December 31, 2014	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	$2,380	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	9,149	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	43	Adjusted market bid	Pull-through rate	80%

(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.
(3) Presented as a percentage of the value determined by appraisal.

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NOTE 12 — 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 fixed-rate borrowings. Customers also has interest-rate derivatives resulting from a service provided to certain qualifying customers, and therefore, they are not used to manage Customers' interest-rate risk in assets or liabilities. Customers manages a matched book with respect to its derivative instruments used in this customer service in order to minimize its net risk exposure resulting from such transactions.

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with a forecasted issuance of debt. The ineffective portion of the change in fair value of the derivatives is to be recognized directly in earnings. During the three and nine months ended September 30, 2015 and 2014, Customers did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. Customers expects to reclassify $1.3 million from accumulated other comprehensive income to interest expense during the next 12 months.

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

At September 30, 2015 and December 31, 2014, Customers had one outstanding interest rate derivative with a notional amount of $150.0 million that was designated as a cash flow hedge of interest rate risk. The hedge expires in April 2019.

Derivatives Not Designated as Hedging Instruments

Customers executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan to a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that Customers executes with a third party in order to minimize interest rate risk exposure resulting from such transactions. Because the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting third-party market swaps are recognized directly in earnings. At September 30, 2015, Customers had 52 interest rate swaps with an aggregate notional amount of $394.3 million related to this program. At December 31, 2014, Customers had 44 interest rate swaps with an aggregate notional amount of $251.9 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its 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 applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At September 30, 2015 and

December 31, 2014, Customers had an outstanding notional balance of residential mortgage loan commitments of $4.3 million and $3.8 million, respectively.

Customers also purchased credit derivatives to hedge the performance risk associated with one of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value reported directly

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in earnings. At September 30, 2015 and December 31, 2014, Customers had an outstanding notional balance of credit derivatives of $19.4 million and $13.4 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

The following table presents the fair value of Customers' derivative financial instruments as well as their classification on the balance sheet as of September 30, 2015 and December 31, 2014.

	September 30, 2015			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$—	Other liabilities	$5,786
Total		$—		$5,786
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$10,676	Other liabilities	$11,165
Credit contracts	Other assets	192	Other liabilities	—
Residential mortgage loan commitments	Other assets	70	Other liabilities	—
Total		$10,938		$11,165

	December 31, 2014			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	$—	Other liabilities	$1,945
Total		$—		$1,945
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	$7,332	Other liabilities	$7,771
Credit contracts	Other assets	177	Other liabilities	—
Residential mortgage loan commitments	Other assets	43	Other liabilities	—
Total		$7,552		$7,771

Effect of Derivative Instruments on Comprehensive Income

The following tables present the effect of Customers' derivative financial instruments on comprehensive income for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30, 2015	
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 192
Credit contracts	Other non-interest income	51
Residential mortgage loan commitments	Mortgage loan and banking income	(1)
Total		$ 242

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	Three Months Ended September 30, 2014	
(amounts in thousands)	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 47
Credit contracts	Other non-interest income	(4)
Residential mortgage loan commitments	Mortgage loan and banking income	(19)
Total		$ 24

	Nine Months Ended September 30, 2015	
(amounts in thousands)	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$ 902
Credit contracts	Other non-interest income	15
Residential mortgage loan commitments	Mortgage loan and banking income	27
Total		$ 944

	Nine Months Ended September 30, 2014	
(amounts in thousands)	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	$686
Credit contracts	Other non-interest income	(139)
Residential mortgage loan commitments	Mortgage loan and banking income	(205)
Total		$342

	Three Months Ended September 30, 2015		
(amounts in thousands)	Amount of Loss Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$(1,464)	Interest expense	$ —

	Three Months Ended September 30, 2014		
	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

(amounts in thousands)			
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$426	Interest expense	$ —

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(amounts in thousands)	Nine Months Ended September 30, 2015 Amount of Loss Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$(2,353)	Interest expense	$ —

(amounts in thousands)	Nine Months Ended September 30, 2014 Amount of Loss Recognized in OCI on Derivatives (Effective Portion) (1)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Interest rate swaps	$(196)	Interest expense	$ —

(1) Net of taxes

Credit-risk-related Contingent Features

By entering into derivative contracts, Customers is exposed to credit risk. The credit risk associated with derivatives executed with customers is the same as that involved in extending the related loans and is subject to the same standard credit policies. To mitigate the credit-risk exposure to major derivative dealer counterparties, Customers only enters into agreements with those counterparties that maintain credit ratings of high quality.

Agreements with major derivative dealer counterparties contain provisions whereby default on any of Customers' indebtedness would be considered a default on its derivative obligations. Customers also has entered into agreements that contain provisions under which the counterparty could require Customers to settle its obligations if Customers fails to maintain its status as a well/adequately-capitalized institution. As of September 30, 2015, the fair value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was $17.3 million. In addition, Customers has minimum collateral posting thresholds with certain of these counterparties and at September 30, 2015 had posted $17.2 million of cash as collateral. Customers records cash posted as collateral as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of other assets.

Disclosures about Offsetting Assets and Liabilities

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

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Offsetting of Financial Assets and Derivative Assets
At September 30, 2015

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

Offsetting of Financial Liabilities and Derivative Liabilities
At September 30, 2015

(amounts in thousands) Description	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	