Customers Bancorp, Inc.
Form 10-Q
August 07, 2015
Table of Contents

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 June 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 July 31, 2015, 26,871,745 shares of Voting Common Stock were issued and outstanding.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
Table of Contents

Table of Contents

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$44,064	$62,746
Interest-earning deposits	347,525	308,277
Cash and cash equivalents	391,589	371,023
Investment securities available for sale, at fair value	373,953	416,685
Loans held for sale (includes $1,949,572 and $1,335,668, respectively, at fair value)	2,030,348	1,435,459
Loans receivable	4,524,825	4,312,173
Allowance for loan losses	(37,491)	(30,932)
Total loans receivable, net of allowance for loan losses	4,487,334	4,281,241
FHLB, Federal Reserve Bank, and other restricted stock	78,148	82,002
Accrued interest receivable	15,958	15,205
FDIC loss sharing receivable	—	2,320
Bank premises and equipment, net	11,453	10,810
Bank-owned life insurance	155,940	138,676
Other real estate owned	13,319	15,371
Goodwill and other intangibles	3,658	3,664
Other assets	55,943	52,914
Total assets	$7,617,643	$6,825,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$584,380	$546,436
Interest-bearing	4,892,777	3,986,102
Total deposits	5,477,157	4,532,538
FHLB advances	1,388,000	1,618,000
Other borrowings	88,250	88,250
Subordinated debt	110,000	110,000
Accrued interest payable and other liabilities	30,735	33,437
Total liabilities	7,094,142	6,382,225
Shareholders' equity:		
Preferred stock, $1.00 par value per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 2,300,000 and 0 shares issued and outstanding as of June 30, 2015 and December 31, 2014	55,569	—
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 27,402,005 and 27,277,789 shares issued as of June 30, 2015 and December 31, 2014; 26,871,745 and 26,745,529 shares outstanding as of June 30, 2015 and December 31, 2014	27,402	27,278
Additional paid in capital	359,455	355,822
Retained earnings	93,422	68,421
Accumulated other comprehensive loss, net	(4,114)	(122)
Treasury stock, at cost (530,260 shares as of June 30, 2015 and 532,260 shares as of December 31, 2014)	(8,233)	(8,254)

Total shareholders’ equity	523,501	443,145
Total liabilities and shareholders’ equity	$7,617,643	$6,825,370

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans receivable	$42,801	$35,220	$85,894	$63,576
Loans held for sale	13,522	6,715	24,422	11,798
Investment securities	2,253	2,543	4,616	5,583
Other	1,107	614	3,469	1,011
Total interest income	59,683	45,092	118,401	81,968
Interest expense:				
Deposits	8,145	5,727	15,671	11,142
Other borrowings	1,496	1,184	2,984	2,340
FHLB advances	1,799	1,141	3,488	1,637
Subordinated debt	1,685	110	3,370	126
Total interest expense	13,125	8,162	25,513	15,245
Net interest income	46,558	36,930	92,888	66,723
Provision for loan losses	9,335	2,886	12,299	7,253
Net interest income after provision for loan losses	37,223	34,044	80,589	59,470
Non-interest income:				
Mortgage warehouse transactional fees	2,799	2,215	5,072	3,974
Bank-owned life insurance	1,169	836	2,230	1,670
Gain on sale of loans	827	572	2,058	571
Mortgage loans and banking income	287	1,554	438	1,963
Deposit fees	247	212	426	426
Gain (loss) on sale of investment securities	(69)	359	(69)	3,191
Other	1,133	1,163	1,971	2,425
Total non-interest income	6,393	6,911	12,126	14,220
Non-interest expense:				
Salaries and employee benefits	14,448	11,591	28,400	20,942
Technology, communication and bank operations	2,838	2,305	5,369	4,470
Professional services	2,792	1,881	4,705	4,163
Occupancy	2,199	1,911	4,300	3,942
FDIC assessments, taxes, and regulatory fees	995	3,078	4,273	5,209
Advertising and promotion	429	428	776	843
Loan workout expense (income)	(13)	477	256	918
Other real estate owned expense (income)	(580)	890	304	1,242
Other	2,552	2,644	4,742	4,642
Total non-interest expense	25,660	25,205	53,125	46,371
Income before income tax expense	17,956	15,750	39,590	27,319
Income tax expense	6,400	5,517	14,082	8,945
Net income	11,556	10,233	25,508	18,374
Preferred stock dividend	507	—	507	—
Net income available to common shareholders	$11,049	$10,233	$25,001	$18,374
Basic earnings per common share	$0.41	$0.38	$0.93	$0.69

