Customers Bancorp, Inc.
Form 10-Q
November 07, 2013
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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, 2013

¨ **Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________.

333-166225

(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	¨ (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 November 5, 2013, 23,674,168 shares of Voting Common Stock and 1,019,755 shares of Class B Non-Voting Common Stock were issued and outstanding.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

Customers Bancorp, Inc.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET   UNAUDITED

(dollars in thousands, except share data)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 88,332	$ 12,908
Interest earning deposits	167,321	173,108
Cash and cash equivalents	255,653	186,016
Investment securities available for sale, at fair value	497,566	129,093
Loans held for sale (including $840,425 and $1,248,935 of mortgage warehouse loans at fair value at September 30, 2013 and December 31, 2012, respectively)	917,939	1,439,889
Loans receivable not covered under Loss Sharing Agreements with the FDIC	2,018,532	1,216,941
Loans receivable covered under Loss Sharing Agreements with the FDIC	81,255	107,526
Less: Allowance for loan losses	(26,800)	(25,837)
Total loans receivable, net (excluding loans held for sale)	2,072,987	1,298,630
FHLB, Federal Reserve Bank, and other stock	19,113	30,163
FDIC loss sharing receivable	11,038	12,343
Bank premises and equipment, net	11,055	9,672
Bank-owned life insurance	85,991	56,191
Other real estate owned (2013 $7,839; 2012 $4,109 covered under Loss Sharing Agreements with the FDIC)	13,601	8,114
Goodwill and other intangibles	3,680	3,689
Accrued interest receivable and other assets	36,489	27,434
Total assets	$ 3,925,112	$ 3,201,234
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 671,211	$ 219,687
Interest bearing	2,572,101	2,221,131
Total deposits	3,243,312	2,440,818
Federal funds purchased	0	5,000
Other borrowings	235,250	471,000
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	55,665	12,941
Total liabilities	3,536,227	2,931,759

Shareholders equity:

Preferred stock, no par value or as set by the board; 100,000,000 shares authorized; none issued	0	0
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 24,741,542 shares issued and 24,693,923 outstanding at September 30, 2013 and 18,507,121 shares issued and 18,459,502 outstanding at December 31, 2012	24,742	18,507
Additional paid in capital	306,183	212,090
Retained earnings	61,997	38,314
Accumulated other comprehensive (loss) income	(3,537)	1,064
Less: cost of treasury stock; 47,619 shares at September 30, 2013 and December 31, 2012	(500)	(500)
Total shareholders equity	388,885	269,475
Total liabilities and shareholders equity	$ 3,925,112	$ 3,201,234

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(dollars in thousands, except share data)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest income:				
Loans held for sale	$ 9,495	$ 1,622	$ 31,536	$ 4,113
Loans receivable, taxable, including fees	22,363	25,368	57,489	55,850
Loans receivable, non-taxable, including fees	122	55	291	110
Investment securities, taxable	1,423	805	3,334	5,936
Investment securities, non-taxable	0	21	0	64
Other	148	91	370	225
Total interest income	33,551	27,962	93,020	66,298
Interest expense:				
Deposits	5,470	5,191	15,742	15,687
Federal funds purchased	20	5	99	8
Borrowed funds	1,041	194	1,609	434
Subordinated debt	16	17	49	52
Total interest expense	6,547	5,407	17,499	16,181
Net interest income	27,004	22,555	75,521	50,117
Provision for loan losses	750	10,116	6,470	14,654
Net interest income after provision for loan losses	26,254	12,439	69,051	35,463
Non-interest income				
Mortgage warehouse transactional fees	3,090	3,346	10,626	8,829
Bank-owned life insurance	615	359	1,658	948
Deposit fees	198	124	487	357
Gain on sale of investment securities	0	0	0	9,006
Accretion of FDIC loss sharing receivable	0	1,296	3,722	1,951
Gain (loss) on sale of loans	(6)	(71)	402	268
Other	958	4,723	2,253	5,388
Total non-interest income	4,855	9,777	19,148	26,747
Non-interest expense				
Salaries and employee benefits	8,963	5,978	24,868	17,073
Occupancy	2,289	1,709	6,309	4,937
Professional services	1,191	819	3,149	2,474

Technology, communications and bank operations	1,121	699	3,023	2,037
FDIC assessments, taxes, and regulatory fees	1,105	669	3,510	2,205
Loan workout	928	617	1,674	1,519
Advertising and promotion	450	270	973	846
Other real estate owned	401	(276)	962	539
Loss contingency	0	0	2,000	0
Stock-offering expenses	0	97	0	1,437
Other	1,899	1,424	5,254	4,140
Total non-interest expense	18,347	12,006	51,722	37,207
Income before income tax expense	12,762	10,210	36,477	25,003
Income tax expense	4,494	3,574	12,794	8,751
Net income	$ 8,268	$ 6,636	$ 23,683	$ 16,252
Basic earnings per share	$ 0.34	$ 0.53	$ 1.10	$ 1.39
Diluted earnings per share	0.33	0.51	1.07	1.35

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$ 8,268	$ 6,636	$ 23,683	$ 16,252
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities arising during the period	(10)	1,597	(7,079)	2,226
Income tax effect	3	(559)	2,478	(779)
Unrealized holding gain on securities transferred from the held-to-maturity category into the available-for-sale category	0	0	0	8,509
Income tax effect	0	0	0	(2,978)
Reclassification adjustment for gains included in net income	0	0	0	(9,006)
Income tax effect	0	0	0	3,152
Other comprehensive income (loss), net of tax	(7)	1,038	(4,601)	1,124
Comprehensive income	$ 8,261	$ 7,674	$ 19,082	$ 17,376

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

(dollars in thousands, except share data)

For the Nine Months Ended September 30, 2013 and 2012

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2012	11,347,683	$ 11,395	$ 122,602	$ 14,496	$ (245)	$ (500)	$ 147,748
Comprehensive income				16,252	1,124		17,376
Share-based-compensation expense			1,616				1,616
Common stock issued, net of costs	7,111,819	7,112	87,650				94,762
Balance, September 30, 2012	18,459,502	$ 18,507	$ 211,868	$ 30,748	$ 879	$ (500)	$ 261,502

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
			(dollars in thousands)				
Balance, January 1, 2013	18,459,502	$ 18,507	$ 212,090	$ 38,314	$ 1,064	$ (500)	$ 269,475
Comprehensive income				23,683	(4,601)		19,082
Share-based-compensation expense			2,461				2,461
Public offering of common stock, net of costs of $5,994	6,179,104	6,179	91,328				97,507
Exercise and redemption of warrants	31,904	32	76				108
Issuance of common stock under share-based-compensation arrangements	23,413	24	228				252
Balance, September 30, 2013	24,693,923	$ 24,742	$ 306,183	$ 61,997	$ (3,537)	$ (500)	$ 388,885

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS   UNAUDITED

(dollars in thousands)

Nine Months Ended September 30,	**2013**	**2012**
Cash Flows from Operating Activities		
Net income	$ 23,683	$ 16,252
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	6,470	14,654
Loss contingency	2,000	0
Provision for depreciation and amortization	2,115	1,447
Stock-based compensation	2,461	1,616
Deferred taxes	(5)	(1,112)
Net amortization of investment securities premiums and discounts	368	2,897
Gain on sale of investment securities	0	(9,006)
Gain on sale of SBA loans	(402)	(268)
Origination/purchase of loans held for sale	(17,177,835)	(7,305,339)
Proceeds from the sale of loans held for sale	17,697,088	6,292,453
Net increase in FDIC loss sharing receivable	(5,054)	(4,537)
Amortization (accretion) of fair value discounts	(724)	(277)
Net loss on sales of other real estate owned	254	985
Impairment charges on other real estate owned	161	468
Change in investment in bank-owned life insurance	(1,658)	(1,035)
Increase in accrued interest receivable and other assets	(3,888)	(1,081)
Increase (decrease) in accrued interest payable and other liabilities	42,976	(2,190)
Net Cash Provided by (Used In) Operating Activities	588,010	(994,073)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of investment securities available for sale	14,816	26,488
Proceeds from sales of investment securities available for sale	0	306,610
Purchases of investment securities available for sale	(390,735)	(108,249)
Proceeds from maturities and principal repayments of investment securities held to maturity	0	50,968
Net (increase) decrease in loans	(638,992)	302,275
Purchase of loan portfolio	(155,306)	(63,246)
Proceeds from sales of SBA loans	4,276	3,689
Purchases of bank-owned life insurance	(27,965)	(10,000)
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other stock	11,050	(763)
Reimbursements from the FDIC on loss sharing agreements	6,134	5,308
Purchases of bank premises and equipment	(2,740)	(2,343)
Proceeds from sales of other real estate owned	4,582	7,383
Net Cash (Used In) Provided by Investing Activities	(1,174,880)	518,120

Cash Flows from Financing Activities		
Net increase in deposits	802,556	765,131
Net decrease in short-term borrowed funds	(339,000)	(300,000)
Proceeds from FHLB borrowings	35,000	0
Exercise and redemption of warrants	108	0
Proceeds from issuance of long-term debt, net of deferred costs of $2,914 at September 30, 2013	60,336	0
Net proceeds from stock offering	97,507	94,762
Net Cash Provided by Financing Activities	656,507	559,893
Net Increase in Cash and Cash Equivalents	69,637	83,940
Cash and Cash Equivalents - Beginning	186,016	73,570
Cash and Cash Equivalents - Ending	$ 255,653	$ 157,510
Supplementary Cash Flows Information		
Interest paid	$ 17,268	$ 16,257
Income taxes paid	7,743	12,625
Non-cash items:		
Transfer of loans to other real estate owned	$ 10,259	$ 8,293
Transfer of held to maturity investments to available for sale	0	268,671

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 AND BASIS OF PRESENTATION

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). In the third quarter of 2013, 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 unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Bancorp believes that the disclosures made are adequate to make the information not misleading. The Bancorp s unaudited consolidated interim financial statements reflect all adjustments that are, in the opinion of management, necessary for fair statement of the results of interim periods presented. Certain amounts reported in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications did not significantly impact the Bancorp s financial position or results of operations.

The accounting policies of Customers Bancorp, Inc. and Subsidiaries, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as disclosed on pages 85 through 93 of Customers Annual Report on Form 10-K for the fiscal year ended December 31, 2012. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the latest Form 10-K.

Operating results for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The Bancorp evaluated its September 30, 2013 consolidated financial statements for subsequent events through the date the financial statements were issued. The Bancorp is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 ACQUISITION ACTIVITY

CMS Bancorp Acquisition

Effective April 22, 2013, the Bancorp entered into an Amendment to the Agreement and Plan of Merger (Amendment) to that certain Agreement and Plan of Merger, dated as of August 10, 2012 (Merger Agreement), by and between the Bancorp and CMS Bancorp, Inc. (CMS).

The Amendment extended from April 30, 2013 to December 31, 2013 the initial date at which, if the merger of CMS with and into the Bancorp pursuant to the Merger Agreement, as amended, has not closed, either the Bancorp or CMS may terminate the Agreement, subject to the termination date being extended until March 31, 2014 under certain specified circumstances.

The Amendment also updated the definitions of CMS Valuation and Customers Valuation, establishing the valuation date for book value as of March 31, 2013. The exchange ratio will remain fixed until settlement, using the multiples of 0.95x for CMS common equity, and 1.25x for Customers common equity for purposes of calculating the exchange ratio.

Other key terms agreed to by the Bancorp and CMS under the Amendment provided for:

CMS s ability to have terminated the Merger Agreement, as amended, exercisable at any time after May 20, 2013, if either (i) the Bancorp had not made an investment in CMS of $1.5 million of CMS Preferred Stock, or (ii) the Bancorp and CMS had not agreed upon the terms of a $2.0 million senior secured lending facility that the Bancorp will have made available to CMS;

the Bancorp s payment of $300,000 to CMS as partial reimbursement for merger-related expenses incurred as of March 31, 2013; and

the Bancorp to pay to CMS a termination fee of $1.0 million in the event the Merger Agreement, as amended, is terminated under certain provisions primarily relating to failure to consummate the Parent Merger due to non-receipt of required government approvals.

On May 22, 2013, the Bancorp purchased $1.5 million (1,500 shares) of CMS Series A Noncumulative Perpetual Preferred Stock, satisfying the first obligation listed above. On April 23, 2013, the Bancorp paid to CMS $300,000, satisfying the second obligation listed above. The third obligation has not been triggered at this time.

Acacia Federal Savings Bank Acquisition

On April 4, 2013, Customers Bancorp, Inc., Acacia Life Insurance Company (Acacia) and Ameritas Life Insurance Corp. (together with Acacia, Sellers) announced their mutual decision, due to delays in the receipt of regulatory approvals, not to extend the term of that certain Stock Purchase Agreement, dated as of June 20, 2012, as amended by those certain Amendment to Stock Purchase Agreement, dated as of December 18, 2012, Amendment No. 2 to Stock Purchase Agreement dated as of January 30, 2013, and Amendment No. 3 to Stock Purchase Agreement dated as of February 28, 2013, by and among the Company and Sellers (the Purchase Agreement). Instead, on April 4, 2013, the parties entered into a Termination and Non-Renewal Agreement to terminate the Purchase Agreement and the transactions contemplated thereby (the Termination Agreement). Each party will bear its own costs and expenses in connection with the terminated transaction, without penalties. The parties mutually agreed that the termination was in each company s best interest. Costs related to the acquisition have been expensed.