Diluted earnings per common share	0.39	0.37	0.88	0.66

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$11,556	$10,233	$25,508	$18,374
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on securities arising during the period (1)	(5,423)	4,101	(4,964)	13,222
Income tax effect (1)	2,034	(1,435)	1,818	(4,628)
Less: reclassification adjustment for (gains) losses on securities included in net income	69	(359)	69	(3,191)
Income tax effect	(26)	125	(26)	1,117
Net unrealized gains (losses)	(3,346)	2,432	(3,103)	6,520
Unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) on cash flow hedges arising during the period	446	(1,621)	(1,500)	(957)
Income tax effect	(167)	567	611	335
Net unrealized gains (losses)	279	(1,054)	(889)	(622)
Other comprehensive income (loss), net of tax	(3,067)	1,378	(3,992)	5,898
Comprehensive income	$8,489	$11,611	$21,516	$24,272

(1) Includes immaterial gains or losses on foreign currency items.
See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 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	—	—	—	—	—	25,508	—	—	25,508
Other comprehensive loss	—	—	—	—	—	—	(3,992)	—	(3,992)
Issuance of preferred stock, net of offering costs	2,300,000	55,569	—	—	—	—	—	—	55,569
Preferred stock dividend	—	—	—	—	—	(507)	—	—	(507)
Share-based compensation expense	—	—	—	—	2,359	—	—	—	2,359
Issuance of common stock under share-based compensation arrangements	—	—	126,216	124	1,274	—	—	21	1,419
Balance, June 30, 2015	2,300,000	$55,569	26,871,745	$27,402	$359,455	$93,422	$ (4,114)	$(8,233)	$523,501

	Six Months Ended June 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	—	—	—	—	—	18,374	—	—	18,374
Other comprehensive income	—	—	—	—	—	—	5,898	—	5,898
Stock dividend	—	—	2,429,375	2,429	43,364	(45,801)	—		(8)
Share-based compensation	—	—	—	—	2,034	—	—	—	2,034

expense									
Issuance of common stock under share-based compensation arrangements	—	—	75,834	77	742	—	—	—	819
Balance, June 30, 2014	—	$—	26,729,360	$27,262	$353,371	$43,581	$ (2,220)	$(8,254)	$413,740

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 2015	2014
Cash Flows from Operating Activities		
Net income	$25,508	$18,374
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses, net of change to FDIC receivable and clawback liability	12,299	7,253
Provision for depreciation and amortization	2,068	1,807
Share-based compensation	2,755	2,853
Deferred taxes	(3,476)	2,216
Net amortization of investment securities premiums and discounts	404	370
Loss (gain) on sale of investment securities	69	(3,191)
Gain on sale of mortgages and other loans	(2,094)	(2,424)
Origination of loans held for sale	(15,090,554)	(6,893,530)
Proceeds from the sale of loans held for sale	14,476,771	6,581,581
Increase in FDIC loss sharing receivable net of clawback liability	(1,924)	(1,972)
Amortization (accretion) of fair value discounts	632	(203)
Net loss on sales of other real estate owned	334	555
Valuation and other adjustments to other real estate owned	(308)	442
Earnings on investment in bank-owned life insurance	(2,230)	(1,670)
Decrease (increase) in accrued interest receivable and other assets	1,158	(5,064)
Decrease (increase) in accrued interest payable and other liabilities	(4,314)	6,500
Net Cash Used In Operating Activities	(582,902)	(286,103)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	43,872	22,055
Proceeds from sales of investment securities available for sale	492	213,249
Purchases of investment securities available for sale	(7,000)	(149,940)
Net increase in loans	(345,630)	(897,928)
Purchase of loan portfolios	—	(294,615)
Proceeds from sales of loans	148,916	5,967
Purchases of bank-owned life insurance	(15,000)	(465)
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	3,854	(32,044)
Reimbursements from the FDIC on loss sharing agreements	503	1,477
Purchases of bank premises and equipment	(1,799)	(644)
Proceeds from sales of other real estate owned	4,431	5,281
Net Cash Used In Investing Activities	(167,361)	(1,127,607)
Cash Flows from Financing Activities		
Net increase in deposits	944,632	730,954
Net (decrease) increase in short-term borrowed funds from the FHLB	(255,000)	382,000
Proceeds from long-term FHLB borrowings	25,000	200,000
Net proceeds from issuance of long-term debt	—	133,222
Net proceeds from issuance of preferred stock	55,569	—
Proceeds from issuance of common stock	628	—