New England Commercial Lending Acquisition

On March 28, 2013, Customers Bank completed the purchase of certain commercial loans from Michigan-based Flagstar Bank. Under the terms of the agreement, Customers Bank acquired $182.3 million in commercial loan commitments, of which $155.1 million was drawn at the date of acquisition. Also, as part of the agreement, Customers Bank assumed the leases for two of Flagstar s commercial lending offices in New England. The purchase price was 98.7% of loans outstanding.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Purchased Loans

The Bancorp believes that the varying circumstances under which it purchases loans and the diverse quality of loans purchased should drive the decision as to whether loans in a portfolio should be deemed to be purchased-credit-impaired loans (PCI loans). Therefore, loan acquisitions are and will be evaluated on a case-by-case basis to determine the appropriate accounting treatment. Loans acquired that do not have evidence of credit deterioration at the purchase date are and will be accounted for in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs,* and loans acquired with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are and will be accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

Loans that are purchased that do not have evidence of credit deterioration

Purchased performing loans are recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments, as accounted for under the contractual cash flow method of accounting. The fair value adjustment is accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for the acquired performing loans. A provision for loan losses is recorded for any credit deterioration in these loans subsequent to acquisition.

Loans that are purchased that have evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected

For purchases of this type of loan, evidence of deteriorated credit quality may include past-due and non-accrual status, borrower credit scores and recent loan-to-value percentages.

The fair value of loans with evidence of credit deterioration is recorded net of a nonaccretable difference and accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is not included in the carrying amount of acquired loans. Subsequent to acquisition, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on accretion of interest income in future periods. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of those cash flows.

Purchased-credit-impaired loans acquired in the same fiscal quarter may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. On a quarterly basis, the Bank re-estimates the total cash flows (both principal and interest) expected to be collected over the remaining life of each pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions. If the timing and/or amounts of expected cash flows on purchased-credit-impaired loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as non-accrual loans; however, when the timing and amounts of expected cash flows for purchased-credit-impaired loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans.

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Recently Issued Accounting Standards

In January, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, to clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with relevant accounting guidance or subject to an enforceable master netting arrangement or similar agreement. The guidance in this ASU was effective for the first interim or annual period beginning on or after January 1, 2013 (the same effective date for ASU 2011-11) and is to be applied retrospectively. See **NOTE 15 DISCLOSURES ABOUT OFFSETTING ASSETS AND LIABILITIES** for the required disclosures.

In October, 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force).* This ASU requires an entity to subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. The amendments in this ASU were effective for the first interim periods or annual period beginning on or after December 15, 2012 and are to be applied prospectively. Adoption of this ASU has not had a significant impact on the Bancorp s results of operations or financial position.

In February, 2013, the FASB issued ASU 2013-02*, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). The ASU requires entities to disclose additional information about reclassification adjustments, including (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements were effective for fiscal years and interim periods beginning after December 15, 2012 for public companies. See **NOTE 4 CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT** for the required disclosures.

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

	Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items	Total
	(dollars in thousands)		
Beginning Balance - July 1, 2013	$ (3,530)	$ 0	$ (3,530)
Other comprehensive loss before reclassifications	(8)	1	(7)
Amounts reclassified from accumulated other comprehensive loss	0	0	0
Net current-period other comprehensive (loss) income	(8)	1	(7)

Ending balance - September 30, 2013	$ (3,538)	$ 1	$ (3,537)

	Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items	Total
Beginning Balance - January 1, 2013	$ 1,064	$ 0	$ 1,064
Other comprehensive loss before reclassifications	(4,602)	1	(4,601)
Amounts reclassified from accumulated other comprehensive loss	0	0	0
Net current-period other comprehensive (loss) income	(4,602)	1	(4,601)
Ending balance - September 30, 2013	$ (3,538)	$ 1	$ (3,537)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

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NOTE 5 EARNINGS PER SHARE

The following are the components and results of the Bancorp s earnings per share calculation for the periods presented:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(dollars in thousands, except per share data)			
Net income allocated to common shareholders	$ 8,268	$ 6,636	$ 23,683	$ 16,252
Weighted-average number of common shares - basic	24,678,317	12,465,744	21,494,880	11,723,090
Share-based compensation plans	475,987	310, 845	383,326	231,674
Warrants	182,898	134,926	175,999	112,265
Weighted-average number of common shares - diluted	25,337,202	12,911,515	22,054,205	12,067,029
Basic earnings per share	$ 0.34	$ 0.53	$ 1.10	$ 1.39
Diluted earnings per share	$ 0.33	$ 0.51	$ 1.07	$ 1.35

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Weighted-average anti-dilutive securities:				
Share-based compensation awards	92,245	6,592	87,129	6,592
Warrants	118,745	129,946	118,745	129,946
Total anti-dilutive securities	210,990	136,538	205,874	136,538

NOTE 6 INVESTMENT SECURITIES

In May 2012, Customers Bancorp reclassified its $269.0 million held-to-maturity investment portfolio to available for sale. Due to its strong outlook for loan growth, falling interest rates, and its decision to postpone its initial public offering of stock, the Bancorp decided to proceed with this reclassification to provide liquidity. In accordance with regulatory and accounting requirements, the Bancorp is prohibited from classifying security purchases as held to maturity for a period of two years, ending May 2014.

The amortized cost and approximate fair value of investment securities as of September 30, 2013 and December 31, 2012 are summarized as follows:

	September 30, 2013			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(dollars in thousands)			
Available for Sale:				
Mortgage-backed securities (1)	$ 454,933	$ 1,410	$ 6,822	$ 449,521
Corporate notes	25,000	163	23	25,140
Equity securities	23,074	81	250	22,905
	$ 503,007	$ 1,654	$ 7,095	$ 497,566

(1) Includes private-label securities with an aggregate amortized cost of $521 and an aggregate fair value of $513.

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	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
Available for Sale:				
Mortgage-backed securities (1)	$ 102,449	$ 1,795	$ 109	$ 104,135
Corporate notes	25,000	89	137	24,952
Equity securities	6	0	0	6
	$ 127,455	$ 1,884	$ 246	$ 129,093

(1) Includes private-label securities with an aggregate amortized cost of $629 and an aggregate fair value of $612.

The following table shows 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, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Proceeds from sale of available-for-sale securities	$ 0	$ 0	$ 0	$ 306,610
Gross gains	$ 0	$ 0	$ 0	$ 9,006
Gross losses	0	0	0	0
Net gains	$ 0	$ 0	$ 0	$ 9,006

These gains and losses were determined using the specific identification method and were included in non-interest income.