Net Cash Provided by Financing Activities	770,829	1,446,176
Net Increase in Cash and Cash Equivalents	20,566	32,466
Cash and Cash Equivalents – Beginning	371,023	233,068
Cash and Cash Equivalents – Ending	$391,589	$265,534

(continued)

Supplementary Cash Flows Information		
Interest paid	$25,302	$15,084
Income taxes paid	17,387	11,038
Non-cash items:		
Transfer of loans to other real estate owned	$2,405	$6,898

See accompanying notes to the unaudited consolidated financial statements.

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 April 2015, the FASB issued Accounting Standard Update (“ASU”) 2015-03, Simplifying the Presentation of Debt Issuance Costs. The guidance in this ASU is intended to simplify presentation of debt issuance costs, and require 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 this ASU is effective for interim and annual 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 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 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 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

Table of Contents

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. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. 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 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.

Table of Contents

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 six months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015		
(amounts in thousands)	Unrealized Gains (Losses) on Available-for-sale Securities (2)	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Beginning balance - April 1, 2015	$1,385	$(2,432)	$(1,047)
Other comprehensive income (loss) before reclassifications	(3,389)	279	(3,110)
Amounts reclassified from accumulated other comprehensive loss to net income (3)	43	—	43
Net current-period other comprehensive income (loss)	(3,346)	279	(3,067)
Ending balance - June 30, 2015	$(1,961)	$(2,153)	$(4,114)

	Six Months Ended June 30, 2015		
(amounts in thousands)	Unrealized Gains (Losses) on Available-for-sale Securities (2)	Unrealized Loss on Cash Flow Hedge	Total
Beginning balance - January 1, 2015	$1,142	$(1,264)	$(122)
Other comprehensive (loss) before reclassifications	(3,146)	(889)	(4,035)
Amounts reclassified from accumulated other comprehensive loss to net income (3)	43	—	43
Net current-period other comprehensive (loss)	(3,103)	(889)	(3,992)
Ending balance - June 30, 2015	$(1,961)	$(2,153)	$(4,114)

	Three Months Ended June 30, 2014		
(amounts in thousands)	Unrealized Gains (Losses) on Available-for-sale Securities (2)	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Beginning balance - April 1, 2014	$(4,030)	$432	$(3,598)
Other comprehensive income (loss) before reclassifications	2,666	(1,054)	1,612
Amounts reclassified from accumulated other comprehensive loss to net income (3)	(234)	—	(234)
Net current-period other comprehensive income (loss)	2,432	(1,054)	1,378
Ending balance - June 30, 2014	$(1,598)	$(622)	$(2,220)

	Six Months Ended June 30, 2014		
(amounts in thousands)	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	8,594	(622)	7,972
Amounts reclassified from accumulated other comprehensive loss to net income (3)	(2,074)	—	(2,074)
Net current-period other comprehensive income (loss)	6,520	(622)	5,898
Ending balance - June 30, 2014	$(1,598)	$(622)	$(2,220)

(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.

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

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(amounts in thousands, except share and per share data)				
Net income available to common shareholders	$11,049	$10,233	$25,001	$18,374
Weighted-average number of common shares outstanding - basic	26,839,799	26,724,499	26,808,766	26,705,620
Share-based compensation plans	1,509,521	997,012	1,405,578	924,398
Warrants	331,344	260,893	307,840	251,796
Weighted-average number of common shares - diluted	28,680,664	27,982,404	28,522,184	27,881,814
Basic earnings per common share	$0.41	$0.38	$0.93	$0.69
Diluted earnings per common share	0.39	0.37	$0.88	$0.66

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Anti-dilutive securities:				
Share-based compensation awards	12,383	118,386	12,383	86,786
Warrants	52,242	118,745	52,242	118,745
Total anti-dilutive securities	64,625	237,131	64,625	205,531

NOTE 5 — INVESTMENT SECURITIES

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

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	$332,577	$2,127	$(3,349)	$331,355
Corporate notes	22,000	324	—	22,324
Equity securities (2)	22,514	—	(2,240)	20,274
	$377,091	$2,451	$(5,589)	$373,953

(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.

Table of Contents

	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 six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(amounts in thousands)				
Proceeds from sale of available-for-sale securities	$492	$25,359	$492	$213,249
Gross gains	$—	$359	$—	$3,191
Gross losses	(69)	—	(69)	—
Net gains (losses)	$(69)	$359	$(69)	$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.

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:

	June 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	20,000	20,324
Due after ten years	2,000	2,000
Mortgage-backed securities	332,577	331,355
Total debt securities	$354,577	$353,679

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 June 30, 2015 and December 31, 2014 were as

Table of Contents

follows:

(amounts in thousands)	June 30, 2015 Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available for Sale:						
Mortgage-backed securities (1)	$75,517	$(421)	$75,478	$(2,928)	$150,995	$(3,349)
Equity securities (2)	20,268	(2,239)	6	(1)	20,274	(2,240)
Total	$95,785	$(2,660)	$75,484	$(2,929)	$171,269	$(5,589)

(amounts in thousands)	December 31, 2014 Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Available for Sale:						
Mortgage-backed securities (1)	$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 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.

At June 30, 2015, there were eight available-for-sale investment securities in the less-than-twelve-month category and twenty 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. 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. The Company 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 June 30, 2015.

At June 30, 2015 and December 31, 2014, Customers Bank had pledged investment securities aggregating $336.0 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 June 30, 2015 and December 31, 2014 was as follows:

(amounts in thousands)	June 30, 2015	December 31, 2014
Commercial loans:		
Mortgage warehouse loans at fair value	$1,944,803	$1,332,019
Multi-family loans at lower of cost or fair value	80,776	99,791
Commercial loans held for sale	2,025,579	1,431,810
Consumer loans:		
Residential mortgage loans at fair value	4,769	3,649
Loans held for sale	$2,030,348	$1,435,459

14

Table of Contents

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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

(amounts in thousands)	June 30, 2015	December 31, 2014
Commercial:		
Multi-family	$2,236,757	$2,206,403
Commercial and industrial (including owner occupied commercial real estate)	913,898	770,220
Commercial real estate non-owner occupied	886,982	827,940
Construction	68,073	44,642
Total commercial loans	4,105,710	3,856,205
Consumer:		
Residential real estate	265,469	285,003
Manufactured housing	119,786	126,731
Other	1,241	1,541
Total consumer loans	386,496	413,275
Total loans receivable not covered under FDIC loss sharing agreements	4,492,206	4,269,480
Commercial:		
Multi-family	1,730	2,002
Commercial and industrial (including owner occupied commercial real estate)	6,585	2,543
Commercial real estate non-owner occupied	8,798	11,370
Construction	669	5,076
Total commercial loans	17,782	26,897
Consumer:		
Residential real estate	11,186	12,392
Other	2,721	2,892
Total consumer loans	13,907	15,284
Total loans receivable covered under FDIC loss sharing agreements (1)	31,689	42,181
Total loans receivable	4,523,895	4,311,661
Deferred (fees) costs and unamortized premiums/(discounts), net	930	512
Allowance for loan losses	(37,491)	(30,932)
Loans receivable, net	$4,487,334	$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.