The following table shows 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 are, therefore, classified separately with no specific maturity date:

	September 30, 2013	
	Amortized Cost	Fair Value
	(dollars in thousands)	
Due in one year or less	$ 0	$ 0
Due after one year through five years	25,000	25,140
Due after five years through ten years	0	0

Due after ten years	0	0
Mortgage-backed securities	454,933	449,521
Total debt securities	$ 479,933	$ 474,661

The Bancorp s 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, 2013 and December 31, 2012 were as follows:

	September 30, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Available for Sale:						
Mortgage-backed securities	$ 129,120	$ 6,811	$ 309	$ 11	$ 129,429	$ 6,822
Corporate notes	4,980	20	4,997	3	9,977	23
Equity securities	22,068	250	0	0	22,068	250
Total	$ 156,168	$ 7,081	$ 5,306	$ 14	$ 161,474	$ 7,095

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	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Available for Sale:						
Mortgage-backed securities	$ 5,695	$ 87	$ 429	$ 22	6,124	$ 109
Corporate notes	0	0	9,862	137	9,862	137
Total	$ 5,695	$ 87	$ 10,291	$ 159	$ 15,986	$ 246

At September 30, 2013, there were twenty available-for-sale investment securities in the less-than-twelve-month category and seven available-for-sale investment securities in the twelve-month-or-more category. At December 31, 2012, there were two available-for-sale investment securities in the less-than-twelve-month category and eight available-for-sale investment securities in the twelve-month-or-more category. In management s opinion, the unrealized losses reflect primarily changes in interest rates due to changes in economic conditions and the liquidity of the market, and not credit quality. In addition, the Bancorp does not believe that it will be more likely than not that the Bancorp will be required to sell the securities prior to maturity or market-price recovery.

During June 2012, five corporate bonds in the Bancorp s portfolio were downgraded to ratings of A to A-. These downgrades were anticipated since these bonds were placed on negative watch in February 2012. The Bancorp analyzed these bonds in more detail at the time of downgrade. The Bancorp does not intend to sell these debt securities prior to recovery, and it is more likely than not that the Bancorp will not have to sell these debt securities prior to recovery. These bonds continue to pay their scheduled interest payments on time. No additional downgrades are anticipated at this time. The holdings are all in the financial services industry and all issuers are well capitalized.

At September 30, 2013 and December 31, 2012, Customers Bank had pledged investment securities aggregating $329.8 million and $103.5 million fair value, respectively, as collateral for borrowings from the FHLB. No amounts were outstanding against the securities pledged as collateral as of September 30, 2013.

During the third quarter of 2013, Customers Bancorp through its foreign subsidiaries, CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd., purchased 4.1 million in common shares of Religare Enterprises, Ltd., a diversified financial services company domiciled in India. The total investment as of September 30, 2013 is $23.1 million, 2.8% of the current outstanding shares of Religare Enterprises, Inc.

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NOTE 7 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable excludes loans held for sale, largely mortgage warehouse loans, of $917,939 and $1,439,889 as of September 30, 2013 and December 31, 2012, respectively.

The composition of net loans receivable was as follows:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Construction	$ 22,192	$ 27,792
Commercial real estate	29,623	44,901
Commercial and industrial	6,826	11,153
Residential real estate	19,233	19,952
Manufactured housing	3,381	3,728
Total loans receivable **covered** under FDIC loss sharing agreements (1)	81,255	107,526
Construction	34,674	28,897
Commercial real estate	1,490,930	835,488
Commercial and industrial	213,794	75,118
Mortgage warehouse	1,006	9,565
Manufactured housing	142,677	154,703
Residential real estate	133,503	109,430
Consumer	1,889	2,061
Total loans receivable **not covered** under FDIC loss sharing agreements	2,018,473	1,215,262
Total loans receivable (2)	2,099,728	1,322,788
Deferred (fees) costs, net	59	1,679
Allowance for loan losses	(26,800)	(25,837)
Loans receivable, net	$ 2,072,987	$ 1,298,630

(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.
(2) Customers Bank takes advantage of Federal Home Loan Bank (FHLB) programs for overnight and term borrowings. Under the terms of a blanket collateral agreement, advances from the FHLB are collateralized by qualifying first-mortgage loans.

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Non-Covered Nonaccrual Loans and Loans Past Due

The following tables summarize **non-covered** loans, by class:

	September 30, 2013						
	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Non-Accrual	Current (2)	PCI Loans (5)	Total Loans (4)
	(dollars in thousands)						
Commercial and industrial	$ 0	$ 0	$ 0	$ 221	$ 211,404	$ 2,169	$ 213,794
Commercial real estate	0	0	0	10,625	1,442,061	38,244	1,490,930
Construction	0	0	0	2,050	31,683	941	34,674
Residential real estate	400	0	400	945	121,550	10,608	133,503
Consumer	0	0	0	0	1,469	420	1,889
Mortgage warehouse	0	0	0	0	1,006	0	1,006
Manufactured housing (3)	6,311	3,095	9,406	1,101	126,981	5,189	142,677
Total	$ 6,711	$ 3,095	$ 9,806	$ 14,942	$ 1,936,154	$ 57,571	$ 2,018,473

	December 31, 2012						
	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Non-Accrual	Current (2)	PCI Loans (5)	Total Loans (4)
	(dollars in thousands)						
Commercial and industrial	$ 38	$ 0	$ 38	$ 288	$ 72,715	$ 2,077	$ 75,118
Commercial real estate	1,437	0	1,437	17,770	770,508	45,773	835,488
Construction	0	0	0	2,423	25,022	1,452	28,897
Residential real estate	381	0	381	1,669	95,396	11,984	109,430
Consumer	0	0	0	56	1,486	519	2,061
Mortgage warehouse	0	0	0	0	9,565	0	9,565
Manufactured housing (3)	9,234	1,966	11,200	141	135,924	7,438	154,703
Total	$ 11,090	$ 1,966	$ 13,056	$ 22,347	$ 1,110,616	$ 69,243	$ 1,215,262

(1) Loan balances do not include non-accrual loans.
(2) Loans where payments are due within 29 days of the scheduled payment date.
(3) Purchased manufactured housing loans, purchased in 2010, are subject to cash reserves held at the Bank that are used to fund the past-due payments when the loan becomes 90-days or more delinquent.
(4) Loans exclude deferred costs and fees.
(5) Purchased-credit-impaired loans that were aggregated into pools are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because we recognize interest income on each pool of loans,

they are all considered to be performing. PCI loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and being reported as performing loans.