Table of Contents

Non-Covered Loans

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

	June 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	$—	$—	$—	$—	$2,234,308	$2,449	$2,236,757
Commercial and industrial	—	—	—	1,919	648,548	1,747	652,214
Commercial real estate - owner occupied	—	—	—	1,597	244,941	15,146	261,684
Commercial real estate - non-owner occupied	—	—	—	663	876,512	9,807	886,982
Construction	—	—	—	—	68,073	—	68,073
Residential real estate	298	—	298	1,003	255,297	8,871	265,469
Manufactured housing (5)	3,080	2,637	5,717	2,664	107,579	3,826	119,786
Other consumer	1	—	1	—	1,055	185	1,241
Total	$3,379	$2,637	$6,016	$7,846	$4,436,313	$42,031	$4,492,206

	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.

Table of Contents

Covered Loans

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

June 30, 2015							
(amounts in thousands)	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased - Credit Impaired Loans (3)	Total Loans (4)
Commercial and industrial	$149	$—	$149	$—	$908	$146	$1,203
Commercial real estate owner occupied	—	—	—	55	5,327	—	5,382
Commercial real estate non-owner occupied	—	—	—	547	4,583	3,668	8,798
Construction	—	—	—	669	—	—	669
Multi-family	—	—	—	—	350	1,380	1,730
Residential real estate	—	—	—	1,297	9,287	602	11,186
Other consumer	65	—	65	142	2,476	38	2,721
Total	$214	$—	$214	$2,710	$22,931	$5,834	$31,689

December 31, 2014							
(amounts in thousands)	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit Impaired Loans (3)	Total Loans (4)
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

Table of Contents

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 and a 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. 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 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 expires 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 ("Clawback 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. Due to continued cash payments on the covered loans in excess of expectations, the Bank now anticipates that it will be required to pay the FDIC at the end of its loss sharing arrangements. Accordingly, a clawback liability of $2.4 million was recorded as of June 30, 2015, with a corresponding increase to the provision for loan losses recorded during second quarter 2015. To the extent actual losses on the covered loans are less than estimated losses, the clawback liability will increase. To the extent actual losses on the covered loans are more than the estimated losses, the clawback liability will decrease.

As of June 30, 2015, the Bank expected to collect $1.0 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 at $2.4 million. The net amount of $1.5 million is included in "Accrued interest payable and other liabilities" 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 six months ended June 30, 2015 and 2014.

	Allowance for Loan Losses	
	Three Months Ended June 30,	
(amounts in thousands)	2015	2014
Beginning balance	$33,566	$26,704
Provision for loan losses (1)	4,924	2,730
Charge-offs	(1,804)	(1,405)
Recoveries	805	157
Ending balance	$37,491	$28,186

Table of Contents

(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Three Months Ended June 30, 2015	2014
Beginning balance	$3,427	$8,272
Decreased estimated cash flows (2)	(4,411)	(156)
Other activity, net (a)	334	983
Cash receipts from FDIC	(805)	(180)
Ending balance	$(1,455)	$8,919
(1) Provision for loan losses	$4,924	$2,730
(2) Effect attributable to FDIC loss share arrangements	4,411	156
Net amount reported as provision for loan losses	$9,335	$2,886

(a) 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 Six Months Ended June 30, 2015	2014
Beginning balance	$30,932	$23,998
Provision for loan losses (1)	8,559	5,631
Charge-offs	(2,948)	(1,941)
Recoveries	948	498
Ending balance	$37,491	$28,186

(amounts in thousands)	FDIC Loss Sharing Receivable/ Clawback Liability Six Months Ended June 30, 2015	2014
Beginning balance	$2,320	$10,046
Decreased estimated cash flows (2)	(3,740)	(1,622)
Other activity, net (a)	468	1,972
Cash receipts from FDIC	(503)	(1,477)
Ending balance	$(1,455)	$8,919
(1) Provision for loan losses	$8,559	$5,631
(2) Effect attributable to FDIC loss share arrangements	3,740	1,622
Net amount reported as provision for loan losses	$12,299	$7,253

(a) Includes external costs, such as legal fees, real estate taxes, and appraisal expenses, which qualify for reimbursement under loss sharing arrangements

Table of Contents

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 June 30, 2015 and December 31, 2014 and the average recorded investment and interest income recognized for the three and six months ended June 30, 2015 and 2014. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	June 30, 2015			Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)							
With no related allowance recorded:							
Commercial and industrial	$7,321	$8,792	$—	$7,122	$ 439	$9,356	$604
Commercial real estate owner occupied	5,358	5,503	—	5,157	122	6,165	185
Commercial real estate non-owner occupied	7,070	7,070	—	6,805	246	8,135	374
Construction	669	1,938	—	1,497	—	1,773	—
Other consumer	50	50	—	35	—	30	—
Residential real estate	1,603	1,603	—	1,521	—	1,499	—
With an allowance recorded:							
Commercial and industrial	14,895	15,243	8,138	10,686	96	7,735	101
Commercial real estate owner occupied	13	13	2	18	—	20	—
Commercial real estate non-owner occupied	759	759	204	1,072	7	1,177	7
Construction	—	—	—	—	—	—	—
Other consumer	93	93	35	73	—	87	—
Residential real estate	545	545	301	454	—	424	—
Total	$38,376	$41,609	$8,680	$34,440	$ 910	$36,401	$1,271

Table of Contents

	December 31, 2014			Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)							
With no related allowance recorded:							
Commercial and industrial	$14,600	$16,122	$ —	$12,949	$ 97	$12,998	$ 377
Commercial real estate owner occupied	12,599	12,744	—	10,651	115	9,825	228
Commercial real estate non-owner occupied	5,602	5,602	—	8,110	46	7,481	108
Construction	2,325	2,325	—	2,325	—	2,476	—
Other consumer	21	21	—	44	19	29	19
Residential real estate	1,455	3,697	—	1,943	—	2,239	—
With an allowance recorded:							
Commercial and industrial	1,923	1,923	857	1,246	8	1,653	14
Commercial real estate owner occupied	750	750	95	1,519	—	1,440	—
Commercial real estate non-owner occupied	571	571	170	1,157	1	1,097	1
Construction	—	—	—	1,561	—	1,418	—
Other consumer	114	114	32	59	2	60	4
Residential real estate	365	365	188	249	—	250	—
Total	$40,325	$44,234	$ 1,342	$41,813	$ 288	$40,966	$ 751

Troubled Debt Restructurings

At June 30, 2015 and December 31, 2014, there were $10.0 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.

Table of Contents

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

	TDRs in Compliance with Their Modified Terms and Accruing Interest	TDRs in Compliance with Their Modified Terms and Not Accruing Interest	Total
(amounts in thousands)			
Three Months Ended June 30, 2015			
Interest-rate reductions	$2,484	$2,528	$5,012
Total	$2,484	$2,528	$5,012
Six Months Ended June 30, 2015			
Interest-rate reductions	$2,682	$2,735	$5,417
Total	$2,682	$2,735	$5,417
Three Months Ended June 30, 2014			
Extended under forbearance	$167	$—	$167
Interest-rate reductions	—	176	176
Total	$167	$176	$343
Six Months Ended June 30, 2014			
Extended under forbearance	$167	$—	$167
Interest-rate reductions	247	303	550
Total	$414	$303	$717

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

	TDRs in Compliance with Their Modified Terms and Accruing Interest		TDRs in Compliance with Their Modified Terms and Not Accruing Interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(amounts in thousands)				
Three Months Ended June 30, 2015				
Commercial and industrial	—	$—	2	$608
Manufactured housing	75	2,484	31	1,709
Residential real estate	—	—	1	211
Total	75	$2,484	34	$2,528
Six Months Ended June 30, 2015				
Commercial and industrial	—	$—	2	$608
Manufactured housing	75	2,484	33	1,916
Residential real estate	1	198	1	211
Total	76	$2,682	36	$2,735
Three Months Ended June 30, 2014				
Manufactured housing	—	—	3	176
Other consumer	4	167	—	—
Total	4	$167	3	$176
Six Months Ended June 30, 2014				
Manufactured housing	1	47	5	303
Residential real estate	3	200	—	—
Other consumer	4	167	—	—
Total	8	$414	5	$303