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Covered Nonaccrual Loans and Loans Past Due

The following tables summarize **covered** loans, by class:

	September 30, 2013						
	30-89 Days Past Due (1)	Greater Than 90 Days Past Due (1)	Total Past Due (1)	Non-Accrual	Current (2)(3)	PCI Loans (5)	Total Loans (4)
	(dollars in thousands)						
Commercial and industrial	$ 0	$ 0	$ 0	$ 0	$ 4,394	$ 2,432	$ 6,826
Commercial real estate	0	0	0	1,821	17,413	10,389	29,623
Construction	0	0	0	3,382	5,920	12,890	22,192
Residential real estate	0	0	0	564	14,328	4,341	19,233
Manufactured housing	86	0	86	21	3,138	136	3,381
Total	$ 86	$ 0	$ 86	$ 5,788	$ 45,193	$ 30,188	$ 81,255

	December 31, 2012						
	30-89 Days Past Due (1)	Greater Than 90 Days Past Due (1)	Total Past Due (1)	Non-Accrual	Current (2)(3)	PCI Loans (5)	Total Loans (4)
	(dollars in thousands)						
Commercial and industrial	$ 220	$ 0	$ 220	$ 100	$ 8,404	$ 2,429	$ 11,153
Commercial real estate	0	0	0	3,712	20,859	20,330	44,901
Construction	0	0	0	5,244	6,472	16,076	27,792
Residential real estate	0	0	0	1,358	14,226	4,368	19,952
Manufactured housing	48	0	48	90	3,527	63	3,728
Total	$ 268	$ 0	$ 268	$ 10,504	$ 53,488	$ 43,266	$ 107,526

(1) Loans balances do not include nonaccrual loans.
(2) Loans receivable that were not identified upon acquisition as a loan with credit deterioration.
(3) Loans where payments are due within 29 days of the scheduled payment date.
(4) Loans exclude deferred costs and fees.
(5) Purchased-credit-impaired loans that were aggregated into pools are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because we recognize interest income on each pool of loans, they are all considered to be performing. PCI loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and being reported as performing loans.

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Impaired Loans ***Covered and Non-Covered***

The following table presents a summary of impaired loans:

	September 30, 2013			For the Nine Months Ended September 30, 2013	
	Recorded Investment Net of Charge Offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(dollars in thousands)		
With no related allowance recorded:					
Commercial and industrial	$ 16,829	$ 16,891		$ 6,697	$ 362
Commercial real estate	16,223	17,075		23,271	548
Construction	2,830	4,100		6,545	14
Consumer	21	21		133	0
Residential real estate	2,827	2,827		2,791	36
With an allowance recorded:					
Commercial and industrial	3,333	4,603	$ 961	1,192	157
Commercial real estate	6,687	7,637	2,233	7,919	169
Construction	1,148	1,148	368	5,544	46
Consumer	54	54	1	46	4
Residential real estate	378	378	187	953	2
Total	$ 50,330	$ 54,734	$ 3,750	$ 55,091	$ 1,338

	December 31, 2012			For the Nine Months Ended September 30, 2012	
	Recorded Investment Net of Charge Offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(dollars in thousands)		
With no related allowance recorded:					
Commercial and industrial	$ 3,844	$ 3,844		$ 5,191	$ 160
Commercial real estate	26,626	27,477		22,205	748
Construction	6,588	6,618		7,627	19
Consumer	101	101		105	3
Residential real estate	3,188	3,188		2,382	55
With an allowance recorded:					
Commercial and industrial	374	374	$ 295	748	9
Commercial real estate	8,708	10,022	2,505	9,071	205
Construction	5,116	6,022	1,541	6,903	154
Consumer	100	100	14	29	4

Residential real estate	1,331	1,331	270	967	13
Total	$ 55,976	$ 59,077	$ 4,625	$ 55,228	$ 1,370

Troubled Debt Restructurings

At September 30, 2013, there were $6.9 million in loans reported as troubled debt restructurings (TDR), and at September 30, 2012, there were $8.2 million in loans reported as troubled debt restructurings. All TDRs are reported as impaired loans in the calendar year of their restructuring. In subsequent years, a TDR may cease being reported as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least nine months. A loan that has been modified at a below-market rate will be returned to performing status if it satisfies the six-month performance requirement; however, it will remain classified as impaired.

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 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, 2013 and 2012. 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
	(dollars in thousands)		
Three months ended September 30, 2013			
Extended under forbearance	$ 0	$ 0	$ 0
Multiple extensions resulting from financial difficulty	0	0	0
Interest-rate reductions	0	12	12
Total	$ 0	$ 12	$ 12
Nine months ended September 30, 2013			
Extended under forbearance	$ 0	$ 0	$ 0
Multiple extensions resulting from financial difficulty	0	0	0
Interest-rate reductions	93	1,179	1,272
Total	$ 93	$ 1,179	$ 1,272
Three months ended September 30, 2012			
Extended under forbearance	$ 0	$ 471	$ 471
Multiple extensions resulting from financial difficulty	0	0	0
Interest-rate reductions	0	61	61
Total	$ 0	$ 532	$ 532
Nine months ended September 30, 2012			
Extended under forbearance	$ 0	$ 471	$ 471
Multiple extensions resulting from financial difficulty	47	0	47
Interest-rate reductions	268	61	329
Total	$ 315	$ 532	$ 847

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The following table provides, by class, the number of loans modified in troubled debt restructurings and the recorded investments and unpaid principal balances during the three and nine months ended September 30, 2013 and 2012.

	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
	(dollars in thousands)			
Three months ended September 30, 2013				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	0	0	1	12
Residential real estate	0	0	0	0
Consumer	0	0	0	0
Total	0	$ 0	1	$ 12
Nine months ended September 30, 2013				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	2	60	11	1,179
Residential real estate	0	0	0	0
Consumer	1	33	0	0
Total	3	$ 93	11	$ 1,179
Three months ended September 30, 2012				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	0	0	1	61
Residential real estate	0	0	2	141
Consumer	0	0	1	330
Total	0	$ 0	4	$ 532
Nine months ended September 30, 2012				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0

Manufactured housing	6		315	1		61
Residential real estate	0		0	2		141
Consumer	0		0	1		330
Total	6	$	315	4	$	532

At September 30, 2013 and 2012, there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt restructuring.

All 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 was $0 in specific reserves resulting from the addition of TDR modifications for both the three and nine months ended September 30, 2013 and 2012. There were no TDRs that defaulted in the three and nine month periods ended September 30, 2013 and 2012.

Credit Quality Indicators

Credit quality indicators for commercial and industrial, commercial real estate, residential real estate, and construction loans are based on an internal risk-rating system and are assigned at the loan origination and reviewed on a periodic or on an as needed basis. Consumer, mortgage warehouse, and manufactured housing loans are evaluated on the basis of the payment activity of the loan.

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To facilitate the monitoring of credit quality within the commercial and industrial, commercial real estate, construction portfolio, 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, 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 that do not have identified potential or well defined weaknesses and for which 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 and estimates, the risk rating process is intended to permit management to identify riskier credits in a timely manner and allocate the appropriate resources to managing the loans.

The Bank assigns a special mention rating to loans that have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan and the Bank s credit position.

The Bank assigns a substandard rating to loans that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans in this category also are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.

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.

When it is determined that these loans are uncollectible they are charged off in the period in which they are determined to be uncollectible. Loans, or portions of loans, classified as loss indicate that the Bank does not expect to collect the amounts classified as a loss.

Risk ratings are not established for home equity loans, consumer loans, and installment loans, mainly because these portfolios consist of a larger number of homogenous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history, through the monitoring of delinquency levels and trends and are classified as performing and nonperforming.