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

Table of Contents

For the three and six months ended June 30, 2015 , the recorded investment of loans determined to be TDRs was $5.0 million and $5.4 million, respectively, both before and after restructuring. During the three month period ended June 30, 2015, thirty-one manufactured housing TDR loans defaulted with a recorded investment of $1.7 million, two commercial and industrial TDR loans defaulted with a recorded investment of $0.6 million, and one residential real estate TDR loan defaulted with a recorded investment of $0.2 million. During the six month period ended June 30, 2015, thirty-three manufactured housing TDR loans defaulted with a recorded investment of $1.9 million, two commercial and industrial TDR loans defaulted with a recorded investment of $0.6 million, and one residential real estate 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 credit losses. There were two specific allowances resulting from TDR modifications during the three and six months ended June 30, 2015, totaling $70 thousand for one commercial and industrial loan, and $20 thousand for one residential real estate loan. There were no specific allowances resulting from TDR modifications during the three and six months ended June 30, 2014.

Credit Quality Indicators

Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, residential real estate and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic or on an “as needed” basis. Consumer, mortgage warehouse and manufactured housing loans are evaluated based on the payment activity of the loan and are not assigned internal risk ratings.

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.

Table of Contents

"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
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 nonperforming.

Table of Contents

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

June 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)									
Pass/Satisfactory	$2,236,757	$638,293	$250,887	$881,058	$68,073	$263,633	$—	$—	$4,338,701
Special Mention	—	11,841	6,387	5,047	—	—	—	—	23,275
Substandard	—	2,080	4,410	877	—	1,836	—	—	9,203
Performing (1)	—	—	—	—	—	—	111,405	1,240	112,645
Non-performing (2)	—	—	—	—	—	—	8,381	1	8,382
Total	$2,236,757	$652,214	$261,684	$886,982	$68,073	$265,469	$119,786	$1,241	$4,492,206

December 31, 2014	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
(amounts in thousands)									
Pass/Satisfactory	$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 June 30, 2015 and December 31, 2014:

June 30, 2015	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	$1,057	$4,636	$4,643	$—	$ 355	$9,488	$—	$20,179
Special Mention	—	691	3,287	—	—	—	—	3,978
Substandard	146	55	868	669	1,375	1,698	—	4,811
Performing (1)	—	—	—	—	—	—	2,514	2,514
Non-performing (2)	—	—	—	—	—	—	207	207
Total	$1,203	$5,382	$8,798	$669	$ 1,730	$11,186	$2,721	$31,689

December 31, 2014							
Commercial	Commercial		Construction	Multi-family	Residential		Total

	and Industrial	Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied			Real Estate	Other Consumer	
(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.

Table of Contents

As of June 30, 2015, the Bank had $5.0 million of residential real estate held in other real estate owned. As of June 30, 2015, the Bank had initiated foreclosure proceedings on residential real estate securing outstanding loan balances of $0.1 million.

Allowance for loan losses

During the three months ended June 30, 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 the three months ended June 30, 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 six months ended June 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.

Three Months Ended June 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, April 1, 2015	$ 8,196	$ 6,747	$ 4,583	$ 9,738	$ 852	$ 2,995	$ 346	$ 109	$ 33,566
Charge-offs	—	(1,213)	(270)	—	(295)	(26)	—	—	(1,804)
Recoveries	—	58	1	—	172	572	—	2	805
Provision for loan losses	538	8,470	(663)	(3,428)	115	(86)	(30)	8	4,924
Ending Balance, June 30, 2015	$ 8,734	$ 14,062	$ 3,651	$ 6,310	$ 844	$ 3,455	$ 316	$ 119	$ 37,491
Six Months Ended June 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	—	(1,234)	(343)	(245)	(1,064)	(26)	—	(36)	(2,948)
Recoveries	—	103	1	—	187	572	—	85	948
Provision for loan losses	241	10,409	(343)	(2,643)	674	211	54	(44)	8,559
Ending Balance, June 30, 2015	$ 8,734	$ 14,062	$ 3,651	$ 6,310	$ 844	$ 3,455	$ 316	$ 119	$ 37,491
Loans:									
Individually evaluated for impairment	$ —	$ 22,216	$ 5,371	$ 7,829	$ 669	$ 2,148	$ —	$ 143	$ 38,376
	2,234,658	629,308	246,549	874,476	68,073	265,034	115,960	3,596	4,437,654

Collectively evaluated for impairment			
Loans acquired with credit deterioration	3,829	1,893	15,146