The following presents the credit quality tables as of September 30, 2013 and December 31, 2012 for the **non-covered** loan portfolio:

	September 30, 2013			
	Commercial and Industrial	**Commercial Real Estate**	**Construction**	**Residential Real Estate**
	(dollars in thousands)			

Pass/Satisfactory	$ 200,651	$ 1,460,484	$ 32,499	$ 130,504
Special Mention	12,861	16,200	88	1,380
Substandard	282	14,246	2,087	1,619
Doubtful	0	0	0	0
Total	$ 213,794	$ 1,490,930	$ 34,674	$ 133,503

	Consumer	Mortgage Warehouse	Manufactured Housing
		(dollars in thousands)	
Performing	$ 1,889	$ 1,006	$ 141,576
Nonperforming (1)	0	0	1,101
Total	$ 1,889	$ 1,006	$ 142,677

(1) Includes loans that are on nonaccrual status at September 30, 2013.

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	December 31, 2012			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(dollars in thousands)			
Pass/Satisfactory	$ 70,955	$ 794,187	$ 26,020	$ 105,490
Special Mention	3,836	18,737	454	1,017
Substandard	327	21,801	1,971	2,919
Doubtful	0	763	452	4
Total	$ 75,118	$ 835,488	$ 28,897	$ 109,430

	Consumer	Mortgage Warehouse	Manufactured Housing
	(dollars in thousands)		
Performing	$ 2,005	$ 9,565	$ 154,562
Nonperforming (1)	56	0	141
Total	$ 2,061	$ 9,565	$ 154,703

(1) Includes loans that are on nonaccrual status at December 31, 2012.

The following presents the credit quality tables as of September 30, 2013 and December 31, 2012 for the **covered** loan portfolio:

	September 30, 2013			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(dollars in thousands)			
Pass/Satisfactory	$ 4,730	$ 17,920	$ 1,972	$ 14,245
Special Mention	119	3,020	3,949	455
Substandard	1,977	8,683	16,271	4,533
Doubtful	0	0	0	0
Total	$ 6,826	$ 29,623	$ 22,192	$ 19,233

	Manufactured Housing
	(dollars in thousands)
Performing	$ 3,274

Nonperforming (1)		107
Total	$	3,381

(1) Includes loans that are on nonaccrual status at September 30, 2013.

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	December 31, 2012			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(dollars in thousands)			
Pass/Satisfactory	$ 8,888	$ 26,195	$ 2,434	$ 14,021
Special Mention	51	225	4,038	455
Substandard	2,214	18,481	21,320	5,476
Doubtful	0	0	0	0
Total	$ 11,153	$ 44,901	$ 27,792	$ 19,952

	Manufactured Housing
	(dollars in thousands)
Performing	$ 3,638
Nonperforming (1)	90
Total	$ 3,728

(1) Includes loans that are on nonaccrual status at December 31, 2012.

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Allowance for loan losses

The changes in the allowance for loan losses for the three and nine months ended September 30, 2013 and 2012 and the loans and allowance for loan losses by loan segment based on impairment evaluation method are as follows. Please read in conjunction with disclosures in the Bancorp s 2012 Annual Report on Form 10-K.

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate	Manufactured Housing (1)	Consumer	Mortgage Warehouse	Residual Reserve	Total
				(dollars in thousands)					
Three months ended September 30, 2013									
Beginning Balance, July 1, 2013	$ 2,485	$ 16,685	$ 4,317	$ 3,552	$ 678	$ 106	$ 56	$ 263	$ 28,142
Charge-offs	1,311	851	0	116	0	16	0	0	2,294
Recoveries	16	186	0	0	0	0	0	0	202
Provision for loan losses	2,029	(349)	(1,163)	(216)	1	13	(14)	449	750
Ending Balance, September 30, 2013	$ 3,219	$ 15,671	$ 3,154	$ 3,220	$ 679	$ 103	$ 42	$ 712	$ 26,800
Nine months ended September 30, 2013									
Beginning Balance, January 1, 2013	$ 1,477	$ 15,439	$ 3,991	$ 3,233	$ 750	$ 154	$ 71	$ 722	$ 25,837
Charge-offs	1,407	2,742	1,470	315	0	16	0	0	5,950
Recoveries	181	246	0	7	0	9	0	0	443
Provision for loan losses	2,968	2,728	633	295	(71)	(44)	(29)	(10)	6,470
Ending Balance, September 30, 2013	$ 3,219	$ 15,671	$ 3,154	$ 3,220	$ 679	$ 103	$ 42	$ 712	$ 26,800
At September 30, 2013									
Loans:									
Individually evaluated for impairment	$ 20,162	$ 22,910	$ 3,978	$ 3,205	$ 0	$ 75	$ 0	$ 0	$ 50,330
Collectively evaluated for impairment	195,857	1,449,009	39,058	134,582	140,869	1,258	1,006	0	1,961,639
Loans acquired with credit deterioration	4,601	48,634	13,830	14,949	5,189	556	0	0	87,759
Market discounts/premiums/valuation adjustments									59

									$ 2,099,787
Allowance for loan losses:									
Individually evaluated for impairment	$ 961	$ 2,233	$ 368	$ 187	$ 0	$ 1	$ 0	$ 0	$ 3,750
Collectively evaluated for impairment	1,991	8,315	241	1,115	80	40	42	712	12,536
Loans acquired with credit deterioration	267	5,123	2,545	1,918	599	62	0	0	10,514
	$ 3,219	$ 15,671	$ 3,154	$ 3,220	$ 679	$ 103	$ 42	$ 712	$ 26,800

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	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate	Manufactured Housing (1)	Consumer	Mortgage Warehouse	Residual Reserve	Total
				(dollars in thousands)					
Three months ended September 30, 2012									
Beginning Balance, July 1, 2012	$ 1,503	$ 8,266	$ 4,352	$ 1,080	$ 40	$ 75	$ 802	$ 0	$ 16,118
Charge-offs	266	283	475	365	0	27	0	0	1,416
Recoveries	98	33	3	0	0	22	0	0	156
Provision for loan losses	387	5,923	1,139	2,262	858	279	(732)	0	10,116
Ending Balance, September 30, 2012	$ 1,722	$ 13,939	$ 5,019	$ 2,977	$ 898	$ 349	$ 70	$ 0	$ 24,974
Nine months ended September 30, 2012									
Beginning Balance, January 1, 2012	$ 1,441	$ 7,029	$ 4,656	$ 844	$ 18	$ 61	$ 929	$ 54	$ 15,032
Charge-offs	300	1,426	2,666	565	0	37	0	0	4,994
Recoveries	164	83	3	5	0	27	0	0	282
Provision for loan losses	417	8,253	3,026	2,693	880	298	(859)	(54)	14,654
Ending Balance, September 30, 2012	$ 1,722	$ 13,939	$ 5,019	$ 2,977	$ 898	$ 349	$ 70	$ 0	$ 24,974
At September 30, 2012									
Loans:									
Individually evaluated for impairment	$ 4,558	$ 37,250	$ 13,169	$ 4,540	$ 0	$ 273	$ 0	$ 0	$ 59,790
Collectively evaluated for impairment	79,448	543,772	11,056	100,751	150,876	11,356	9,321	0	906,580
Loans acquired with credit deterioration	5,774	70,915	18,904	15,819	13,113	2,125	0	0	126,650
Market discounts/premiums/valuation adjustments									(5,921)
									$ 1,087,099
Allowance for loan losses:									
Individually evaluated for impairment	$ 349	$ 2,787	$ 2,450	$ 250	$ 0	$ 3	$ 0	$ 0	$ 5,839
Collectively evaluated for impairment	877	5,379	262	878	757	93	70	0	8,316

Loans acquired with credit deterioration	496	5,773	2,307	1,849	141	253	0	0	10,819
	$ 1,722	$ 13,939	$ 5,019	$ 2,977	$ 898	$ 349	$ 70	$ 0	$ 24,974

(1) 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, 2013 and 2012, funds available for reimbursement, if necessary, were $2.9 million and $4.1 million, respectively. Quarterly, these funds are evaluated to determine if they would be sufficient to absorb probable losses within the manufactured housing portfolio.

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The changes in accretable yield related to purchased-credit-impaired loans for the three and nine months ended September 30, 2013 and 2012 were as follows:

For the Three Months Ended September 30,	2013	2012
	(dollars in thousands)	
Accretable yield balance, beginning of period	$ 27,649	$ 43,230
Accretion to interest income	(1,362)	(7,384)
Reclassification from nonaccretable difference and disposals, net	(754)	(147)
Accretable yield balance, end of period	$ 25,533	$ 35,699

For the Nine Months Ended September 30,	2013	2012
	(dollars in thousands)	
Accretable yield balance, beginning of period	$ 32,174	$ 45,358
Accretion to interest income	(5,034)	(9,443)
Reclassification from nonaccretable difference and disposals, net	(1,607)	(216)
Accretable yield balance, end of period	$ 25,533	$ 35,699

NOTE 8 FDIC LOSS SHARING RECEIVABLE

The following table summarizes the activity related to the FDIC loss sharing receivable for the three and nine months ended September 30, 2013 and 2012:

Three Months Ended September 30,	2013	2012
	(dollars in thousands)	
Balance, beginning of period	$ 14,169	$ 12,376
Change in FDIC loss sharing receivable	(125)	3,796
Reimbursement from the FDIC	(3,006)	(3,866)
Balance, end of period	$ 11,038	$ 12,306

Nine Months Ended September 30,	2013	2012
	(dollars in thousands)	
Balance, beginning of period	$ 12,343	$ 13,077
Change in FDIC loss sharing receivable	4,829	4,537
Reimbursement from the FDIC	(6,134)	(5,308)

Balance, end of period	$ 11,038	$ 12,306

NOTE 9 BORROWINGS

During July 2013 ($55.0 million) and August 2013 ($8.3 million), Customers Bancorp issued five-year senior unsecured notes aggregating $63.25 million at 6.375%. Interest on the debt is payable quarterly. Net proceeds to Customers Bancorp after issuance costs were $60.4 million.

NOTE 10 SHAREHOLDERS EQUITY

During the nine months ended September 30, 2013, the Bancorp issued 23,413 shares of common stock under share-based compensation arrangements. In the third quarter of 2013, 31,904 shares of Class B Non-Voting common stock were issued upon exercise of outstanding warrants, and 3.7 million shares of Class B Non-Voting common stock were converted into 3.7 million shares of Voting common stock. In addition, warrants to purchase 17,227 shares of voting common stock and 17,227 shares of Class B Non-Voting stock were repurchased in the third quarter of 2013.

On May 22, 2013, the Bancorp sold 6,179,104 shares of new issue voting common stock at a price to the public of $16.75 per share. The net proceeds to Customers after deducting underwriting discounts and commissions and offering expenses were $97.5 million.

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During the third quarter of 2012, the Bancorp sold 7,111,819 shares of its common stock in private offerings. The net proceeds to Customers after deducting underwriting discounts and commissions and offering expenses were $94.8 million.

On May 8, 2012, the Bancorp announced that, due to market conditions, it had postponed its initial public offering of voting common stock. Costs related to this postponed offering in the amount of $1.4 million were expensed.

NOTE 11 SHARE-BASED COMPENSATION

Stock Options

Options to purchase an aggregate of 617,910 and 92,687 shares of voting common stock, representing 10% and 1.5% of the number of shares issued in the May 2013 offering of voting common stock, were granted to the Chief Executive Officer and the Chief Operating Officer in connection with the completion of the offering pursuant to their existing employment agreements, respectively. The options will vest over five years from the date of grant, subject to a 50% increase in the value of the Bancorp s Voting Common Stock and have a term of 10 years. In addition, in matters unrelated to the May 2013 offering, options to purchase an aggregate of 70,000 shares of Voting Common Stock were granted to certain other officers. The fair values of the options were 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 an option.

	September 30, 2013	December 31, 2012
Weighted-average risk-free interest rate	1.41%	1.15%
Expected dividend yield	0.00%	0.00%
Weighted-average expected volatility	13.77%	17.47%
Expected life (in years)	7.00	6.98
Weighted-average fair value	$ 3.16	$ 3.04

The following table summarizes stock option activity for the nine months ended September 30, 2013.

	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term in Years	Aggregate Intrinsic Value
	(aggregate intrinsic value in thousands)			
Outstanding at January 1, 2013	2,003,889	$ 12.49		
Granted	780,597	16.67		
Forfeited	(5,000)	14.94		
Outstanding at September 30, 2013	2,779,486	$ 13.66	8.16	$ 7,480
Vested and expected to vest at September 30, 2013	2,779,486	$ 13.66	8.16	$ 7,480

Exercisable at September 30, 2013	14,438	20.06	3.57	12

NOTE 12 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 consolidated financial statements. At September 30, 2013, the Bank and the Bancorp exceeded all capital adequacy requirements to which they are subject.

The Bank experienced rapid loan growth during the final days of 2012. During the standard closing process of the Bank s December 2012 financial statements, management determined on January 30, 2013 that the rapid loan growth resulted in a reduction in the Bank s capital ratios, causing the Bank to become adequately capitalized as of December 31, 2012. Management immediately transferred sufficient capital from the Bancorp to the Bank which returned the Bank to well-capitalized status. Sufficient cash is maintained at the Bancorp to ensure that the Bank remains well capitalized, and management remains committed to taking all steps necessary to ensure that both the Bancorp and the Bank remain well capitalized going forward. The Bank met the regulatory standards to be considered well capitalized as of September 30, 2013. Since the Bank was adequately capitalized at December 31, 2012, regulatory approval was required to accept, renew or roll over any brokered deposits. Effective January 1, 2013, the interest rate paid for deposits by institutions that are less than well capitalized was limited to 75 basis points above the national rate for similar products unless the institution can support to the FDIC that prevailing rates in its market area exceed the national average. This limitation on rates paid for deposits was removed effective with the Bank complying with the well capitalized thresholds, and as the Bank exceeds the well capitalized thresholds as of September 30, 2013, the Bank is not subject to any limits on interest rates paid for deposits.

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The Bancorp s and the Bank s capital amounts and ratios at September 30, 2013 and December 31, 2012 are as follows:

(dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of September 30, 2013:						
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$ 413,900	13.60%	$ 243,500	8.0%	N/A	N/A
Customers Bank	$ 427,809	14.18%	$ 241,298	8.0%	$ 301,622	10.0%
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$ 386,517	12.70%	$ 121,750	4.0%	N/A	N/A
Customers Bank	$ 400,426	13.28%	$ 120,649	4.0%	$ 180,973	6.0%
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$ 386,517	10.63%	$ 145,388	4.0%	N/A	N/A
Customers Bank	$ 400,426	11.04%	$ 145,043	4.0%	$ 181,303	5.0%
As of December 31, 2012:						
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	$ 289,035	11.26%	$ 205,443	8.0%	N/A	N/A
Customers Bank	$ 244,710	9.53%	$ 205,442	8.0%	$ 256,802	10.0%
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	$ 262,719	10.23%	$ 102,722	4.0%	N/A	N/A
Customers Bank	$ 218,394	8.50%	$ 102,721	4.0%	$ 154,081	6.0%
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	$ 262,719	9.30%	$ 112,939	4.0%	N/A	N/A
Customers Bank	$ 218,394	7.74%	$ 112,896	4.0%	$ 141,120	5.0%

NOTE 13 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bancorp uses fair value measurements to record fair value adjustments to certain assets 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 the Bancorp, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of such 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, the Bancorp utilized certain fair value measurement criteria under the FASB ASC 820, *Fair Value Measurement*, as explained below.

Cash and cash equivalents:

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate these 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 value of investment securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized 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 and 2 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 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:

The fair value of loans receivable held for sale is 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 Option

The Bancorp elected the fair value option for warehouse lending transactions documented under a Master Repurchase Agreement originated after July 1, 2012 in order to more accurately represent the short-term nature of the transaction and its inherent credit risk. This adoption was in accordance with the parameters established by Accounting Standards Codification (ASC) 825-10-25, *Financial Instruments-Overall-Recognition: The Fair Value Option.* Warehouse lending transactions are classified as Loans held for sale on the balance sheet. The interest income from the warehouse lending transactions is classified in Interest Income Loans held for sale on the income statement. An allowance for loan losses is not recorded for the warehouse lending transactions when measured at fair value since the exit price (the repurchase price) for warehouse lending transactions considers the effect of expected credit losses.

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 the mortgage company 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 or they have been hedged by the mortgage company. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 17 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.

Loans receivable, net:

The fair values of loans are estimated using discounted cash flow analyses, 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 FASB ASC 450, *Contingencies*, in which the Bancorp 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, 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.

FDIC loss sharing receivable:

The FDIC loss sharing receivable is measured separately from the related covered assets, as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. Fair value is estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment. These cash flows are discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC. These assets are included as Level 2 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 (Level 3 Inputs). All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP). Appraisals are certified to the Bancorp and performed by appraisers on the Bancorp 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.

Accrued interest receivable and payable:

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Deposit liabilities:

The fair values disclosed for deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). 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 assets are included as Level 1 and 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 assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Borrowings:

The carrying amount of short-term FHLB borrowings approximates its fair value. 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. These 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. Also included in Other Borrowings is long-term senior debt the fair value of which is determined using discounted cash flow analysis. Long-term senior debit is included in Level 3. These liabilities are included as Level 2 and 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Subordinated debt:

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (Assets and Liabilities):

The fair values of interest rate swaps are determined using models that incorporate readily observable market data into a market standard methodology. The 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 Bancorp and its counterparties. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Off-balance-sheet financial instruments:

Fair values for the Bancorp s off-balance-sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The following information should not be interpreted as an estimate of the fair value of the entire Bancorp since a fair value calculation is only provided for a limited portion of the Bancorp s assets. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bancorp s disclosures and those of other companies may not be meaningful.

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The estimated fair values of the Bancorp s financial instruments were as follows at September 30, 2013 and December 31, 2012.

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at September 30, 2013 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in thousands)		
Assets:					
Cash and cash equivalents	$ 255,653	$ 255,653	$ 255,653	$ 0	$ 0
Investment securities, available for sale	497,566	497,566	22,905	474,661	0
Loans held for sale	917,939	917,939	0	917,939	0
Loans receivable, net	2,072,987	2,088,789	0	0	2,088,789
FHLB, Federal Reserve Bank and other stock	19,113	19,113	0	19,113	0
FDIC loss sharing receivable	11,038	11,038	0	11,038	0
Derivatives not designated as hedging instruments	1,911	1,911	0	1,911	0
Fraudulent loans receivable (1)	669	669	0	0	669
Accrued interest receivable	7,866	7,866	7,866	0	0
Liabilities:					
Deposits	$ 3,243,312	$ 3,247,129	$ 671,211	$ 2,575,918	$ 0
Other borrowings	235,250	238,251	0	238,251	0
Subordinated debt	2,000	2,000	0	2,000	0
Derivatives not designated as hedging instruments	1,871	1,871	0	1,871	0
Accrued interest payable	1,761	1,761	1,761	0	0

(1) Included in Other Assets

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

			(dollars in thousands)		
Assets:					
Cash and cash equivalents	$ 186,016	$ 186,016	$ 186,016	$ 0	$ 0
Investment securities, available for sale	129,093	129,093	6	129,087	0
Loans held for sale	1,439,889	1,439,889	0	1,439,889	0
Loans receivable, net	1,298,630	1,307,049	0	0	1,307,049
FHLB, Federal Reserve Bank and other stock	30,163	30,163	0	30,163	0
FDIC loss sharing receivable	12,343	12,343	0	12,343	0
Accrued interest receivable	5,790	5,790	5,790	0	0
Liabilities:					
Deposits	$ 2,440,818	$ 2,674,765	$ 219,687	$ 2,455,078	$ 0
Federal funds purchased	5,000	5,000	5,000	0	0
Other borrowings	471,000	471,432	0	471,432	0
Subordinated debt	2,000	2,000	0	2,000	0
Accrued interest payable	1,530	1,530	1,530	0	0

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 the Bancorp s 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.

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).

An asset s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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, 2013 and December 31, 2012 were as follows:

	September 30, 2013 Fair Value Measurements at the End of the Reporting Period Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobs