

Customers Bancorp, Inc.
Form 10-Q
November 13, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

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

(Exact name of registrant as specified in its charter)

Pennsylvania 27-2290659
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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 No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Emerging Growth Company

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

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

On November 2, 2018, 31,687,340 shares of Voting Common Stock were outstanding.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

Table of Contents

Part I

| | | |
|---------|--|-----------|
| Item 1. | <u>Customers Bancorp, Inc. Consolidated Financial Statements as of September 30, 2018 and for the three months and nine months periods ended September 30, 2018 and 2017 (unaudited)</u> | <u>3</u> |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>54</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>83</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>84</u> |

PART II

| | | |
|----------|--|-----------|
| Item 1. | <u>Legal Proceedings</u> | <u>85</u> |
| Item 1A. | <u>Risk Factors</u> | <u>85</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>87</u> |
| Item 3. | <u>Defaults Upon Senior Securities</u> | <u>87</u> |
| Item 4. | <u>Mine Safety Disclosures</u> | <u>87</u> |
| Item 5. | <u>Other Information</u> | <u>87</u> |
| Item 6. | <u>Exhibits</u> | <u>87</u> |

| | |
|-------------------|-----------|
| <u>SIGNATURES</u> | <u>89</u> |
|-------------------|-----------|

Ex-31.1

Ex-31.2

Ex-32.1

Ex-32.2

Ex-101

Table of Contents

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

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| ASSETS | | (As Restated) |
| Cash and due from banks | \$ 12,943 | \$ 20,388 |
| Interest-earning deposits | 653,091 | 125,935 |
| Cash and cash equivalents | 666,034 | 146,323 |
| Investment securities, at fair value | 668,851 | 471,371 |
| Loans held for sale (includes \$1,383 and \$1,886, respectively, at fair value) | 1,383 | 146,077 |
| Loans receivable, mortgage warehouse, at fair value | 1,516,327 | 1,793,408 |
| Loans receivable | 7,239,950 | 6,768,258 |
| Allowance for loan losses | (40,741) | (38,015) |
| Total loans receivable, net of allowance for loan losses | 8,715,536 | 8,523,651 |
| FHLB, Federal Reserve Bank, and other restricted stock | 74,206 | 105,918 |
| Accrued interest receivable | 32,986 | 27,021 |
| Bank premises and equipment, net | 11,300 | 11,955 |
| Bank-owned life insurance | 263,117 | 257,720 |
| Other real estate owned | 1,450 | 1,726 |
| Goodwill and other intangibles | 16,825 | 16,295 |
| Other assets | 165,416 | 131,498 |
| Total assets | \$ 10,617,104 | \$ 9,839,555 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Demand, non-interest bearing | \$ 1,338,167 | \$ 1,052,115 |
| Interest-bearing | 7,175,547 | 5,748,027 |
| Total deposits | 8,513,714 | 6,800,142 |
| Federal funds purchased | — | 155,000 |
| FHLB advances | 835,000 | 1,611,860 |
| Other borrowings | 123,779 | 186,497 |
| Subordinated debt | 108,953 | 108,880 |
| Accrued interest payable and other liabilities | 80,846 | 56,212 |
| Total liabilities | 9,662,292 | 8,918,591 |
| Shareholders' equity: | | |
| Preferred stock, par value \$1.00 per share; liquidation preference \$25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017 | 217,471 | 217,471 |
| Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 32,217,600 and 31,912,763 shares issued as of September 30, 2018 and December 31, 2017; 31,687,340 and 31,382,503 shares outstanding as of September 30, 2018 and December 31, 2017 | 32,218 | 31,913 |
| Additional paid in capital | 431,205 | 422,096 |
| Retained earnings | 302,404 | 258,076 |
| Accumulated other comprehensive loss, net | (20,253) | (359) |
| Treasury stock, at cost (530,260 shares as of September 30, 2018 and December 31, 2017) | (8,233) | (8,233) |

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| | | |
|--|---------------|--------------|
| Total shareholders' equity | 954,812 | 920,964 |
| Total liabilities and shareholders' equity | \$ 10,617,104 | \$ 9,839,555 |

See accompanying notes to the unaudited consolidated financial statements.

3

Table of Contents

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|----------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income: | | | | |
| Loans | \$97,815 | \$88,740 | \$278,986 | \$248,708 |
| Investment securities | 8,495 | 7,307 | 26,932 | 21,017 |
| Other | 3,735 | 2,238 | 8,731 | 5,507 |
| Total interest income | 110,045 | 98,285 | 314,649 | 275,232 |
| Interest expense: | | | | |
| Deposits | 32,804 | 18,381 | 76,779 | 48,934 |
| Other borrowings | 2,431 | 3,168 | 9,082 | 6,767 |
| FHLB advances | 9,125 | 7,032 | 27,381 | 15,433 |
| Subordinated debt | 1,684 | 1,685 | 5,053 | 5,055 |
| Total interest expense | 46,044 | 30,266 | 118,295 | 76,189 |
| Net interest income | 64,001 | 68,019 | 196,354 | 199,043 |
| Provision for loan losses | 2,924 | 2,352 | 4,257 | 5,937 |
| Net interest income after provision for loan losses | 61,077 | 65,667 | 192,097 | 193,106 |
| Non-interest income: | | | | |
| Interchange and card revenue | 7,084 | 9,570 | 23,127 | 31,729 |
| Deposit fees | 2,002 | 2,659 | 5,726 | 7,918 |
| Bank-owned life insurance | 1,869 | 1,672 | 5,769 | 5,297 |
| Mortgage warehouse transactional fees | 1,809 | 2,396 | 5,663 | 7,139 |
| Gain on sale of SBA and other loans | 1,096 | 1,144 | 3,404 | 3,045 |
| Mortgage banking income | 207 | 257 | 532 | 703 |
| Impairment loss on investment securities | — | (8,349) | — | (12,934) |
| (Loss) gain on sale of investment securities | (18,659) | 5,349 | (18,659) | 8,532 |
| Other | 6,676 | 3,328 | 13,558 | 7,741 |
| Total non-interest income | 2,084 | 18,026 | 39,120 | 59,170 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 25,462 | 24,807 | 78,135 | 69,569 |
| Technology, communication, and bank operations | 11,657 | 14,401 | 32,923 | 33,227 |
| Professional services | 4,743 | 7,403 | 14,563 | 21,142 |
| Merger and acquisition related expenses | 2,945 | — | 3,920 | — |
| Occupancy | 2,901 | 2,857 | 8,876 | 8,228 |
| FDIC assessments, non-income taxes, and regulatory fees | 2,415 | 2,475 | 6,750 | 6,615 |
| Provision for operating losses | 1,171 | 1,509 | 3,930 | 4,901 |
| Advertising and promotion | 820 | 404 | 1,529 | 1,108 |
| Loan workout | 516 | 915 | 1,823 | 1,844 |
| Other real estate owned expenses | 66 | 445 | 164 | 550 |
| Other | 4,408 | 5,824 | 10,521 | 13,634 |
| Total non-interest expense | 57,104 | 61,040 | 163,134 | 160,818 |
| Income before income tax expense | 6,057 | 22,653 | 68,083 | 91,458 |
| Income tax expense | 28 | 14,899 | 14,250 | 34,236 |
| Net income | 6,029 | 7,754 | 53,833 | 57,222 |

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| | | | | |
|---|---------|---------|----------|----------|
| Preferred stock dividends | 3,615 | 3,615 | 10,844 | 10,844 |
| Net income available to common shareholders | \$2,414 | \$4,139 | \$42,989 | \$46,378 |
| Basic earnings per common share | \$0.08 | \$0.13 | \$1.36 | \$1.52 |
| Diluted earnings per common share | \$0.07 | \$0.13 | \$1.33 | \$1.42 |

See accompanying notes to the unaudited consolidated financial statements.

4

Table of Contents

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|--|--|----------|---|----------|
| Net income | \$6,029 | \$7,754 | \$53,833 | \$57,222 |
| Unrealized (losses) gains on available-for-sale debt securities: | | | | |
| Unrealized (losses) gains arising during the period | (1,629) | (3,570) | (47,917) | 15,192 |
| Income tax effect | 423 | 1,393 | 12,458 | (5,924) |
| Reclassification adjustments for losses (gains) on securities included in net income | 18,659 | (5,349) | 18,659 | (8,532) |
| Income tax effect | (4,851) | 2,086 | (4,851) | 3,327 |
| Net unrealized gains (losses) on available-for-sale debt securities | 12,602 | (5,440) | (21,651) | 4,063 |
| Unrealized gains on cash flow hedges: | | | | |
| Unrealized gains (losses) arising during the period | 4,062 | 171 | 6,830 | (189) |
| Income tax effect | (1,056) | (67) | (1,775) | 74 |
| Reclassification adjustment for (gains) losses included in net income | (2,519) | 572 | (2,647) | 2,166 |
| Income tax effect | 655 | (223) | 688 | (845) |
| Net unrealized gains on cash flow hedges | 1,142 | 453 | 3,096 | 1,206 |
| Other comprehensive income (loss), net of income tax effect | 13,744 | (4,987) | (18,555) | 5,269 |
| Comprehensive income | \$19,773 | \$2,767 | \$35,278 | \$62,491 |

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)

| | Three Months Ended September 30, 2018 | | | | | | | | |
|--|--|---|---|-----------------|----------------------------------|----------------------|---|-------------------|-----------|
| | Preferred Stock | | Common Stock | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
| Shares of Preferred Stock Outstanding | Preferred Stock | Shares of Common Stock Outstanding | Common Stock | | | | | | |
| Balance, June 30, 2018 | 9,000,000 | \$217,471 | 31,669,643 | \$32,200 | \$428,796 | \$299,990 | \$(33,997) | \$(8,233) | \$936,227 |
| Net income | — | — | — | — | — | 6,029 | — | — | 6,029 |
| Other comprehensive income | — | — | — | — | — | — | 13,744 | — | 13,744 |
| Preferred stock dividends | — | — | — | — | — | (3,615) | — | — | (3,615) |
| Share-based compensation expense | — | — | — | — | 1,980 | — | — | — | 1,980 |
| Issuance of common stock under share-based compensation arrangements | — | — | 17,697 | 18 | 429 | — | — | — | 447 |
| Balance, September 30, 2018 | 9,000,000 | \$217,471 | 31,687,340 | \$32,218 | \$431,205 | \$302,404 | \$(20,253) | \$(8,233) | \$954,812 |
| | Three Months Ended September 30, 2017 | | | | | | | | |
| | Preferred Stock | | Common Stock | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
| | Shares of Preferred Stock Outstanding | Preferred Stock | Shares of Common Stock Outstanding | Common Stock | | | | | |
| Balance, June 30, 2017 | 9,000,000 | \$217,471 | 30,730,784 | \$31,261 | \$428,488 | \$235,938 | \$5,364 | \$(8,233) | \$910,289 |
| Net income | — | — | — | — | — | 7,754 | — | — | 7,754 |
| Other comprehensive loss | — | — | — | — | — | — | (4,987) | — | (4,987) |
| Preferred stock dividends | — | — | — | — | — | (3,615) | — | — | (3,615) |
| Share-based compensation expense | — | — | — | — | 1,602 | — | — | — | 1,602 |
| | — | — | 6,413 | 6 | 131 | — | — | — | 137 |

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| | | | | | | | | | |
|--|-----------|-----------|------------|----------|-----------|-----------|-------|-----------|-----------|
| Exercise of warrants | | | | | | | | | |
| Issuance of common stock under share-based compensation arrangements | — | — | 50,435 | 51 | (588 |) (1 |) — | — | (538 |
| Balance, September 30, 2017 | 9,000,000 | \$217,471 | 30,787,632 | \$31,318 | \$429,633 | \$240,076 | \$377 | \$(8,233) | \$910,642 |

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 (CONTINUED)
(amounts in thousands, except shares outstanding data)

| | Nine Months Ended | | September 30, 2018 | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|-----------------------------------|--------------------|--------------------------------|-----------------|----------------------------------|----------------------|---|-------------------|-----------|
| | Preferred Stock Outstanding | Preferred Stock | Common Stock Outstanding | Common Stock | | | | | |
| Balance, December 31, 2017 | 9,000,000 | \$217,471 | 31,382,503 | \$31,913 | \$422,096 | \$258,076 | \$ (359) | \$(8,233) | \$920,964 |
| Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive loss | — | — | — | — | — | 298 | (298) | — | — |
| Reclassification of net unrealized gains on equity securities from accumulated other comprehensive loss | — | — | — | — | — | 1,041 | (1,041) | — | — |
| Net income | — | — | — | — | — | 53,833 | — | — | 53,833 |
| Other comprehensive loss | — | — | — | — | — | — | (18,555) | — | (18,555) |
| Preferred stock dividends | — | — | — | — | — | (10,844) | — | — | (10,844) |
| Share-based compensation expense | — | — | — | — | 5,641 | — | — | — | 5,641 |
| Exercise of warrants | — | — | 5,242 | 5 | 107 | — | — | — | 112 |
| Issuance of common stock under share-based compensation arrangements | — | — | 299,595 | 300 | 3,361 | — | — | — | 3,661 |
| Balance, September 30, | 9,000,000 | \$217,471 | 31,687,340 | \$32,218 | \$431,205 | \$302,404 | \$ (20,253) | \$(8,233) | \$954,812 |

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| | Nine Months Ended September 30, 2017 | | | | | | | | |
|---|--|--------------------|---|-----------------|----------------------------------|----------------------|--|-------------------|-----------|
| | Preferred Stock | | Common Stock | | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Treasury Stock | Total |
| | Shares of Preferred Stock Outstanding | Preferred Stock | Shares of Common Stock Outstanding | Common Stock | | | | | |
| Balance, December 31, 2016 | 9,000,000 | \$217,471 | 30,289,917 | \$30,820 | \$427,008 | \$193,698 | \$ (4,892) | \$ (8,233) | \$855,872 |
| Net income | — | — | — | — | — | 57,222 | — | — | 57,222 |
| Other comprehensive income | — | — | — | — | — | — | 5,269 | — | 5,269 |
| Preferred stock dividends | — | — | — | — | — | (10,844) | — | — | (10,844) |
| Share-based compensation expense | — | — | — | — | 4,536 | — | — | — | 4,536 |
| Exercise of warrants | — | — | 50,387 | 50 | 507 | — | — | — | 557 |
| Issuance of common stock under share-based compensation arrangements | — | — | 447,328 | 448 | (2,418) | — | — | — | (1,970) |
| Balance, September 30, 2017 | 9,000,000 | \$217,471 | 30,787,632 | \$31,318 | \$429,633 | \$240,076 | \$ 377 | \$ (8,233) | \$910,642 |

See accompanying notes to the unaudited consolidated financial statements.

7

Table of Contents

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

| | Nine Months Ended September 30, 2018 | 2017 | |
|--|--|-----------|---------------|
| Cash Flows from Operating Activities | | | (As Restated) |
| Net income | \$ 53,833 | \$ 57,222 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 4,257 | 5,937 | |
| Depreciation and amortization | 10,235 | 7,476 | |
| Share-based compensation expense | 6,595 | 5,377 | |
| Deferred taxes | 6,238 | 286 | |
| Net amortization of investment securities premiums and discounts | 1,204 | 520 | |
| Unrealized loss recognized on equity securities | 1,533 | — | |
| Loss (gain) on sale of investment securities | 18,659 | (8,532 |) |
| Impairment loss on investment securities | — | 12,934 | |
| Gain on sale of SBA and other loans | (3,880 | (3,553 |) |
| Origination of loans held for sale | (22,978 | (32,343 |) |
| Proceeds from the sale of loans held for sale | 23,936 | 31,718 | |
| Amortization of fair value discounts and premiums | 164 | 93 | |
| Net (gain) loss on sales of other real estate owned | (35 | 154 |) |
| Valuation and other adjustments to other real estate owned | 124 | 298 | |
| Earnings on investment in bank-owned life insurance | (5,769 | (5,297 |) |

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| | | | | |
|---|--------------|---|--------------|---|
| Increase in accrued interest receivable and other assets | (21,525) |) | (27,862) |) |
| Increase (decrease) in accrued interest payable and other liabilities | 25,774 | | (14,106) |) |
| Net Cash Provided By Operating Activities | 98,365 | | 30,322 | |
| Cash Flows from Investing Activities | | | | |
| Proceeds from maturities, calls and principal repayments of securities available for sale | 38,926 | | 36,461 | |
| Proceeds from sales of investment securities available for sale | 476,182 | | 670,522 | |
| Purchases of investment securities available for sale | (763,242) |) | (796,594) |) |
| Origination of mortgage warehouse loans | (21,739,744) |) | (22,738,383) |) |
| Proceeds from repayments of mortgage warehouse loans | 22,016,825 | | 22,893,950 | |
| Net increase in loans, excluding mortgage warehouse loans | (20,476) |) | (921,049) |) |
| Proceeds from sales of loans | 42,211 | | 124,703 | |
| Purchase of loans | (347,740) |) | (262,641) |) |
| Purchases of bank-owned life insurance | — | | (90,000) |) |
| Proceeds from bank-owned life insurance | 529 | | 1,418 | |
| Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock | 31,712 | | (30,203) |) |
| Purchases of bank premises and equipment | (1,344) |) | (1,725) |) |
| Proceeds from sales of other real estate owned | 421 | | 1,680 | |
| Purchase of university relationship intangible asset | (1,502) |) | — | |
| | (21,849) |) | — | |

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|--|------------|---|------------|---|
| Purchase of leased assets under operating leases | | | | |
| Net Cash Used In Investing Activities | (289,091 |) | (1,111,861 |) |
| Cash Flows from Financing Activities | | | | |
| Net increase in deposits | 1,713,572 | | 293,301 | |
| Net (decrease) increase in short-term borrowed funds from the FHLB | (776,860 |) | 593,543 | |
| Net (decrease) increase in federal funds purchased | (155,000 |) | 64,000 | |
| (Repayments of) proceeds from issuance of long-term debt | (63,250 |) | 98,564 | |
| Preferred stock dividends paid | (10,844 |) | (10,844 |) |
| Exercise of warrants | 112 | | 557 | |
| Payments of employee taxes withheld from share-based awards | (711 |) | (4,923 |) |
| Proceeds from issuance of common stock | 3,418 | | 2,112 | |
| Net Cash Provided By Financing Activities | 710,437 | | 1,036,310 | |
| Net Increase (Decrease) in Cash and Cash Equivalents | 519,711 | | (45,229 |) |
| Cash and Cash Equivalents – Beginning | 146,323 | | 264,709 | |
| Cash and Cash Equivalents – Ending | \$ 666,034 | | \$ 219,480 | |

(continued)

Supplementary Cash Flows Information:

| | | |
|--|------------|-----------|
| Interest paid | \$ 114,973 | \$ 70,706 |
| Income taxes paid | 4,156 | 31,545 |
| Non-cash items: | | |
| Transfer of loans to other real estate owned | \$ 234 | \$ 83 |

| | | |
|--|---------|---------|
| Transfer of loans held for investment to held for sale | — | 150,638 |
| Transfer of loans held for sale to held for investment | 129,691 | — |

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF THE BUSINESS

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

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

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

Table of Contents

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited consolidated financial statements of Customers have been prepared in conformity with U.S. GAAP and pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. On November 13, 2018, Customers Bancorp filed with the SEC a report on Form 8-K advising that its 2017, 2016, and 2015 audited consolidated financial statements and its interim unaudited consolidated financial statements as of and for the three and six month periods ended March 31, 2018 and 2017 and June 30, 2018 and 2017, respectively, should no longer be relied upon because of incorrect classifications of the cash flows used in and provided by its commercial mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investment (i.e., loans receivable) on its consolidated balance sheets. These misclassifications have no impact on total cash balances, total loans, total assets, the allowance for loan losses, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or other key performance metrics, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. The December 31, 2017 consolidated balance sheet presented in this report has been derived from Customers' audited 2017 consolidated financial statements, restated to correct the classification of the mortgage warehouse loans as held for investment instead of held for sale. Because of a fair value option election that Customers made on July 1, 2012 that continues today, these loans are, and will continue to be, reported at their fair value and accordingly do not have an allowance for loan losses. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2017 consolidated financial statements of Customers included in its Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 23, 2018 (the "2017 Form 10-K") except to the extent they are affected by the restatement. That Form 10-K describes Customers Bancorp's significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents and Statements of Cash Flows; Restrictions on Cash and Amounts due from Banks; Business Combinations; Investment Securities; Loan Accounting Framework; Loans Held for Sale and Loans at Fair Value; Loans Receivable; Purchased Loans; Allowance for Loan Losses; Goodwill and Other Intangible Assets; Investments in FHLB, Federal Reserve Bank, and Other Restricted Stock; Other Real Estate Owned; Bank-Owned Life Insurance; Bank Premises and Equipment; Operating Leases; Treasury Stock; Income Taxes; Share-Based Compensation; Transfer of Financial Assets; Business Segments; Derivative Instruments and Hedging; Comprehensive Income (Loss); Earnings per Share; and Loss Contingencies. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year or any other period. There have been no material changes to Customers' significant accounting policies as disclosed in Customers' 2017 Form 10-K, except for the accounting policies related to Cash and Cash Equivalents and Statements of Cash Flows and Loans Held for Sale and Loans at Fair Value as described below.

Table of Contents

Restatement of Previously Issued Financial Statements

In November 2018, Customers determined that the cash flow activities associated with its commercial mortgage warehouse lending activities should have been reported as investing activities in its consolidated statements of cash flows because the related loan balances should have been classified as held for investment (i.e., loans receivable). Effective with the filing of this quarterly report on Form 10-Q, Customers changed its accounting policies such that commercial mortgage warehouse loans will be classified as held for investment and presented as "Loans receivable, mortgage warehouse, at fair value" on its consolidated balance sheets. The cash flow activities associated with these commercial mortgage warehouse lending activities will be reported as investing activities in the consolidated statements of cash flows.

The following tables set forth the effects of the correction on the consolidated balance sheet as of December 31, 2017 and the consolidated statements of cash flows for the nine months ended September 30, 2017.

| | December 31, 2017 | | |
|--|--|---------------|----------------|
| | As Previously Reported | Adjustments | As Restated |
| Consolidated Balance Sheet | | | |
| (amounts in thousands) | | | |
| Loans held for sale | \$1,939,485 | \$(1,793,408) | \$146,077 |
| Loans receivable, mortgage warehouse, at fair value | — | 1,793,408 | 1,793,408 |
| Total loans receivable, net of allowance for loan losses | 6,730,243 | 1,793,408 | 8,523,651 |
| | For the Nine Months Ended September 30, 2017 | | |
| Consolidated Statements of Cash Flows | As Previously Reported | Adjustments | As Restated |
| (amounts in thousands) | | | |
| Origination of loans held for sale | \$(22,770,726) | \$22,738,383 | \$(32,343) |
| Proceeds from the sale of loans held for sale | 22,925,668 | (22,893,950) | 31,718 |
| Net cash provided by operating activities | 185,889 | (155,567) | 30,322 |
| Origination of mortgage warehouse loans | — | (22,738,383) | (22,738,383) |
| Proceeds from repayments of mortgage warehouse loans | — | 22,893,950 | 22,893,950 |
| Net cash used in investing activities | (1,267,428) | 155,567 | (1,111,861) |

In addition, the December 31, 2017 comparative balances disclosed in NOTE 6 - LOANS HELD FOR SALE, NOTE 7 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, and NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, and the comparative balances reported throughout Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this quarterly report on Form 10-Q, have been restated to present the corrected classification.

Table of Contents

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

Accounting Standards Adopted in 2018

| Standard | Summary of guidance | Effects on Financial Statements |
|---|--|--|
| <p>ASU 2018-13, Fair Value (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement</p> <p>Issued August 2018</p> | <p>Eliminates disclosure requirements for the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements.</p> <p>Clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.</p> <p>Expands disclosures to include unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.</p> <p>Certain amendments are applied prospectively and retrospectively.</p> <p>Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.</p> | <p>Customers early adopted on September 30, 2018.</p> <p>The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)</p> <p>Issued February 2018</p> | <p>Clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with ASC 820, Fair Value Measurement.</p> <p>Provides clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date.</p> <p>Effective July 1, 2018 on a prospective basis with early adoption permitted.</p> | <p>Customers adopted on July 1, 2018 on a prospective basis.</p> <p>The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements as Customers currently does not have any significant equity securities without readily determinable fair values.</p> |
| <p>ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other</p> | <p>Allows for reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cut and Jobs Act.</p> | <p>Customers early adopted on January 1, 2018.</p> <p>The adoption resulted in the reclassification of \$0.3 million in</p> |

Comprehensive
Income/(Loss) ("AOCI")
Issued February 2018

Requires an entity to disclose whether it has elected to reclassify stranded tax effects from AOCI to retained earnings and its policy for releasing income tax effects from AOCI.

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted.

stranded tax effects in Customers' AOCI related to net unrealized losses on its available-for-sale debt securities and cash flow hedges.

The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.

Table of Contents

Accounting Standards Adopted in 2018 (continued)

| Standard | Summary of guidance | Effects on Financial Statements |
|--|---|---|
| <p>ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities</p> <p>Issued August 2017</p> | <p>Aligns the entity's risk management activities and financial reporting for hedging relationships.</p> <p>Amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk.</p> <p>Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line item as the hedge item.</p> <p>Changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness.</p> <p>Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.</p> <p>In October 2018, the FASB issued ASU 2018-16 "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," which permits the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes.</p> | <p>Customers early adopted on January 1, 2018.</p> <p>With the early adoption, Customers is able to pursue additional hedging strategies including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events.</p> <p>These additional hedging strategies will allow Customers to better align the accounting and financial reporting of its hedging activities with the economic objectives thereby reducing the earnings volatility resulting from these hedging activities.</p> <p>The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Customers has updated its disclosures in NOTE 10 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES as a result of early adopting this ASU.</p> |
| <p>ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting</p> <p>Issued May 2017</p> | <p>Clarifies when to account for a change to the terms or conditions of a share-based-payment award as a modification in ASC 718.</p> <p>Provides that modification accounting is only required if the fair value, vesting conditions, or the classification of the award as equity or a liability changes as a result of the change in terms or conditions.</p> <p>Effective January 1, 2018 on a prospective basis for awards modified on or after the adoption date.</p> | <p>Customers adopted on January 1, 2018.</p> <p>The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</p> | <p>Clarifies the scope and application of the accounting guidance on the sale of nonfinancial assets to non-customers, including partial sales.</p> <p>Clarifies that if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial</p> | <p>Customers adopted on January 1, 2018.</p> <p>The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |

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| | | |
|---|--|---|
| Issued February 2017 | assets within the scope of Subtopic 610-20. Effective January 1, 2018 on a prospective basis. | |
| ASU 2017-01, Clarifying the Definition of a Business | Narrows the definition of a business and clarifies that to be considered a business, the fair value of gross assets acquired (or disposed of) should not be concentrated in a single identifiable asset or a group of similar identifiable assets. Also clarifies that in order to be considered a business, an acquisition would have to include an input and a substantive process that together will significantly contribute to the ability to create an output. Effective January 1, 2018 on a prospective basis. | Customers adopted on January 1, 2018. The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. |
| ASU 2016-18, Statement of Cash Flows: Restricted Cash | Requires inclusion of restricted cash in cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows. Effective January 1, 2018 and requires retrospective application to all periods presented. | Customers adopted on January 1, 2018. The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore did not result in a retrospective application. |
| Issued January 2017 | | |
| Issued November 2016 | | |

Table of Contents

Accounting Standards Adopted in 2018 (continued)

| Standard | Summary of guidance | Effects on Financial Statements |
|---|---|---|
| <p>ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory</p> <p>Issued October 2016</p> | <p>Requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.</p> <p>Eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use.</p> <p>Effective January 1, 2018 on a modified retrospective basis.</p> <p>Aims to reduce the existing diversity in practice with regards to the classification of the following specific items in the statement of cash flows:</p> <ol style="list-style-type: none"> 1. Cash payments for debt prepayment or debt extinguishment costs should be classified as a financing activity. 2. Cash paid by an acquirer soon after a business combination for the settlement of a contingent consideration liability recognized at the acquisition date will be classified in investing activities. 3. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (i.e., the nature of the loss). 4. Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities. 5. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a non-cash activity, and cash received from beneficial interests will be classified in investing activities. <p>Effective January 1, 2018 and requires retrospective application to all periods presented.</p> | <p>Customers adopted on January 1, 2018.</p> <p>The adoption of the ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2016-15, Statement of Cash Flow: Classification of Certain Cash Receipts and Cash Payments</p> <p>Issued August 2016</p> | <p>Customers adopted on January 1, 2018.</p> <p>The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore it did not result in a retrospective application.</p> | |
| <p>ASU 2016-04, Liabilities - Extinguishment of Liabilities: Recognition of</p> | <p>Requires issuers of prepaid stored-value products (such as gift cards, telecommunication cards, and traveler's checks), to derecognize the financial liability related to those products for breakage.</p> | <p>Customers adopted on January 1, 2018.</p> <p>The adoption of this ASU did not have a significant impact on</p> |

Breakage for Certain
Prepaid Stored-Value
Products

Breakage is the value of prepaid stored-value products that is not redeemed by consumers for goods, services or cash.

Customers' financial condition, results of operations and consolidated financial statements.

Issued March 2016

The amendments in this ASU provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistent with the breakage guidance in Topic 606.

Effective January 1, 2018 on a modified retrospective basis.

Table of Contents

Accounting Standards Adopted in 2018 (continued)

| Standard | Summary of guidance | Effects on Financial Statements |
|--|--|---|
| <p>ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities</p> <p>Issued January 2016</p> | <p>Requires equity investments with certain exceptions to be measured at fair value with changes in fair value recognized in net income.</p> <p>Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.</p> <p>Eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.</p> <p>Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.</p> <p>Requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.</p> <p>Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements.</p> <p>Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities.</p> <p>Effective January 1, 2018 on a modified retrospective basis.</p> | <p>Customers adopted on January 1, 2018 using a modified retrospective approach.</p> <p>The adoption of this ASU resulted in a cumulative-effect adjustment that resulted in a \$1.0 million reduction in AOCI and a corresponding increase in retained earnings for the same amount.</p> <p>The \$1.0 million represented the net unrealized gain on Customers' investment in Religare equity securities at December 31, 2017, as disclosed in NOTE 5 - INVESTMENT SECURITIES.</p> <p>Customers also refined its calculation to determine the fair value of its held-for- investment loan portfolio for disclosure purposes using an exit price notion as part of adopting this ASU. The refined calculation did not have a significant impact on Customers' fair value disclosures.</p> |
| <p>ASU 2014-09, Revenue from Contracts with Customers (Topic 606)</p> <p>Issued May 2014</p> | <p>Supersedes the revenue recognition requirements in ASC 605.</p> <p>Requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or</p> | <p>Customers adopted on January 1, 2018 on a modified retrospective basis.</p> <p>Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), Customers concluded that the new guidance did not have a material impact on the elements of its consolidated</p> |

services.

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

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

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

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

statements of operations most closely associated with leases and financial instruments (such as interest income, interest expense and securities gains or losses).

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

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

The adoption of this ASU, did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Additional discussion related to the adoption and the required quantitative and qualitative disclosures are included in NOTE 12 - NON-INTEREST REVENUES.

Table of Contents

Accounting Standards Issued But Not Yet Adopted

| Standard | Summary of guidance | Effects on Financial Statements |
|---|--|---|
| <p>ASU 2018-15, Internal-Use Software (Subtopic 350-40): Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</p> <p>Issued August 2018</p> | <p>Clarifies that service contracts with hosting arrangements must follow internal-use software guidance Subtopic 350-40 when determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense.</p> <p>Also clarifies that capitalized implementation costs of a hosting arrangement that is a service contract are to be amortized over the term of the hosting arrangement, which includes the noncancelable period of the arrangement plus options to extend the arrangement if reasonably certain to exercise.</p> <p>Clarifies that existing impairment guidance in Subtopic 350-40 must be applied to the capitalized implementation costs as if they were long-lived assets.</p> <p>Applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.</p> <p>Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.</p> | <p>Customers is currently evaluating the expected impact of this ASU on its financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting</p> <p>Issued June 2018</p> | <p>Expands the scope of Topic 718, Compensation - Stock Compensation, which currently only includes share-based payments issued to employees, to also include share-based payments issued to non-employees for goods and services.</p> <p>Applies to all share-based payment transactions in which a grantor acquires goods or services from non-employees to be used or consumed in a grantor's own operations by issuing share-based payment awards.</p> <p>With the amended guidance from ASU 2018-07, non-employees share-based payments are measured with an estimate of the fair value of the equity the business is obligated to issue at the grant date (the date that the business and the stock award recipient agree to the terms</p> | <p>Customers currently does not grant share-based payment awards to non-employees and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.</p> |

of the award).

Compensation would be recognized in the same period and in the same manner as if the entity had paid cash for goods or services instead of stock.

Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

Table of Contents

Accounting Standards Issued But Not Yet Adopted (continued)

| Standard | Summary of guidance | Effects on Financial Statements |
|---|--|--|
| <p>ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features</p> <p>Issued July 2017</p> | <p>Changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.</p> <p>When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) would no longer be accounted for as a derivative liability at fair value as a result of the existence of a down round feature.</p> <p>For freestanding equity-classified financial instruments, the amendments require entities to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of net income available to common shareholders in basic earnings per share ("EPS").</p> <p>Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.</p> | <p>Customers currently does not have any equity-linked financial instruments (or embedded features) with down round features and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact of this ASU through the adoption date.</p> |
| <p>ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities</p> <p>Issued March 2017</p> | <p>Requires that premiums for certain callable debt securities held be amortized to their earliest call date.</p> <p>Effective for Customers beginning after December 15, 2018, with early adoption permitted.</p> <p>Adoption of this new guidance must be applied on a modified retrospective approach.</p> | <p>Customers currently has an immaterial amount of callable debt securities purchased at a premium and, accordingly, does not expect the adoption of this ASU to have a significant impact on its financial condition, results of operations and consolidated financial statements; however, Customers will continue to evaluate the potential impact through the adoption date.</p> |
| <p>ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments</p> <p>Issued June 2016</p> | <p>Requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the</p> | <p>Customers has established a company-wide, cross-discipline governance structure, which provides implementation oversight and continues evaluating the impact of this ASU and reviewing the loss modeling</p> |

financial asset (including HTM securities), presents the net amount expected to be collected on the financial asset.

Replaces today's "incurred loss" approach and is expected to result in earlier recognition of credit losses.

For available-for-sale debt securities, entities will be required to record allowances for credit losses rather than reduce the carrying amount, as they do today under the OTTI model, and will be allowed to reverse previously established allowances in the event the credit of the issuer improves.

Simplifies the accounting model for purchased credit-impaired debt securities and loans.

Effective beginning after December 15, 2019 with early adoption permitted.

Adoption can be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.

requirements consistent with lifetime expected loss estimates.

Customers has selected a third-party vendor to assist in the implementation process of its new model, which will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and will consider expected future changes in macroeconomic conditions.

The adoption of this ASU may result in an increase to Customers' allowance for loan losses which will depend upon the nature and characteristics of Customers' loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date.

Customers currently does not intend to early adopt this new guidance.

Table of Contents

Accounting Standards Issued But Not Yet Adopted (continued)

| Standard | Summary of guidance | Effects on Financial Statements |
|---|---|--|
| ASU 2016-02, Leases Issued February 2016 | <p>Supersedes the current lease accounting guidance for both lessees and lessors under ASC 840, Leases.</p> <p>From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months.</p> <p>Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees.</p> <p>This ASU will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases.</p> <p>Effective beginning after December 15, 2018 with early adoption permitted.</p> <p>A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.</p> <p>In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements," which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date.</p> | <p>Customers is in the process of its implementation, which includes evaluating its leasing activities and certain contracts for embedded leases. Customers will be utilizing a lease accounting software solution for its real estate leases and updating processing and internal controls for its leasing activities.</p> <p>Customers expects to recognize a lease liability and a corresponding right-of-use asset, at their present value, to predominately all of the \$22 million of future minimum payments required under operating leases as disclosed in Note 10 of Customers' 2017 Form 10-K, along with any leases entered into or extended during 2018. However, the population of contracts subject to balance sheet recognition and their initial measurement remains under evaluation. Customers does not expect material changes to the recognition of operating lease expense in its consolidated statements of income.</p> <p>Customers expects to adopt certain practical expedients available under the new guidance, which will not require it to (1) reassess whether any expired or existing contracts contain leases, (2) reassess the lease classification for any expired or existing leases, or (3) reassess initial direct costs for any existing leases. Additionally, Customers will elect to apply the new lease guidance at the adoption date, rather than at the beginning of the earliest period presented and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, while continuing to present the comparative periods under Topic 840.</p> <p>Customers does not intend to early adopt this new guidance.</p> |

Table of Contents

NOTE 3 — EARNINGS PER SHARE

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| (amounts in thousands, except share and per share data) | | | | |
| Net income available to common shareholders | \$2,414 | \$ 4,139 | \$42,989 | \$ 46,378 |
| Weighted-average number of common shares outstanding - basic | 31,671,132 | 32,739,671 | 31,554,408 | 30,597,314 |
| Share-based compensation plans | 601,622 | 1,754,480 | 750,573 | 2,004,917 |
| Warrants | 4,846 | 18,541 | 7,475 | 24,392 |
| Weighted-average number of common shares - diluted | 32,277,599 | 34,512,692 | 32,312,456 | 32,626,623 |
| Basic earnings per common share | \$0.08 | \$ 0.13 | \$ 1.36 | \$ 1.52 |
| Diluted earnings per common share | \$0.07 | \$ 0.13 | \$ 1.33 | \$ 1.42 |

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------|--------------------|---------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Anti-dilutive securities: | | | | |
| Share-based compensation awards | 1,787,670 | 409,225 | 1,105,287 | 409,225 |
| Warrants | — | 52,242 | — | 52,242 |
| Total anti-dilutive securities | 1,787,670 | 461,467 | 1,105,287 | 461,467 |

Table of Contents

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

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

| (amounts in thousands) | Three Months Ended September 30, 2018 | | | | |
|---|---------------------------------------|------------------------|---------------------------------|---|------------|
| | Available-for-sale debt securities | | | | |
| | Unrealized Gains (Losses) | Foreign Currency Items | Total Unrealized Gains (Losses) | Unrealized Gains (Losses) on Cash Flow Hedges | Total |
| Balance - June 30, 2018 | \$(35,711) | \$— | \$(35,711) | \$ 1,714 | \$(33,997) |
| Other comprehensive income (loss) before reclassifications | (1,206) | — | (1,206) | 3,006 | 1,800 |
| Amounts reclassified from accumulated other comprehensive income (loss) to net income (1) | 13,808 | — | 13,808 | (1,864) | 11,944 |
| Net current-period other comprehensive income | 12,602 | — | 12,602 | 1,142 | 13,744 |
| Balance - September 30, 2018 | \$(23,109) | \$— | \$(23,109) | \$ 2,856 | \$(20,253) |

| (amounts in thousands) | Nine Months Ended September 30, 2018 | | | | |
|---|--------------------------------------|------------------------|---------------------------------|---|------------|
| | Available-for-sale securities | | | | |
| | Unrealized Gains (Losses) | Foreign Currency Items | Total Unrealized Gains (Losses) | Unrealized Gains (Losses) on Cash Flow Hedges | Total |
| Balance - December 31, 2017 | \$(249) | \$ 88 | \$(161) | \$ (198) | \$(359) |
| Reclassification of the income tax effects of the Tax Cuts and Jobs Act (2) | (256) | — | (256) | (42) | (298) |
| Reclassification of net unrealized gains on equity securities (2) | (953) | (88) | (1,041) | — | (1,041) |
| Balance after reclassification adjustments on January 1, 2018 | (1,458) | — | (1,458) | (240) | (1,698) |
| Other comprehensive income (loss) before reclassifications | (35,459) | — | (35,459) | 5,055 | (30,404) |
| Amounts reclassified from accumulated other comprehensive income (loss) to net income (1) | 13,808 | — | 13,808 | (1,959) | 11,849 |
| Net current-period other comprehensive income (loss) | (21,651) | — | (21,651) | 3,096 | (18,555) |
| Balance - September 30, 2018 | \$(23,109) | \$— | \$(23,109) | \$ 2,856 | \$(20,253) |

(1) Reclassification amounts for available-for-sale debt securities are reported as loss on sale of investment securities on the consolidated statements of income. During the three and nine months ended September 30, 2018, reclassification amounts of \$18.7 million (\$13.8 million net of taxes), respectively, were reported as loss on sale of investment securities on the consolidated statements of income. Reclassification amounts for cash flow hedges are reported as either interest expense on FHLB advances on the consolidated statements of income or other non-interest income on the consolidated statements of income for gains from the discontinuance of cash flow hedge accounting for certain interest rate swaps. During the three and nine months ended September 30, 2018, reclassification amounts of \$303 thousand (\$224 thousand net of taxes) and \$175 thousand (\$129 thousand net of taxes) were reported as interest expense on FHLB advances on the consolidated statements of income. During the three and nine months ended September 30, 2018, reclassification amounts of \$2.8 million (\$2.1 million net of taxes), respectively, were reported as other non-interest income on the consolidated statements of income from the discontinuance of cash flow hedge

accounting for certain interest rate swaps.

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

Table of Contents

| (amounts in thousands) | Three Months Ended September 30, 2017 | | |
|---|---|--|-----------|
| | Unrealized Gains (Losses) on Available-for-Sale Securities | Unrealized Gains (Losses) on Cash Flow Hedges | Total |
| Balance - June 30, 2017 | \$6,822 | \$ (1,458) | \$5,364 |
| Other comprehensive income (loss) before reclassifications | (2,177) | 104 | (2,073) |
| Amounts reclassified from accumulated other comprehensive income (loss) to net income (1) | (3,263) | 349 | (2,914) |
| Net current-period other comprehensive income (loss) | (5,440) | 453 | (4,987) |
| Balance - September 30, 2017 | \$1,382 | \$ (1,005) | \$377 |
| (amounts in thousands) | Nine Months Ended September 30, 2017 | | |
| | Unrealized Gains (Losses) on Available-for-Sale Securities | Unrealized Gains (Losses) on Cash Flow Hedges | Total |
| Balance - December 31, 2016 | \$(2,681) | \$(2,211) | \$(4,892) |
| Other comprehensive income (loss) before reclassifications | 9,268 | (115) | 9,153 |
| Amounts reclassified from accumulated other comprehensive income (loss) to net income (1) | (5,205) | 1,321 | (3,884) |
| Net current-period other comprehensive income | 4,063 | 1,206 | 5,269 |
| Balance - September 30, 2017 | \$1,382 | \$ (1,005) | \$377 |

(1) Reclassification amounts for available-for-sale debt securities are reported as gain on sale of investment securities on the consolidated statements of income. During the three and nine months ended September 30, 2017, reclassification amounts of \$5.3 million (\$3.3 million net of taxes) and \$8.5 million (\$5.2 million net of taxes), respectively, were reported as gain on sale of investment securities on the consolidated statements of income. Reclassification amounts for cash flow hedges are reported as interest expense on FHLB advances on the consolidated statements of income. During the three and nine months ended September 30, 2017, reclassification amounts of \$572 thousand (\$349 thousand net of taxes) and \$2.2 million (\$1.3 million net of taxes) were reported as interest expense on FHLB advances on the consolidated statements of income.

Table of Contents

NOTE 5 — INVESTMENT SECURITIES

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

| | September 30, 2018 | | | |
|--|--------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (amounts in thousands) | | | | |
| Available-for-sale debt securities: | | | | |
| Agency-guaranteed residential mortgage-backed securities | \$316,785 | \$ — | \$(11,367) | \$305,418 |
| Corporate notes | 381,475 | 347 | (20,208) | 361,614 |
| Available-for-sale debt securities | \$698,260 | \$ 347 | \$(31,575) | 667,032 |
| Equity securities ⁽¹⁾ | | | | 1,819 |
| Total investment securities, at fair value | | | | \$668,851 |

(1) Includes equity securities issued by a foreign entity that are being measured at fair value with changes in fair value recognized directly in earnings effective January 1, 2018 as a result of adopting ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (see NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of this new standard).

| | December 31, 2017 | | | |
|---|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (amounts in thousands) | | | | |
| Available-for-sale securities: | | | | |
| Agency-guaranteed residential mortgage-backed securities | \$186,221 | \$ 36 | \$(2,799) | \$183,458 |
| Agency-guaranteed commercial real estate mortgage-backed securities | 238,809 | 432 | (769) | 238,472 |
| Corporate notes ⁽¹⁾ | 44,959 | 1,130 | — | 46,089 |
| Equity securities ⁽²⁾ | 2,311 | 1,041 | — | 3,352 |
| Total available-for-sale securities, at fair value | \$472,300 | \$ 2,639 | \$(3,568) | \$471,371 |

(1) Includes subordinated debt issued by other bank holding companies.

(2) Includes equity securities issued by a foreign entity.

The following table presents proceeds from the sale of investment securities and gross gains and gross losses realized on those sales for the three and nine month periods ended September 30, 2018 and 2017:

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| (amounts in thousands) | | | | |
| Proceeds from sale of available-for-sale securities | \$476,182 | \$554,540 | \$476,182 | \$670,522 |
| Gross gains | \$— | \$5,349 | \$— | \$8,532 |
| Gross losses | (18,659) | — | (18,659) | — |
| Net (losses)/gains | \$(18,659) | \$5,349 | \$(18,659) | \$8,532 |

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

Table of Contents

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

| | September 30, 2018 | |
|--|--------------------|------------|
| | 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 | 229,807 | 218,904 |
| Due after ten years | 151,668 | 142,710 |
| Agency-guaranteed residential mortgage-backed securities | 316,785 | 305,418 |
| Total debt securities | \$698,260 | \$667,032 |

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

| | September 30, 2018 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (amounts in thousands) | | | | | | |
| Available-for-sale debt securities: | | | | | | |
| Agency-guaranteed residential mortgage-backed securities | \$305,418 | \$(11,367) | \$— | — | —\$305,418 | \$(11,367) |
| Corporate notes | 321,303 | (20,208) | — | — | 321,303 | (20,208) |
| Total | \$626,721 | \$(31,575) | \$— | — | —\$626,721 | \$(31,575) |

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

At September 30, 2018, there were twenty-eight available-for-sale debt securities in the less-than-twelve-month category and no available-for-sale debt securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. The unrealized losses on the corporate notes relate to securities with no company specific concentration. The unrealized losses were due to an upward shift in interest rates that resulted in a negative impact on the respective note's fair value. All amounts related to the mortgage-backed securities and the corporate notes are expected to be recovered when market prices recover or at maturity. Customers does not intend to sell these securities

and it is not more likely than not that Customers will be required to sell the securities before recovery of the amortized cost basis.

23

Table of Contents

During the three and nine month periods ended September 30, 2017, Customers recorded other-than-temporary impairment losses of \$8.3 million and \$12.9 million, respectively, related to its equity holdings in Religare Enterprises Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017 because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was \$3.4 million, which resulted in an unrealized gain of \$1.0 million being recognized in accumulated other comprehensive income with no adjustment for deferred taxes as Customers currently does not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment.

As described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a \$1.0 million reduction in accumulated other comprehensive income and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of \$1.2 million and \$1.5 million being recognized in other non-interest income in the accompanying consolidated statements of income for the three and nine months ended September 30, 2018, respectively.

At September 30, 2018 and December 31, 2017, Customers Bank had pledged investment securities aggregating \$187.1 million and \$16.9 million in fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

NOTE 6 – LOANS HELD FOR SALE - As Restated

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

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| | | (As Restated) |
| (amounts in thousands) | | |
| Commercial loans: | | |
| Multi-family loans at lower of cost or fair value | \$ — | \$ 144,191 |
| Total commercial loans held for sale | — | 144,191 |
| Consumer loans: | | |
| Residential mortgage loans, at fair value | 1,383 | 1,886 |
| Loans held for sale | \$ 1,383 | \$ 146,077 |

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

On June 30, 2017, Customers Bank transferred \$150.6 million of multi-family loans from held for investment to loans held for sale. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer. At December 31, 2017, the carrying value of these loans approximated their fair value. Accordingly, a lower of cost or fair value adjustment was not recorded as of December 31, 2017. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for more information on the reclassification of loans previously reported as held for sale.

Table of Contents

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES - As Restated

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

| (amounts in thousands) | September 30, 2018 | December 31, 2017 (As Restated) |
|---|--------------------|------------------------------------|
| Loans receivable, mortgage warehouse, at fair value | \$ 1,516,327 | \$ 1,793,408 |
| Loans receivable: | | |
| Commercial: | | |
| Multi-family | 3,504,540 | 3,502,381 |
| Commercial and industrial (including owner occupied commercial real estate) | 1,841,704 | 1,633,818 |
| Commercial real estate non-owner occupied | 1,157,849 | 1,218,719 |
| Construction | 95,250 | 85,393 |
| Total commercial loans receivable | 6,599,343 | 6,440,311 |
| Consumer: | | |
| Residential real estate | 509,853 | 234,090 |
| Manufactured housing | 82,589 | 90,227 |
| Other | 51,210 | 3,547 |
| Total consumer loans receivable | 643,652 | 327,864 |
| Loans receivable | 7,242,995 | 6,768,175 |
| Deferred (fees)/costs and unamortized (discounts)/premiums, net | (3,045) | 83 |
| Allowance for loan losses | (40,741) | (38,015) |
| Total loans receivable, net of allowance for loan losses | \$ 8,715,536 | \$ 8,523,651 |

Customers' total loans receivable portfolio includes loans receivable which are reported at fair value based on an election made to account for these loans at fair value and loans receivable which are predominately reported at their outstanding unpaid principal balance, net of charge-offs and deferred costs and fees and unamortized premiums and discounts and are evaluated for impairment.

Loans receivable mortgage warehouse, at fair value:

Mortgage warehouse loans consist of commercial loans to mortgage companies. These mortgage warehouse lending transactions are subject to master repurchase agreements. As a result of the contractual provisions, for accounting purposes control of the underlying mortgage loan has not transferred and the rewards and risks of the mortgage loans are not assumed by Customers. The mortgage warehouse loans receivable are designated as loans held for investment and reported at fair value based on an election made to account for the loans at fair value. Pursuant to the agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded mortgage loans and receives proceeds directly from third party investors when the underlying mortgage loans are sold into the secondary market. The fair value of the mortgage warehouse loans is estimated as the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The interest rates on these loans are variable, and the lending transactions are short-term, with an average life of 25 days

from purchase to sale. The primary goal of these lending transactions is to provide liquidity to mortgage companies.

At September 30, 2018 and December 31, 2017, all of Customers' commercial mortgage warehouse loans were current in terms of payment. Because these loans are reported at their fair value, they do not have an allowance for loan loss and are therefore excluded from allowance for loan losses related disclosures.

Table of Contents

Loans receivable:

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

| | September 30, 2018 | | | | | Purchased-Credit-Impaired Loans (3) | Total Loans (4) |
|---|---------------------|------------------------------|--------------------|-------------|-------------|-------------------------------------|-----------------|
| | 30-89 Days Past Due | 90 Days Or More Past Due (1) | Total Past Due (1) | Non-Accrual | Current (2) | | |
| (amounts in thousands) | | | | | | | |
| Multi-family | \$— | \$— | \$— | \$1,343 | \$3,501,450 | \$ 1,747 | \$3,504,540 |
| Commercial and industrial | 418 | — | 418 | 13,287 | 1,271,813 | 572 | 1,286,090 |
| Commercial real estate owner occupied | — | — | — | 1,298 | 545,647 | 8,669 | 555,614 |
| Commercial real estate non-owner occupied | — | — | — | 158 | 1,153,107 | 4,584 | 1,157,849 |
| Construction | — | — | — | — | 95,250 | — | 95,250 |
| Residential real estate | 2,321 | — | 2,321 | 5,522 | 497,211 | 4,799 | 509,853 |
| Manufactured housing (5) | 3,475 | 2,300 | 5,775 | 1,921 | 72,777 | 2,116 | 82,589 |
| Other consumer | 45 | — | 45 | 112 | 50,832 | 221 | 51,210 |
| Total | \$6,259 | \$ 2,300 | \$ 8,559 | \$23,641 | \$7,188,087 | \$ 22,708 | \$7,242,995 |

December 31, 2017

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

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

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

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. Due to the credit impaired nature of the loans, the loans are

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

As of September 30, 2018 and December 31, 2017, the Bank had \$0.4 million and \$0.3 million, respectively, of residential real estate held in other real estate owned. As of September 30, 2018 and December 31, 2017, the Bank had initiated foreclosure proceedings on \$2.1 million and \$1.6 million, respectively, in loans secured by residential real estate.

Table of Contents

Allowance for loan losses

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

| Three Months Ended | Multi-family | Commercial and Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Non-Owner Occupied | Construction | Residential Real Estate | Manufacturing Housing | Other Consumer | Total |
|--|--------------|---------------------------|---------------------------------------|---|--------------|-------------------------|-----------------------|----------------|-----------|
| September 30, 2018 (amounts in thousands) | | | | | | | | | |
| Ending Balance, June 30, 2018 | \$12,069 | \$12,258 | \$2,988 | \$6,698 | \$992 | \$2,908 | \$149 | \$226 | \$38,288 |
| Charge-offs | — | (90) | — | — | — | — | — | (437) | (527) |
| Recoveries | — | 30 | — | 5 | 11 | 6 | — | 4 | 56 |
| Provision for loan losses | (240) | 516 | 164 | (254) | 59 | 987 | (55) | 1,747 | 2,924 |
| Ending Balance, September 30, 2018 | \$11,829 | \$12,714 | \$3,152 | \$6,449 | \$1,062 | \$3,901 | \$94 | \$1,540 | \$40,741 |
| Nine Months Ended September 30, 2018 | | | | | | | | | |
| Ending Balance, December 31, 2017 | \$12,168 | \$10,918 | \$3,232 | \$7,437 | \$979 | \$2,929 | \$180 | \$172 | \$38,015 |
| Charge-offs | — | (314) | (501) | — | — | (407) | — | (1,155) | (2,377) |
| Recoveries | — | 205 | 326 | 5 | 231 | 69 | — | 10 | 846 |
| Provision for loan losses | (339) | 1,905 | 95 | (993) | (148) | 1,310 | (86) | 2,513 | 4,257 |
| Ending Balance, September 30, 2018 | \$11,829 | \$12,714 | \$3,152 | \$6,449 | \$1,062 | \$3,901 | \$94 | \$1,540 | \$40,741 |
| As of September 30, 2018 | | | | | | | | | |
| Loans: | | | | | | | | | |
| Individually evaluated for impairment | \$1,343 | \$13,353 | \$1,335 | \$158 | \$— | \$8,581 | \$10,378 | \$112 | \$35,260 |
| Collectively evaluated for | 3,501,450 | 1,272,165 | 545,610 | 1,153,107 | 95,250 | 496,473 | 70,095 | 50,877 | 7,185,027 |

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| | | | | | | | | | |
|----------------------|-------------|-------------|-----------|-------------|----------|-----------|----------|----------|-------------|
| impairment | | | | | | | | | |
| Loans | | | | | | | | | |
| acquired | | | | | | | | | |
| with credit | 1,747 | 572 | 8,669 | 4,584 | — | 4,799 | 2,116 | 221 | 22,708 |
| deterioration | | | | | | | | | |
| Total loans | | | | | | | | | |
| receivable | \$3,504,540 | \$1,286,090 | \$555,614 | \$1,157,849 | \$95,250 | \$509,853 | \$82,589 | \$51,210 | \$7,242,995 |
| (1) | | | | | | | | | |
| Allowance | | | | | | | | | |
| for loan | | | | | | | | | |
| losses: | | | | | | | | | |
| Individually | | | | | | | | | |
| evaluated for \$— | | \$1,381 | \$80 | \$— | \$— | \$306 | \$4 | \$— | \$1,771 |
| impairment | | | | | | | | | |
| Collectively | | | | | | | | | |
| evaluated for 11,829 | | 10,881 | 3,072 | 4,298 | 1,062 | 3,072 | 88 | 1,471 | 35,773 |
| impairment | | | | | | | | | |
| Loans | | | | | | | | | |
| acquired | | | | | | | | | |
| with credit | — | 452 | — | 2,151 | — | 523 | 2 | 69 | 3,197 |
| deterioration | | | | | | | | | |
| Allowance | | | | | | | | | |
| for loan | \$11,829 | \$12,714 | \$3,152 | \$6,449 | \$1,062 | \$3,901 | \$94 | \$1,540 | \$40,741 |
| losses | | | | | | | | | |

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Table of Contents

| Three Months Ended | Multi-family | Commercial and Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Non-Owner Occupied | Construction | Residential Real Estate | Manufacturing Housing | Other Consumer | Total |
|---|--------------|---------------------------|---------------------------------------|---|--------------|-------------------------|-----------------------|----------------|-----------|
| September 30, 2017 (amounts in thousands) Ending Balance, June 30, 2017 | \$12,028 | \$11,585 | \$2,976 | \$7,786 | \$716 | \$2,995 | \$268 | \$104 | \$38,458 |
| Charge-offs | — | (2,032) | — | (77) | — | (120) | — | (356) | (2,585) |
| Recoveries | — | 54 | — | — | 27 | 7 | — | 1 | 89 |
| Provision for loan losses | 668 | 966 | 262 | (53) | 104 | 72 | (77) | 410 | 2,352 |
| Ending Balance, September 30, 2017 | \$12,696 | \$10,573 | \$3,238 | \$7,656 | \$847 | \$2,954 | \$191 | \$159 | \$38,314 |
| Nine Months Ended September 30, 2017 Ending Balance, December 31, 2016 | \$11,602 | \$11,050 | \$2,183 | \$7,894 | \$840 | \$3,342 | \$286 | \$118 | \$37,315 |
| Charge-offs | — | (4,079) | — | (485) | — | (410) | — | (602) | (5,576) |
| Recoveries | — | 337 | 9 | — | 157 | 34 | — | 101 | 638 |
| Provision for loan losses | 1,094 | 3,265 | 1,046 | 247 | (150) | (12) | (95) | 542 | 5,937 |
| Ending Balance, September 30, 2017 | \$12,696 | \$10,573 | \$3,238 | \$7,656 | \$847 | \$2,954 | \$191 | \$159 | \$38,314 |
| As of December 31, 2017 | | | | | | | | | |
| Loans: | | | | | | | | | |
| Individually evaluated for impairment | \$— | \$17,461 | \$1,448 | \$160 | \$— | \$9,247 | \$10,089 | \$30 | \$38,435 |
| Collectively evaluated for impairment | 3,500,500 | 1,130,865 | 472,708 | 1,213,309 | 85,393 | 219,162 | 77,587 | 3,301 | 6,702,825 |
| Loans acquired with credit deterioration | 1,881 | 764 | 10,572 | 5,250 | — | 5,681 | 2,551 | 216 | 26,915 |

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

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

Table of Contents

Impaired Loans - Individually Evaluated for Impairment

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

| | September 30, 2018 | | | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|---|--------------------------------|----------------------|--|--|--|--|
| | Recorded Investment Net of Charge-offs | Unpaid Principal Balance | Related Allowance | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized |
| (amounts in thousands) | | | | | | | |
| With no recorded allowance: | | | | | | | |
| Multi-family | \$1,343 | \$1,343 | \$ — | \$1,343 | \$ — | \$672 | \$ 8 |
| Commercial and industrial | 9,888 | 10,224 | — | 7,765 | 166 | 7,623 | 168 |
| Commercial real estate owner occupied | 704 | 1,187 | — | 711 | — | 711 | — |
| Commercial real estate non-owner occupied | 158 | 271 | — | 1,347 | — | 774 | 8 |
| Other consumer | 112 | 112 | — | 103 | 1 | 83 | 1 |
| Residential real estate | 4,259 | 4,504 | — | 4,281 | 23 | 3,952 | 25 |
| Manufactured housing | 10,152 | 10,152 | — | 10,147 | 144 | 10,011 | 421 |
| With an allowance recorded: | | | | | | | |
| Commercial and industrial | 3,465 | 3,648 | 1,381 | 5,787 | 27 | 7,089 | 39 |
| Commercial real estate owner occupied | 631 | 631 | 80 | 336 | 9 | 546 | 11 |
| Residential real estate | 4,322 | 4,329 | 306 | 4,398 | 61 | 4,760 | 124 |
| Manufactured housing | 226 | 226 | 4 | 227 | 4 | 225 | 10 |
| Total | \$35,260 | \$36,627 | \$ 1,771 | \$36,445 | \$ 435 | \$36,446 | \$ 815 |

| | December 31, 2017 | | | Three Months Ended September 30, 2017 | | Nine Months Ended September 30, 2017 | |
|---|---|--------------------------------|----------------------|--|--|--|--|
| | Recorded Investment Net of Charge-offs | Unpaid Principal Balance | Related Allowance | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized | Average Interest Recorded Investment Recognized |
| (amounts in thousands) | | | | | | | |
| With no recorded allowance: | | | | | | | |
| Commercial and industrial | \$9,138 | \$9,287 | \$ — | \$13,345 | \$ 354 | \$8,796 | \$ 450 |
| Commercial real estate owner occupied | 806 | 806 | — | 1,744 | 15 | 1,589 | 18 |
| Commercial real estate non-owner occupied | 160 | 272 | — | 184 | 91 | 989 | 93 |
| Other consumer | 30 | 30 | — | 44 | — | 50 | — |
| Residential real estate | 3,628 | 3,801 | — | 5,228 | 125 | 4,865 | 126 |
| Manufactured housing | 9,865 | 9,865 | — | 10,243 | 164 | 10,038 | 457 |
| With an allowance recorded: | | | | | | | |
| Commercial and industrial | 8,323 | 8,506 | 650 | 1,963 | — | 5,400 | 22 |
| Commercial real estate owner occupied | 642 | 642 | 642 | 1,056 | 1 | 950 | 3 |
| Commercial real estate non-owner occupied | — | — | — | 51 | — | 94 | — |
| Other consumer | — | — | — | 12 | — | 6 | — |
| Residential real estate | 5,619 | 5,656 | 155 | 2,862 | — | 2,729 | 84 |
| Manufactured housing | 224 | 224 | 4 | 114 | — | 108 | 8 |

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| | | | | | | | |
|-------|----------|----------|----------|----------|--------|----------|----------|
| Total | \$38,435 | \$39,089 | \$ 1,451 | \$36,846 | \$ 750 | \$35,614 | \$ 1,261 |
|-------|----------|----------|----------|----------|--------|----------|----------|

29

Table of Contents

Troubled Debt Restructurings

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

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

| | September 30, 2018 | | | December 31, 2017 | | |
|---------------------------------------|--------------------|-----------------|----------|-------------------|-----------------|----------|
| | Accruing TDRs | Nonaccrual TDRs | Total | Accruing TDRs | Nonaccrual TDRs | Total |
| (amounts in thousands) | | | | | | |
| Commercial and industrial | \$66 | \$ 5,311 | \$5,377 | \$63 | \$ 5,939 | \$6,002 |
| Commercial real estate owner occupied | 37 | — | 37 | — | — | — |
| Manufactured housing | 8,457 | 1,781 | 10,238 | 8,130 | 1,766 | 9,896 |
| Residential real estate | 3,059 | 698 | 3,757 | 3,828 | 703 | 4,531 |
| Other consumer | — | 13 | 13 | — | — | — |
| Total TDRs | \$11,619 | \$ 7,803 | \$19,422 | \$12,021 | \$ 8,408 | \$20,429 |

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

| | Three Months Ended September 30, 2018 | | Three Months Ended September 30, 2017 | |
|--|---------------------------------------|---------------------|---------------------------------------|---------------------|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |

| (dollars in thousands) | | | | |
|--------------------------|--------------------------------------|---------------------|--------------------------------------|---------------------|
| Extensions of maturity | — | \$ — | 1 | \$ 60 |
| Interest-rate reductions | 8 | 473 | 3 | 122 |
| Total | 8 | \$ 473 | 4 | \$ 182 |
| | Nine Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |

| | | | | |
|--------------------------|----|----------|----|----------|
| (dollars in thousands) | | | | |
| Extensions of maturity | 1 | \$ 56 | 4 | \$ 6,263 |
| Interest-rate reductions | 32 | 1,402 | 32 | 1,297 |
| Total | 33 | \$ 1,458 | 36 | \$ 7,560 |

Table of Contents

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

| | | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | |
|---------------------------|----|--|--|------------|
| | | Number of Loans | Number of Loans | Investment |
| (dollars in thousands) | | | | |
| Manufactured housing | 7 | \$ 321 | 4 | \$ 182 |
| Residential real estate | 1 | 152 | — | — |
| Total loans | 8 | \$ 473 | 4 | \$ 182 |
| | | Nine Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 | |
| | | Number of Loans | Number of Loans | Investment |
| (dollars in thousands) | | | | |
| Commercial and industrial | — | \$ — | 3 | \$ 6,203 |
| Manufactured housing | 30 | 1,093 | 33 | 1,357 |
| Residential real estate | 2 | 352 | — | — |
| Other consumer | 1 | 13 | — | — |
| Total loans | 33 | \$ 1,458 | 36 | \$ 7,560 |

As of September 30, 2018 and December 31, 2017, except for one commercial and industrial loan with an outstanding commitment of \$1.5 million and \$2.1 million, respectively, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs.

As of September 30, 2018, there were no loans modified in a TDR within the past twelve months that defaulted on payments. As of September 30, 2017, ten manufactured housing loans totaling \$0.5 million, that were modified in TDRs within the past twelve months, defaulted on payments.

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

Purchased-Credit-Impaired Loans

The changes in accretable yield related to purchased-credit-impaired loans for the three and nine months ended September 30, 2018 and 2017 were as follows:

| | Three Months Ended September 30, 2018 | 2017 |
|---|--|---------|
| (amounts in thousands) | | |
| Accretable yield balance as of June 30, | \$7,403 | \$9,006 |

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| | | |
|---|---------|---------|
| Accretion to interest income | (310) | (368) |
| Reclassification from nonaccretable difference and disposals, net | (4) | (276) |
| Accretable yield balance as of September 30, | \$7,089 | \$8,362 |

31

Table of Contents

Nine Months
 Ended September
 30,
 2018 2017

(amounts in thousands)

| | | |
|---|----------|----------|
| Accretable yield balance as of December 31, | \$7,825 | \$10,202 |
| Accretion to interest income | (1,164) | (1,326) |
| Reclassification from nonaccretable difference and disposals, net | 428 | (514) |
| Accretable yield balance as of September 30, | \$7,089 | \$8,362 |

Credit Quality Indicators

The allowance for loan losses represents management's estimate of probable losses in Customers loans receivable portfolio, excluding mortgage warehouse loans carried under the fair value option. Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic, or on an "as needed" basis. Residential real estate loans, manufactured housing and other consumer loans are evaluated based on the payment activity of the loan.

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

The risk rating grades are defined as follows:

"1" – Pass/Excellent

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

"2" – Pass/Superior

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

"3" – Pass/Strong

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

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 considered to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower’s historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.

“6” – Satisfactory/Bankable with Care

Loans rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.

“7” – Special Mention

Loans rated 7 are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event potential weaknesses are not corrected or mitigated, deterioration in the ability of the borrower to repay the debt in the future may occur. This grade is not assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loans where significant actual, not potential, weaknesses or problems are clearly evident are graded in the category below.

“8” – Substandard

Loans are rated 8 when the loans are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the company will sustain some loss if the weaknesses are not corrected.

“9” – Doubtful

The Bank assigns a doubtful rating to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

“10” – Loss

The Bank assigns a loss rating to loans considered uncollectible and of such little value that their continuance as an active asset is not warranted. Amounts classified as loss are immediately charged off.

Risk ratings are not established for certain consumer loans, including residential real estate, home equity, manufactured housing, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and non-performing.

Table of Contents

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

September 30, 2018

| | Multi-Family and Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Non-Owner Occupied | Commercial Real Estate Non-Owner Occupied | Construction | Residential Real Estate | Manufactured Housing | Other Consumer | Total (3) |
|------------------------|-----------------------------------|---|---|--|--------------|----------------------------|-------------------------|-------------------|-------------|
| (amounts in thousands) | | | | | | | | | |
| Pass/Satisfactory | \$3,399,892 | \$1,235,945 | \$539,252 | \$1,084,388 | \$95,250 | \$— | \$— | \$— | \$6,354,727 |
| Special Mention | 81,253 | 7,756 | 8,793 | 30,406 | — | — | — | — | 128,208 |
| Substandard | 23,395 | 42,389 | 7,569 | 43,055 | — | — | — | — | 116,408 |
| Performing (1) | — | — | — | — | — | 502,010 | 74,893 | 51,053 | 627,956 |
| Non-performing (2) | — | — | — | — | — | 7,843 | 7,696 | 157 | 15,696 |
| Total | \$3,504,540 | \$1,286,090 | \$555,614 | \$1,157,849 | \$95,250 | \$509,853 | \$82,589 | \$51,210 | \$7,242,995 |

December 31, 2017

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

(1) Includes residential real estate, manufactured housing, and other consumer loans not subject to risk ratings.

(2) Includes residential real estate, manufactured housing, and other consumer loans that are past due and still accruing interest or on nonaccrual status.

(3) Excludes mortgage warehouse loans carried under the fair value option.

Loan Purchases and Sales

During third quarter 2018, Customers purchased \$72.7 million of mortgage and consumer loans from third party financial institutions. The purchase price was 95.3% of loans outstanding. During third quarter 2018, Customers sold \$12.1 million of Small Business Administration (SBA) loans resulting in a gain on sale of \$1.1 million. There were no loan purchases during third quarter 2017. In third quarter 2017, Customers sold \$11.0 million of SBA loans resulting in a gain on sale of \$1.1 million.

In second quarter 2018, Customers purchased \$277.4 million of thirty-year fixed-rate residential mortgage loans from a third party financial institution. The purchase price was 100.4% of loans outstanding. During second quarter 2018, Customers sold \$11.7 million of SBA loans resulting in a gain on sale of \$0.9 million. In second quarter 2017,

Customers purchased \$90 million of thirty-year fixed-rate residential mortgage loans from a third party financial institution. The purchase price was 101.0% of loans outstanding. In second quarter 2017, Customers sold \$7.0 million of SBA loans resulting in a gain on sale of \$0.6 million.

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

None of the purchases and sales during the three and nine months ended September 30, 2018 and 2017 materially affected the credit profile of Customers' loan portfolio.

Loans Pledged as Collateral

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

Table of Contents

NOTE 8 — REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At September 30, 2018 and December 31, 2017, the Bank and the Bancorp satisfied all capital requirements to which they were subject. Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios as set forth in the following table:

| (amounts in thousands) | Actual | | Minimum Capital Levels to be Classified as: | | | | | |
|--|-------------|----------|---|---------|------------------|----------|---------------------|---------|
| | Amount | Ratio | Adequately Capitalized | | Well Capitalized | | Basel III Compliant | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2018: | | | | | | | | |
| Common equity Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$740,968 | 8.703 % | \$383,113 | 4.500 % | N/A | N/A | \$542,744 | 6.375 % |
| Customers Bank | \$1,054,869 | 12.393 % | \$383,042 | 4.500 % | \$553,282 | 6.500 % | \$542,642 | 6.375 % |
| Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$958,418 | 11.257 % | \$510,818 | 6.000 % | N/A | N/A | \$670,448 | 7.875 % |
| Customers Bank | \$1,054,869 | 12.393 % | \$510,722 | 6.000 % | \$680,963 | 8.000 % | \$670,323 | 7.875 % |
| Total capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$1,080,245 | 12.688 % | \$681,090 | 8.000 % | N/A | N/A | \$840,721 | 9.875 % |
| Customers Bank | \$1,204,825 | 14.154 % | \$680,963 | 8.000 % | \$851,204 | 10.000 % | \$840,563 | 9.875 % |
| Tier 1 capital (to average assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$958,418 | 8.913 % | \$430,099 | 4.000 % | N/A | N/A | \$430,099 | 4.000 % |
| Customers Bank | \$1,054,869 | 9.814 % | \$429,939 | 4.000 % | \$537,423 | 5.000 % | \$429,939 | 4.000 % |
| As of December 31, 2017: | | | | | | | | |
| Common equity Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$689,494 | 8.805 % | \$352,368 | 4.500 % | N/A | N/A | \$450,248 | 5.750 % |
| Customers Bank | \$1,023,564 | 13.081 % | \$352,122 | 4.500 % | \$508,621 | 6.500 % | \$449,934 | 5.750 % |
| Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$906,963 | 11.583 % | \$469,824 | 6.000 % | N/A | N/A | \$567,704 | 7.250 % |
| Customers Bank | \$1,023,564 | 13.081 % | \$469,496 | 6.000 % | \$625,994 | 8.000 % | \$567,307 | 7.250 % |
| Total capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$1,021,601 | 13.047 % | \$626,432 | 8.000 % | N/A | N/A | \$724,313 | 9.250 % |

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

35

Table of Contents

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

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

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

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

NOTE 9 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS - As Restated

Customers uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. ASC Topic 825, Financial Instruments, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For Customers, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. Many of these financial instruments lack an available trading market as characterized by a willing buyer and a willing seller engaging in an exchange transaction. For fair value disclosure purposes, Customers utilized certain fair value measurement criteria under ASC Topic 820, Fair Value Measurements and Disclosures, as explained below. In accordance with ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for Customers' various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

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

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

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

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

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

36

Table of Contents

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities:

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

The carrying amount of investments in FHLB, Federal Reserve Bank, and other restricted stock approximates fair value, and considers the limited marketability of such securities. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale - Consumer residential mortgage loans (fair value option):

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

Loans receivable - Commercial mortgage warehouse loans (fair value option):

The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized because at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 25 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (Assets and Liabilities):

The fair values of interest rate swaps and credit derivatives are determined using models that incorporate readily observable market data into a market standard methodology. This methodology nets the discounted future cash receipts and the discounted expected cash payments. The discounted variable cash receipts and payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Bank and its counterparties. These assets and liabilities are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The fair values of the residential mortgage loan commitments are derived from the estimated fair values that can be generated when the underlying mortgage loan is sold in the secondary market. The Bank generally uses commitments on hand from third- party investors to estimate an exit price and adjusts for the probability of the commitment being exercised based on the Bank's internal experience (i.e., pull-through rate). These assets and liabilities are classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.

The following information should not be interpreted as an estimate of Customers' fair value in its entirety because fair value calculations are only provided for a limited portion of Customers' assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making these estimates, comparisons between Customer's disclosures and those of other companies may not be meaningful.

Table of Contents

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

| | Carrying Amount | Estimated Fair Value | Fair Value Measurements at September 30, 2018 | | |
|--|-----------------|----------------------|--|---|---|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (amounts in thousands) | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$666,034 | \$666,034 | \$666,034 | \$— | \$— |
| Debt securities, available for sale | 667,032 | 667,032 | — | 667,032 | — |
| Equity securities | 1,819 | 1,819 | 1,819 | — | — |
| Loans held for sale | 1,383 | 1,383 | — | 1,383 | — |
| Total loans receivable, net of allowance for loan losses | 8,715,536 | 8,646,346 | — | 1,516,327 | 7,130,019 |
| FHLB, Federal Reserve Bank and other restricted stock | 74,206 | 74,206 | — | 74,206 | — |
| Derivatives | 22,613 | 22,613 | — | 22,491 | 122 |
| Liabilities: | | | | | |
| Deposits | \$8,513,714 | \$8,506,804 | \$6,120,233 | \$2,386,571 | \$— |
| FHLB advances | 835,000 | 834,968 | — | 834,968 | — |
| Other borrowings | 123,779 | 124,724 | — | 124,724 | — |
| Subordinated debt | 108,953 | 114,400 | — | 114,400 | — |
| Derivatives | 15,684 | 15,684 | — | 15,684 | — |
| Fair Value Measurements at December 31, 2017 | | | | | |
| | Carrying Amount | Estimated Fair Value | Fair Value Measurements at December 31, 2017 | | |
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (amounts in thousands) (as restated) | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$146,323 | \$146,323 | \$146,323 | \$— | \$— |
| Investment securities, available for sale | 471,371 | 471,371 | 3,352 | 468,019 | — |
| Loans held for sale (as restated) | 146,077 | 146,251 | — | 1,886 | 144,365 |
| Total loans receivable, net of allowance for loan losses (as restated) | 8,523,651 | 8,470,171 | — | 1,793,408 | 6,676,763 |
| FHLB, Federal Reserve Bank and other restricted stock | 105,918 | 105,918 | — | 105,918 | — |
| Derivatives | 9,752 | 9,752 | — | 9,692 | 60 |
| Liabilities: | | | | | |
| Deposits | \$6,800,142 | \$6,796,095 | \$4,894,449 | \$1,901,646 | \$— |

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

38

Table of Contents

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, 2018 and December 31, 2017 were as follows:

| | September 30, 2018 | | | |
|--|--|--------------|----------|--------------|
| | Fair Value Measurements at the End of the Reporting Period Using | | | |
| | Quoted | | | |
| | Prices | | | |
| | in | Significant | Other | Significant |
| | Active Markets for | Observable | Inputs | Unobservable |
| | Identical | (Level 2) | | Inputs |
| | Assets | (Level 2) | | (Level 3) |
| | (Level | | | |
| | 1) | | | Total |
| (amounts in thousands) | | | | |
| Measured at Fair Value on a Recurring Basis: | | | | |
| Assets | | | | |
| Available-for-sale debt securities: | | | | |
| Agency-guaranteed residential mortgage-backed securities | \$— | \$ 305,418 | \$ — | \$305,418 |
| Corporate notes | — | 361,614 | — | 361,614 |
| Equity securities | 1,819 | — | — | 1,819 |
| Derivatives | — | 22,491 | 122 | 22,613 |
| Loans held for sale – fair value option | — | 1,383 | — | 1,383 |
| Loans receivable, mortgage warehouse - fair value option | — | 1,516,327 | — | 1,516,327 |
| Total assets - recurring fair value measurements | \$1,819 | \$ 2,207,233 | \$ 122 | \$2,209,174 |
| Liabilities | | | | |
| Derivatives | \$— | \$ 15,684 | \$ — | \$15,684 |
| Measured at Fair Value on a Nonrecurring Basis: | | | | |
| Assets | | | | |
| Impaired loans, net of reserves of \$1,771 | \$— | \$ — | \$ 7,295 | \$7,295 |
| Other real estate owned | — | — | 1,078 | 1,078 |
| Total assets - nonrecurring fair value measurements | \$— | \$ — | \$ 8,373 | \$8,373 |

Table of Contents

December 31, 2017
Fair Value Measurements at the End of the
Reporting Period Using
Quoted
Prices
in
Active Markets for
Identical Assets
(Level 1)

Significant
Observable
Inputs
(Level 2)

Other
Inputs
Significant
Unobservable
Inputs
(Level 3)

Total

(amounts in thousands) (as restated)

Measured at Fair Value on a Recurring Basis:

Assets

Available-for-sale securities:

Agency-guaranteed residential mortgage-backed securities \$— \$ 183,458 \$ — \$183,458

Agency-guaranteed commercial real estate mortgage-backed securities — 238,472 — 238,472

Corporate notes — 46,089 — 46,089

Equity securities 3,352 — — 3,352

Derivatives — 9,692 60 9,752

Loans held for sale – fair value option (as restated) — 1,886 — 1,886

Loans receivable, mortgage warehouse - fair value option (as restated) — 1,793,408 — 1,793,408

Total assets - recurring fair value measurements \$3,352 \$ 2,273,005 \$ 60 \$2,276,417

Liabilities

Derivatives \$— \$ 10,074 \$ — \$10,074

Measured at Fair Value on a Nonrecurring Basis:

Assets

Impaired loans, net of reserves of \$1,451 \$— \$ — \$ 13,902 \$13,902

Other real estate owned — — 1,449 1,449

Total assets - nonrecurring fair value measurements \$— \$ — \$ 15,351 \$15,351

Table of Contents

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2018 and 2017 are summarized in the tables below. Additional information about residential mortgage loan commitments can be found in NOTE 10 - DERIVATIVES INSTRUMENTS AND HEDGING ACTIVITIES.

Residential
Mortgage
Loan
Commitments
Three Months
Ended
September 30,
2018 2017

(amounts in thousands)

| | | |
|-------------------------|--------|--------|
| Balance at June 30 | \$ 133 | \$ 102 |
| Issuances | 122 | 103 |
| Settlements | (133) | (102) |
| Balance at September 30 | \$ 122 | \$ 103 |

Residential
Mortgage
Loan
Commitments
Nine Months
Ended
September 30,
2018 2017

(amounts in thousands)

| | | |
|-------------------------|--------|--------|
| Balance at December 31 | \$ 60 | \$ 45 |
| Issuances | 338 | 300 |
| Settlements | (276) | (242) |
| Balance at September 30 | \$ 122 | \$ 103 |

There were no transfers between levels during the three and nine months ended September 30, 2018 and 2017. The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2018 and December 31, 2017 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value. The unobservable Level 3 inputs noted below contain a level of uncertainty that may differ from what is realized in an immediate settlement of the assets. Therefore, Customers may realize a value higher or lower than the current estimated fair value of the assets.

Quantitative Information about Level 3 Fair Value Measurements

| September 30, 2018 | Fair Value Estimate | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|------------------------------|---------------------|------------------------------|--|--------------------------|
| (amounts in thousands) | | | | |
| Impaired loans - Real Estate | \$5,211 | Collateral appraisal (1) | Liquidation expenses (2) | 8% - 8% (8%) |
| Impaired loans - C&I | 2,084 | Business asset valuation (3) | Business asset valuation adjustments (4) | 6% - 63% (12%) |
| Other real estate owned | 1,078 | Collateral appraisal (1) | Liquidation expenses (2) | 8% - 10% (8%) |
| | 122 | Adjusted market bid | Pull-through rate | |

Residential mortgage loan
commitments

90% - 90%
(90%)

41

Table of Contents

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

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

(2) Appraisals are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percentage of the appraisal.

(3) Business asset valuation obtained from independent party.

Business asset valuations may be adjusted by management for qualitative factors including economic conditions and the condition of the business assets. The range and weighted average of the business asset adjustments are presented as a percent of the business asset valuation.

NOTE 10 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

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

Customers discontinues cash flow hedge accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in accumulated other comprehensive income are reclassified immediately into earnings and any subsequent changes in the fair value of such derivatives are recognized directly in earnings. During the three months ended September 30, 2018, Customers recognized gains of \$2.8 million in other non-interest income on discontinued cash flow hedge accounting for three interest rate swaps with notional amounts totaling \$500 million.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. Customers expects to reclassify \$1.0 million from accumulated other comprehensive income as a reduction to interest expense during the next 12 months. Customers is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 33 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

Table of Contents

At September 30, 2018, Customers had eight outstanding interest rate derivatives with notional amounts totaling \$835.0 million that were designated as cash flow hedges of interest rate risk. At December 31, 2017, Customers had nine outstanding interest rate derivatives with notional amounts totaling \$550.0 million that were designated as cash flow hedges of interest rate risk. The outstanding cash flow hedges at September 30, 2018 expire between October 2018 and July 2021.

Derivatives Not Designated as Hedging Instruments

Customers executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan for a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that Customers executes with a third party in order to minimize interest rate risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting third-party market swaps are recognized directly in earnings. At September 30, 2018, Customers had 98 interest rate swaps with an aggregate notional amount of \$956.8 million related to this program. At December 31, 2017, Customers had 76 interest rate swaps with an aggregate notional amount of \$800.5 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its consumer mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under the applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At September 30, 2018 and December 31, 2017, Customers had an outstanding notional balance of residential mortgage loan commitments of \$6.1 million and \$2.7 million, respectively.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value recorded directly in earnings. At September 30, 2018 and December 31, 2017, Customers had outstanding notional balances of credit derivatives of \$95.5 million and \$80.5 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

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

| | September 30, 2018 | | | |
|--|--|------------|---|------------|
| | Derivative Assets Balance Sheet Location | Fair Value | Derivative Liabilities Balance Sheet Location | Fair Value |
| (amounts in thousands) | | | | |
| Derivatives designated as cash flow hedges: | | | | |
| Interest rate swaps | Other assets | \$ 3,859 | Other liabilities | \$ — |
| Total | | \$ 3,859 | | \$ — |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | Other assets | \$ 18,596 | Other liabilities | \$ 15,653 |
| Credit contracts | Other assets | 36 | Other liabilities | 31 |
| Residential mortgage loan commitments | Other assets | 122 | Other liabilities | — |
| Total | | \$ 18,754 | | \$ 15,684 |

Table of Contents

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

Effect of Derivative Instruments on Comprehensive Income

The following tables present the effect of Customers' derivative financial instruments on comprehensive income for the three and nine months ended September 30, 2018 and 2017.

| Three Months Ended September 30, 2018 | |
|---------------------------------------|----------------------------------|
| | Amount of Income |
| Income Statement Location | (Loss) Recognized in Earnings |

| | |
|--|------------------------------------|
| (amounts in thousands) | |
| Derivatives not designated as hedging instruments: | |
| Interest rate swaps | Other non-interest income \$ 1,139 |
| Credit contracts | Other non-interest income 156 |
| Residential mortgage loan commitments | Mortgage banking income (11) |
| Total | \$ 1,284 |

| Three Months Ended September 30, 2017 | |
|---------------------------------------|----------------------------------|
| | Amount of Income |
| Income Statement Location | (Loss) Recognized in Earnings |

| | |
|--|---------------------------------|
| (amounts in thousands) | |
| Derivatives not designated as hedging instruments: | |
| Interest rate swaps | Other non-interest income \$ 91 |
| Credit contracts | Other non-interest income (6) |
| Residential mortgage loan commitments | Mortgage banking income 1 |
| Total | \$ 86 |

| Nine Months Ended September 30, 2018 | |
|--------------------------------------|------------------------|
| | Amount of Income |
| Income Statement Location | Recognized in Earnings |

| | |
|--|------------------------------------|
| (amounts in thousands) | |
| Derivatives not designated as hedging instruments: | |
| Interest rate swaps | Other non-interest income \$ 1,472 |
| Credit contracts | Other non-interest income 119 |
| Residential mortgage loan commitments | Mortgage banking income 62 |
| Total | \$ 1,653 |

Table of Contents

| | | Nine Months Ended September 30, 2017 | |
|--|---------------------------|--------------------------------------|--|
| | | Income Statement Location | Amount of Income (Loss) Recognized in Earnings |
| (amounts in thousands) | | | |
| Derivatives not designated as hedging instruments: | | | |
| Interest rate swaps | Other non-interest income | \$ | 429 |
| Credit contracts | Other non-interest income | (5 |) |
| Residential mortgage loan commitments | Mortgage banking income | 58 | |
| Total | | \$ | 482 |

| | | Three Months Ended September 30, 2018 | |
|---|---------|---|--|
| | | Amount of Gain (Loss) Recognized in OCI on Derivatives (1) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income |
| | | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income | |
| (amounts in thousands) | | | |
| Derivatives in cash flow hedging relationships: | | | |
| Interest rate swaps | \$3,006 | Interest expense | \$ (303) |
| | | Other non-interest income (2) | 2,822 |
| Total | | | \$ 2,519 |

| | | Three Months Ended September 30, 2017 | |
|---|-------|---|--|
| | | Amount of Gain (Loss) Recognized in OCI on Derivatives (1) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income |
| | | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income | |
| (amounts in thousands) | | | |
| Derivatives in cash flow hedging relationships: | | | |
| Interest rate swaps | \$104 | Interest expense | \$ (572) |

| | | Nine Months Ended September 30, 2018 | |
|------------------------|--|---|--|
| | | Amount of Gain (Loss) Recognized in OCI on Derivatives (1) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income |
| | | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income | |
| (amounts in thousands) | | | |

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Derivative in cash flow hedging relationships:

| | | | |
|---------------------|---------|-------------------------------|-----------|
| Interest rate swaps | \$5,055 | Interest expense | \$ (175) |
| | | Other non-interest income (2) | 2,822 |
| Total | | | \$ 2,647 |

Nine Months Ended September 30, 2017

| Amount of Gain (Loss) Recognized in OCI on Derivatives (1) | Location of Gain (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income |
|--|---|---|
|--|---|---|

(amounts in thousands)

Derivative in cash flow hedging relationships:

| | | | |
|---------------------|---------|------------------|-------------|
| Interest rate swaps | \$(115) | Interest expense | \$ (2,166) |
|---------------------|---------|------------------|-------------|

(1) Amounts presented are net of taxes. See NOTE 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges for the periods presented.

(2) Includes income recognized from discontinued cash flow hedges.

Table of Contents

Credit-risk-related Contingent Features

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

Agreements with major derivative dealer counterparties contain provisions whereby default on any of Customers' indebtedness would be considered a default on its derivative obligations. Customers also has entered into agreements that contain provisions under which the counterparty could require Customers to settle its obligations if Customers fails to maintain its status as a well/adequately capitalized institution. As of September 30, 2018, all derivatives with major derivative dealer counterparties were in a net asset position.

Disclosures about Offsetting Assets and Liabilities

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

Offsetting of Financial Assets and Derivative Assets

At September 30, 2018

| | Gross Amount of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet | Net Amount |
|--|-----------------------------------|--|---|--|------------|
| | | | | Cash Financial Collateral Instruments Received | |

(amounts in thousands)

Description

| | | | | | |
|--|-----------|----|------------|---------------|----------|
| Interest rate swap derivatives with institutional counterparties | \$ 20,688 | \$ | —\$ 20,688 | \$ —\$ 19,330 | \$ 1,358 |
|--|-----------|----|------------|---------------|----------|

Offsetting of Financial Liabilities and Derivative Liabilities

At September 30, 2018

| | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet | Net Amount |
|--|--|--|--|--|------------|
| | | | | Cash Financial Collateral Instruments Pledged | |

(amounts in thousands)

Description

| | | | | | |
|--|----------|----|-----------|----------|----------|
| Interest rate swap derivatives with institutional counterparties | \$ 1,924 | \$ | —\$ 1,924 | \$ —\$ 2 | \$ 1,922 |
|--|----------|----|-----------|----------|----------|

Table of Contents

Offsetting of Financial Assets and Derivative Assets
At December 31, 2017

| Description | Gross Amount of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Net Amount | |
|--|-----------------------------------|--|---|---|--------------------------------------|
| | | | | Balance Sheet | Cash Collateral Instruments Received |
| (amounts in thousands) | | | | | |
| Interest rate swap derivatives with institutional counterparties | \$ 5,930 | \$ | —\$ 5,930 | \$ —\$ 5,070 | \$ 860 |

Offsetting of Financial Liabilities and Derivative Liabilities
At December 31, 2017

| Description | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Net Amount | |
|--|--|--|--|---|-------------------------------------|
| | | | | Balance Sheet | Cash Collateral Instruments Pledged |
| (amounts in thousands) | | | | | |
| Interest rate swap derivatives with institutional counterparties | \$ 5,058 | \$ | —\$ 5,058 | \$ —\$ 4,872 | \$ 186 |

Table of Contents

NOTE 11 — BUSINESS SEGMENTS

Customers' segment financial reporting reflects the manner in which its chief operating decision makers allocate resources and assess performance. Management has determined that Customers' operations consist of two reportable segments - Community Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing, and analysis of these segments vary considerably.

The Community Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington D.C., and Illinois through a single-point-of-contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Lending and deposit gathering activities are focused primarily on privately held businesses, high-net-worth families, selected commercial real estate lending, and commercial mortgage companies. Revenues are generated primarily through net interest income (the difference between interest earned on loans, investments, and other interest earning assets and interest paid on deposits and other borrowed funds) and other non-interest income, such as mortgage warehouse transactional fees and bank owned life insurance.

The BankMobile segment provides state-of-the-art high-tech digital banking and disbursement services to consumers, students, and the "under banked" nationwide. BankMobile is a full-service banking platform that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Revenues are currently being generated primarily through interchange and card revenue, deposit and wire transfer fees and university fees. The majority of revenue and expenses for BankMobile are related to the segment's operation of the ongoing business acquired through the Disbursement business acquisition.

The following tables present the operating results for Customers' reportable business segments for the three and nine month periods ended September 30, 2018 and 2017. The segment financial results include directly attributable revenues and expenses. Corporate overhead costs were assigned to the Community Business Banking segment as those expenses were expected to continue following the planned spin-off of BankMobile. Similarly, the preferred stock dividends have been allocated in their entirety to the Community Business Banking segment. The tax benefit assigned to BankMobile was based on an estimated effective tax rate of 24.57% for 2018 and 37.25% for 2017, respectively.

Please refer to NOTE 13 - SUBSEQUENT EVENTS for more information on the spin-off of BankMobile.

Table of Contents

| | Three Months Ended September 30, 2018 | | |
|--|--|------------|--------------|
| | Community | | |
| (amounts in thousands) | Business Banking | BankMobile | Consolidated |
| Interest income ⁽¹⁾ | \$106,156 | \$ 3,889 | \$ 110,045 |
| Interest expense | 45,982 | 62 | 46,044 |
| Net interest income | 60,174 | 3,827 | 64,001 |
| Provision for loan losses | 2,502 | 422 | 2,924 |
| Non-interest income | (7,756 |) 9,840 | 2,084 |
| Non-interest expense | 36,115 | 20,989 | 57,104 |
| Income (loss) before income tax expense (benefit) | 13,801 | (7,744 |) 6,057 |
| Income tax expense (benefit) | 1,930 | (1,902 |) 28 |
| Net income (loss) | 11,871 | (5,842 |) 6,029 |
| Preferred stock dividends | 3,615 | — | 3,615 |
| Net income (loss) available to common shareholders | \$8,256 | \$ (5,842 |) \$ 2,414 |

| | Three Months Ended September 30, 2017 | | |
|--|--|------------|--------------|
| | Community | | |
| (amounts in thousands) | Business Banking | BankMobile | Consolidated |
| Interest income ⁽¹⁾ | \$95,585 | \$ 2,700 | \$ 98,285 |
| Interest expense | 30,250 | 16 | 30,266 |
| Net interest income | 65,335 | 2,684 | 68,019 |
| Provision for loan losses | 1,874 | 478 | 2,352 |
| Non-interest income | 4,190 | 13,836 | 18,026 |
| Non-interest expense | 33,990 | 27,050 | 61,040 |
| Income (loss) before income tax expense (benefit) | 33,661 | (11,008 |) 22,653 |
| Income tax expense (benefit) | 18,999 | (4,100 |) 14,899 |
| Net income (loss) | 14,662 | (6,908 |) 7,754 |
| Preferred stock dividends | 3,615 | — | 3,615 |
| Net income (loss) available to common shareholders | \$11,047 | \$ (6,908 |) \$ 4,139 |

(1) Amounts reported include funds transfer pricing of \$3.9 million and \$2.7 million for the three months ended September 30, 2018 and 2017, respectively, credited to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.

Table of Contents

| (amounts in thousands) | Nine Months Ended September 30, 2018 | | |
|--|---|--------------|--------------|
| | Community | | |
| | Business Banking | BankMobile | Consolidated |
| Interest income ⁽²⁾ | \$302,820 | \$ 11,829 | \$314,649 |
| Interest expense | 118,081 | 214 | 118,295 |
| Net interest income | 184,739 | 11,615 | 196,354 |
| Provision for loan losses | 3,128 | 1,129 | 4,257 |
| Non-interest income | 8,147 | 30,973 | 39,120 |
| Non-interest expense | 108,168 | 54,966 | 163,134 |
| Income (loss) before income tax expense (benefit) | 81,590 | (13,507) | 68,083 |
| Income tax expense (benefit) | 17,567 | (3,317) | 14,250 |
| Net income (loss) | 64,023 | (10,190) | 53,833 |
| Preferred stock dividends | 10,844 | — | 10,844 |
| Net income (loss) available to common shareholders | \$53,179 | \$ (10,190) | \$42,989 |

As of September 30, 2018

| | | | |
|--------------------------------|--------------|------------|---------------|
| Goodwill and other intangibles | \$3,629 | \$ 13,196 | \$ 16,825 |
| Total assets | \$10,542,175 | \$ 74,929 | \$ 10,617,104 |
| Total deposits | \$7,781,225 | \$ 732,489 | \$ 8,513,714 |
| Total non-deposit liabilities | \$1,134,251 | \$ 14,327 | \$ 1,148,578 |

Nine Months Ended September 30,
2017

| (amounts in thousands) | Community | | |
|--|--------------------------------|-------------|--------------|
| | Business Banking | BankMobile | Consolidated |
| | Interest income ⁽²⁾ | \$265,524 | \$ 9,708 |
| Interest expense | 76,134 | 55 | 76,189 |
| Net interest income | 189,390 | 9,653 | 199,043 |
| Provision for loan losses | 5,459 | 478 | 5,937 |
| Non-interest income | 16,587 | 42,583 | 59,170 |
| Non-interest expense | 94,704 | 66,114 | 160,818 |
| Income (loss) before income tax expense (benefit) | 105,814 | (14,356) | 91,458 |
| Income tax expense (benefit) | 39,584 | (5,348) | 34,236 |
| Net income (loss) | 66,230 | (9,008) | 57,222 |
| Preferred stock dividends | 10,844 | — | 10,844 |
| Net income (loss) available to common shareholders | \$55,386 | \$ (9,008) | \$46,378 |

As of September 30, 2017

| | | | |
|--------------------------------|--------------|------------|---------------|
| Goodwill and other intangibles | \$3,632 | \$ 12,972 | \$ 16,604 |
| Total assets | \$10,405,452 | \$ 66,377 | \$ 10,471,829 |
| Total deposits | \$6,815,994 | \$ 781,082 | \$ 7,597,076 |
| Total non-deposit liabilities | \$1,947,213 | \$ 16,898 | \$ 1,964,111 |

(2) Amounts reported include funds transfer pricing of \$11.8 million and \$9.7 million for the nine months ended September 30, 2018 and 2017, respectively, credited to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.

Table of Contents

NOTE 12 - NON-INTEREST REVENUES

As provided in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, Customers' adoption of ASU 2014-09, Revenue from Contracts with Customers (ASC 606), on January 1, 2018, did not have a significant impact to Customers' consolidated financial statements and, as such, a cumulative effect adjustment to beginning retained earnings was not necessary. Customers determined that its debit and prepaid card interchange income, previously reported on a gross basis for periods prior to adoption, will need to be presented on a net basis under this ASU. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous accounting guidance under ASC 605. Debit and prepaid card interchange expense for the three months ended September 30, 2018 and 2017 amounted to \$1.2 million and \$1.2 million, respectively. Debit and prepaid card interchange expense for the nine months ended September 30, 2018 and 2017 amounted to \$3.9 million and \$4.4 million, respectively.

In addition, as part of the enhanced disclosure requirements under the new guidance, Customers is presenting disaggregated revenue by business segment, nature of the revenue stream, and the pattern or timing of revenue recognition. The accounting treatment for interest-related revenues is covered under ASC 310 and is out of the scope of ASC 606.

The following tables present Customers' non-interest revenues affected by ASC 606 by business segment for the three and nine months ended September 30, 2018 and 2017:

| (amounts in thousands) | Three Months Ended September 30, 2018 | | |
|--|---------------------------------------|---------------|---------------------|
| | Community Banking | Business Bank | Mobile Consolidated |
| Revenue from contracts with customers: | | | |
| Revenue recognized at point in time: | | | |
| Interchange and Card Revenue | \$181 | \$ 6,903 | \$ 7,084 |
| Deposit Fees | 311 | 1,691 | 2,002 |
| University Fees - Card and Disbursement Fees | — | 261 | 261 |
| Total revenue recognized at point in time | 492 | 8,855 | 9,347 |
| Revenue recognized over time: | | | |
| University Fees - Subscription Revenue | — | 950 | 950 |
| Total revenue recognized over time | — | 950 | 950 |
| Total revenue from contracts with customers | \$492 | \$ 9,805 | \$ 10,297 |

| (amounts in thousands) | Three Months Ended September 30, 2017 | | |
|--|---------------------------------------|---------------|---------------------|
| | Community Banking | Business Bank | Mobile Consolidated |
| Revenue from contracts with customers: | | | |
| Revenue recognized at point in time: | | | |
| Interchange and Card Revenue | \$215 | \$ 9,355 | \$ 9,570 |
| Deposit Fees | 321 | 2,338 | 2,659 |
| University Fees - Card and Disbursement Fees | — | 283 | 283 |

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| | | | |
|---|-------|-----------|-----------|
| Total revenue recognized at point in time | 536 | 11,976 | 12,512 |
| Revenue recognized over time: | | | |
| University Fees - Subscription Revenue | — | 829 | 829 |
| Total revenue recognized over time | — | 829 | 829 |
| Total revenue from contracts with customers | \$536 | \$ 12,805 | \$ 13,341 |

51

Table of Contents

| (amounts in thousands) | Nine Months Ended September 30, 2018 | | | |
|--|---|-----------------|-------------------|--------------|
| | Community Banking | Bank Banking | Mobile Banking | Consolidated |
| Revenue from contracts with customers: | | | | |
| Revenue recognized at point in time: | | | | |
| Interchange and Card Revenue | \$588 | \$ 22,539 | | \$ 23,127 |
| Deposit Fees | 892 | 4,834 | | 5,726 |
| University Fees - Card and Disbursement Fees | — | 772 | | 772 |
| Total revenue recognized at point in time | 1,480 | 28,145 | | 29,625 |
| Revenue recognized over time: | | | | |
| University Fees - Subscription Revenue | — | 2,727 | | 2,727 |
| Total revenue recognized over time | — | 2,727 | | 2,727 |
| Total revenue from contracts with customers | \$1,480 | \$ 30,872 | | \$ 32,352 |

| (amounts in thousands) | Nine Months Ended September 30, 2017 | | | |
|--|---|-----------------|-------------------|--------------|
| | Community Banking | Bank Banking | Mobile Banking | Consolidated |
| Revenue from contracts with customers: | | | | |
| Revenue recognized at point in time: | | | | |
| Interchange and Card Revenue | \$544 | \$ 31,185 | | \$ 31,729 |
| Deposit Fees | 902 | 7,016 | | 7,918 |
| University Fees - Card and Disbursement Fees | — | 878 | | 878 |
| Total revenue recognized at point in time | 1,446 | 39,079 | | 40,525 |
| Revenue recognized over time: | | | | |
| University Fees - Subscription Revenue | — | 2,408 | | 2,408 |
| Total revenue recognized over time | — | 2,408 | | 2,408 |
| Total revenue from contracts with customers | \$1,446 | \$ 41,487 | | \$ 42,933 |

The following is a discussion of revenues within the scope of ASC 606:

Card revenue

Card revenue primarily relates to debit and prepaid card fees earned from interchange and ATM fees. Interchange fees are earned whenever Customers' issued debit and prepaid cards are processed through card payment networks. Interchange fees are recognized concurrent with the processing of the debit or prepaid card transaction.

Deposit fees

Deposit fees relate to service charges on deposit accounts for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop-payment charges, wire transfer fees, cashier and money order fees are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly maintenance and account analysis fees, are earned on a monthly basis representing the period over which Customers satisfies its performance obligation. Overdraft fees are recognized at the point in time that the

overdraft occurs. Service charges on deposit accounts are withdrawn from the depositor's account balance.

The revenues recognized at a point in time primarily consist of contracts with no specified terms, but which may be terminated at any time by the customer without penalty. Due to the transactional nature and indefinite term of these agreements, there were no related contract balances that were recorded for these revenue streams on Customers' consolidated balance sheets as of September 30, 2018 and December 31, 2017.

Table of Contents

University fees

University fees represent revenues from higher education institutions and are generated from fees charged for the services provided. For higher education institution clients, Customers, through BankMobile, facilitates the distribution of financial aid and other refunds to students, while simultaneously enhancing the ability of the higher education institutions to comply with the federal regulations applicable to financial aid transactions. For these services, higher education institution clients are charged an annual subscription fee and/or per-transaction fee (e.g., new card or card replacement fees) for certain transactions. The annual subscription fee is recognized ratably over the period of service and the transaction fees are recognized when the transaction is completed. BankMobile also enters into long-term (generally three- or five-year initial term) contracts with higher education institutions to provide these refund management disbursement services. Deferred revenue consists of amounts billed to or received from clients prior to the performance of services. The deferred revenues are earned over the service period on a straight-line basis. As of September 30, 2018 and December 31, 2017, Customers recorded deferred revenue of \$2.8 million and \$2.0 million, respectively, related to these university subscription contracts. At September 30, 2018 and December 31, 2017, Customers had accounts receivable of \$1.5 million and \$1.1 million, respectively, related to the university fee arrangements.

NOTE 13 – SUBSEQUENT EVENTS

On October 18, 2018, the Amended and Restated Purchase and Assumption Agreement and Plan of Merger (the "Agreement"), dated November 17, 2017 by and among Customers Bancorp, its subsidiary, Customers Bank, and Customers Bank's subsidiary, BankMobile Technologies, Inc. ("BMT") and Flagship Community Bank ("Flagship"), was terminated. In connection with the termination of the Agreement, Customers Bancorp recognized merger and acquisition related expenses of \$2.7 million during third quarter 2018 for amounts that, under the terms of the Agreement, would have been reimbursed by Flagship only upon completion of the spin-off and merger.

Table of Contents

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Note Regarding Forward-Looking Statements

This report and all attachments hereto, as well as other written or oral communications made from time to time by us, may contain forward-looking information within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “plan,” “intend,” or “anticipate” or the negative thereof or comparable terminology. Forward-looking statements reflect numerous assumptions, estimates and forecasts as to future events. No assurance can be given that the assumptions, estimates and forecasts underlying such forward-looking statements will accurately reflect future conditions, or that any guidance, goals, targets or projected results will be realized. The assumptions, estimates and forecasts underlying such forward-looking statements involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions, which may not be realized and which are inherently subject to significant business, economic, competitive and regulatory uncertainties and known and unknown risks, including the risks described under “Risk Factors” in Customers Bancorp, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “2017 Form 10-K”), as such factors may be updated from time to time in our filings with the SEC, including our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Our actual results may differ materially from those reflected in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements we make, which speak only as of the date they are made. We do not undertake any obligation to release publicly or otherwise provide any revisions to any forward-looking statements we may make, including any forward-looking financial information, to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

Management’s discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”), a financial holding company, and its wholly owned subsidiaries, including Customers Bank (the “Bank”), collectively referred to as “Customers” herein. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers’ financial condition and results of operations as of and for the three and nine months ended September 30, 2018. All quarterly information in this Management’s Discussion and Analysis is unaudited. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Customers’ 2017 Form 10-K.

Restatement of Previously Issued Financial Statements

In November 2018, Customers determined that commercial mortgage warehouse loans should have been classified as loans receivable, rather than loans held for sale. Additional discussion regarding the correction in classification error of mortgage warehouse loans is included in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.

Critical Accounting Policies

Customers has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of its financial statements. Customers’ significant accounting policies are described in “NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION” in Customers’ audited financial statements included in its 2017 Form 10-K and updated in this Form 10-Q for the quarterly period ended September 30, 2018 in “NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.”

Certain accounting policies involve significant judgments and assumptions by Customers that have a material impact on the carrying value of certain assets and liabilities. Customers considers these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of Customers' assets and liabilities and its results of operations.

Table of Contents

Overview

As previously disclosed, Customers intends to retain and operate BankMobile for the next 2 - 3 years while its spin-off plans are put on hold as a result of regulatory complications. Management recently announced its first White-Label partnership with T-Mobile, which is expected to be launched in fourth quarter 2018 and provide significant benefits to the overall profitability of BankMobile, beginning as early as the end of 2019.

Customers' strategic priorities include maintaining a balance sheet below \$10 billion in total assets to improve capital ratios, enhance liquidity, expand net interest margin, and maximize the return of average assets. Longer-term goals include a net interest margin target of 2.75% within the next 12 - 18 months, which is expected to be achieved through a shift in the mix of assets and liabilities maintained on the balance sheet. Customers intends to deemphasize its lower-yielding multi-family loan portfolio, with multi-family balances expected to be around \$3.3 billion by the end of 2018 and continue to trend lower over time if spreads remain at the current level, and fund future growth in higher-yielding commercial and industrial and consumer loan portfolios with the multi-family run-off. Similarly, Customers plans to replace higher-rate non-core deposits and borrowings with less expensive core deposits. Customers plans to remain predominately a small business bank, with higher-quality consumer loans making up about 15% - 20% of total assets, multi-family loans comprising about 10% of total assets, and core commercial lending activities, including specialty lending and loans to mortgage banking businesses totaling approximately 70% - 75% of total assets.

Third Quarter Events of Note

Customers reported net income available to common shareholders of \$2.4 million, or \$0.07 per diluted share, for third quarter 2018 and \$43.0 million, or \$1.33 per diluted share, for the nine months ended September 30, 2018. The financial results for third quarter 2018 included \$18.7 million of losses realized from the sale of \$495 million of lower-yielding investment securities, \$2.9 million of merger and acquisition related expenses resulting primarily from the termination of the spin-off and merger agreement between Customers and Flagship Community Bank ("Flagship") on October 18, 2018, and a negative mark-to-market adjustment of \$1.2 million on an equity investment. These notable charges negatively affected GAAP earnings by \$0.55 per diluted share in third quarter 2018 and \$0.57 per diluted share for the nine months ended September 30, 2018.

Total assets were \$10.6 billion at September 30, 2018, an increase of \$0.8 billion from December 31, 2017. The increase in total assets was primarily driven by increased cash held at the Federal Reserve Bank of \$0.5 billion and increased investment securities, even after the securities sale of \$495 million executed in the third quarter of 2018 generated the \$18.7 million loss, of \$0.2 billion. Customers expects to have total assets of under \$10 billion by the end of 2018, with an emphasis on higher-yielding assets replacing lower-yielding assets and lower-cost core deposit growth replacing higher-cost funding.

Asset quality remained exceptional with non-performing loans of \$23.6 million, or 0.27% of total loans, and total non-performing assets (non-performing loans and other real estate owned) only 0.24% of total assets at September 30, 2018, reflecting Customers' conservative lending practices and continued focus on credit risk management.

Customers' level of non-performing loans to total loans at September 30, 2018 remained well below industry average non-performing loans to total loans of 1.21% and Customers' peer group non-performing loans to total loans of 0.78%. Customers' capital ratios at the holding company and its bank subsidiary continue to exceed the "well-capitalized" threshold established by regulation at the Bank and exceed the applicable Basel III regulatory threshold ratios for the Bancorp and the Bank at September 30, 2018. Customers Bancorp's Tier 1 leverage ratio was 8.91%, and its total risk-based capital ratio was 12.69%, at September 30, 2018.

Results of Operations

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Net income available to common shareholders decreased \$1.7 million, or 41.7%, to \$2.4 million for the three months ended September 30, 2018 when compared to net income available to common shareholders of \$4.1 million for the three months ended September 30, 2017. The decreased net income available to common shareholders primarily resulted from a decrease in net interest income of \$4.0 million, or 5.9%, an increase in the provision for loan losses of

\$0.6 million, and a decrease in non-interest income of \$15.9 million, or 88.4%, offset in part by a decrease in non-interest expense of \$3.9 million, or 6.4%, and a decrease in income tax expense of \$14.9 million, or 99.8%.

Table of Contents

Net interest income of \$64.0 million decreased \$4.0 million, or 5.9%, for the three months ended September 30, 2018 when compared to net interest income of \$68.0 million for the three months ended September 30, 2017. This decrease resulted primarily from a decrease in the average balance of interest earning assets of \$33.5 million and a 15 basis point decrease in net interest margin (tax equivalent) to 2.47% for third quarter 2018 from 2.62% for third quarter 2017. The total cost of deposits and borrowings increased 66 basis points, which was mitigated in part by a 47 basis point increase in yield on interest earning assets over the prior period, primarily due to an increase in yield on loans of 44 basis points and a 43 basis point increase in yield on investment securities.

The provision for loan losses of \$2.9 million increased \$0.6 million for the three months ended September 30, 2018 when compared to the provision for loan losses of \$2.4 million for the three months ended September 30, 2017, reflecting Customers' initiative to increase consumer loans. The third quarter 2018 provision for loan losses included \$2.3 million for growth in the consumer loan portfolio and a \$0.9 million increase for impaired loans, offset in part by a release of reserves of \$0.2 million resulting from improved asset quality and lower incurred losses than previously estimated.

Non-interest income of \$2.1 million decreased \$15.9 million, or 88.4%, for the three months ended September 30, 2018 when compared to non-interest income of \$18.0 million for the three months ended September 30, 2017. Included within non-interest income for the three months ended September 30, 2018 was an \$18.7 million loss realized from the sale of \$495 million of lower-yielding investment securities and a \$1.2 million negative mark-to-market adjustment on an equity investment. Also included within non-interest income for the three months ended September 30, 2018 was \$1.2 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of \$8.3 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication and bank operations expense. For the three months ended September 30, 2017, debit and prepaid card interchange expense was \$1.2 million. If the three months ended September 30, 2017 was presented on a consistent basis with the three months ended September 30, 2018, the reported amount of the gross interchange and card revenue of \$9.6 million would have been presented net of the debit and prepaid card interchange expense of \$1.2 million, or \$8.4 million. When presented on a consistent basis, interchange and card revenue decreased \$1.3 million over the year-ago period resulting from lower activity volumes in the BankMobile business segment. Other decreases in total non-interest income for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 included decreases in mortgage warehouse transactional fees and deposit fees of \$0.6 million and \$0.7 million, respectively, primarily resulting from reduced transaction volumes. These decreases in non-interest income were offset in part by a \$2.8 million gain recognized from the discontinuance of cash flow hedge accounting for three interest rate swaps, which Customers now believes are not needed due to strong core deposit growth, and an increase in income on commercial operating leases of \$1.3 million. For the three months ended September 30, 2017, Customers realized \$5.3 million of gains from the sale of investment securities and an \$8.3 million impairment loss on an equity investment.

Non-interest expense of \$57.1 million decreased \$3.9 million, or 6.4%, for the three months ended September 30, 2018 when compared to non-interest expense of \$61.0 million for the three months ended September 30, 2017. Total non-interest expense for the three months ended September 30, 2018 excludes \$1.2 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the three months ended September 30, 2017 was presented on a consistent basis with the three months ended September 30, 2018, the reported amount of non-interest expense of \$61.0 million would have been \$59.8 million and technology, communication, and bank operations expense of \$14.4 million would have been \$13.2 million. When presented on a consistent basis, technology, communication and bank operations expense decreased \$1.5 million to \$11.7 million for the three months ended September 30, 2018 from \$13.2 million for the three months ended September 30, 2017. Professional services decreased \$2.7 million to \$4.7 million for the three months ended September 30, 2018 compared to \$7.4 million for the three months ended September 30, 2017 primarily attributable to reductions in consulting, legal, and other outside professional services as management continues its efforts to monitor and control expenses. Included in non-interest expenses for the three months ended September 30, 2017 was \$2.8

million in catch-up depreciation and amortization for BankMobile assets that were previously classified as held for sale. These decreases in non-interest expense were partially offset by a \$2.9 million increase in merger and acquisition related expenses due primarily to the termination of the spin-off and merger agreement with Flagship, a \$0.7 million increase in salaries and employee benefits and a \$1.0 million increase in depreciation on commercial operating leases for the three months ended September 30, 2018 compared the three months ended September 30, 2017.

Table of Contents

Income tax expense of \$28,000 decreased \$14.9 million, or 99.8%, for the three months ended September 30, 2018 when compared to income tax expense of \$14.9 million for the three months ended September 30, 2017. The decrease in income tax expense was driven primarily by a lower federal income tax rate from the adoption of the Tax Cut and Jobs Act of 2017, a decrease in pre-tax income of \$16.6 million, and a \$1.7 million return to provision adjustment, which included the benefit of a research and development tax credit, recorded in third quarter 2018 upon completion of the 2017 income tax returns. Customers' effective tax rate decreased to 0.46% for the three months ended September 30, 2018, compared to 65.8% for the same period in 2017. Income tax expense for the three months ended September 30, 2017 included an elimination of deferred tax benefits from the other-than-temporary impairment losses on investment securities totaling \$7.7 million.

Preferred stock dividends were \$3.6 million for the three months ended September 30, 2018 and 2017, respectively.

Table of Contents

NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings.

The following table summarizes Customers' net interest income and related interest spread and net interest margin for the periods indicated.

| | Three Months Ended September 30, | | | | | |
|--|----------------------------------|----------------------------|---------------------------|-----------------|----------------------------|---------------------------|
| | 2018 | | | 2017 | | |
| | Average Balance | Interest Income or Expense | Average Yield or Cost (%) | Average Balance | Interest Income or Expense | Average Yield or Cost (%) |
| (dollars in thousands) | | | | | | |
| Assets | | | | | | |
| Interest-earning deposits | \$309,588 | \$ 1,538 | 1.97 % | \$280,845 | \$ 923 | 1.30 % |
| Investment securities (1) | 1,029,857 | 8,495 | 3.30 % | 1,017,065 | 7,307 | 2.87 % |
| Loans: | | | | | | |
| Commercial loans to mortgage companies | 1,680,441 | 21,274 | 5.02 % | 1,956,587 | 21,099 | 4.28 % |
| Multi-family loans | 3,555,223 | 34,901 | 3.89 % | 3,639,566 | 33,301 | 3.63 % |
| Commercial and industrial loans (2) | 1,782,500 | 21,692 | 4.83 % | 1,491,833 | 15,792 | 4.20 % |
| Non-owner occupied commercial real estate | 1,255,206 | 12,753 | 4.03 % | 1,294,996 | 12,706 | 3.89 % |
| All other loans | 594,528 | 7,195 | 4.80 % | 546,161 | 5,842 | 4.24 % |
| Total loans (3) | 8,867,898 | 97,815 | 4.38 % | 8,929,143 | 88,740 | 3.94 % |
| Other interest-earning assets | 111,600 | 2,197 | 7.81 % | 125,341 | 1,315 | 4.16 % |
| Total interest-earning assets | 10,318,943 | 110,045 | 4.24 % | 10,352,394 | 98,285 | 3.77 % |
| Non-interest-earning assets | 409,396 | | | 389,797 | | |
| Total assets | \$10,728,339 | | | \$10,742,191 | | |
| Liabilities | | | | | | |
| Interest checking accounts | \$696,827 | 2,690 | 1.53 % | \$351,422 | 708 | 0.80 % |
| Money market deposit accounts | 3,564,148 | 17,855 | 1.99 % | 3,427,682 | 9,866 | 1.14 % |
| Other savings accounts | 116,172 | 464 | 1.59 % | 40,310 | 29 | 0.28 % |
| Certificates of deposit | 2,288,237 | 11,795 | 2.05 % | 2,361,069 | 7,778 | 1.31 % |
| Total interest-bearing deposits | 6,665,384 | 32,804 | 1.95 % | 6,180,483 | 18,381 | 1.18 % |
| Borrowings | 1,918,577 | 13,240 | 2.74 % | 2,414,086 | 11,885 | 1.96 % |
| Total interest-bearing liabilities | 8,583,961 | 46,044 | 2.13 % | 8,594,569 | 30,266 | 1.40 % |
| Non-interest-bearing deposits | 1,109,819 | | | 1,158,911 | | |
| Total deposits and borrowings | 9,693,780 | | 1.89 % | 9,753,480 | | 1.23 % |
| Other non-interest-bearing liabilities | 84,786 | | | 66,220 | | |
| Total liabilities | 9,778,566 | | | 9,819,700 | | |
| Shareholders' Equity | 949,773 | | | 922,491 | | |
| Total liabilities and shareholders' equity | \$10,728,339 | | | \$10,742,191 | | |
| Net interest income | | 64,001 | | | 68,019 | |
| Tax-equivalent adjustment (4) | | 172 | | | 203 | |
| Net interest earnings | | \$ 64,173 | | | \$ 68,222 | |
| Interest spread | | | 2.35 % | | | 2.54 % |
| Net interest margin | | | 2.46 % | | | 2.61 % |
| Net interest margin tax equivalent (4) | | | 2.47 % | | | 2.62 % |

(1) For presentation in this table, average balances and the corresponding average yields for investment securities are based upon historical cost, adjusted for other-than-temporary impairment and amortization of premiums and

accretion of discounts.

(2) Includes owner occupied commercial real estate loans.

(3) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.

Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the three months ended September 30, 2018 and 35% for the three months ended September 30, 2017, presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the

(4) current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

Table of Contents

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

| | Three Months Ended September 30, 2018 vs. 2017 | | |
|--|--|---------|-----------|
| | Increase (Decrease) due to Change in | | |
| | Rate | Volume | Total |
| (amounts in thousands) | | | |
| Interest income | | | |
| Interest-earning deposits | \$513 | \$ 102 | \$615 |
| Investment securities | 1,095 | 93 | 1,188 |
| Loans: | | | |
| Commercial loans to mortgage companies | 3,385 | (3,210) | 175 |
| Multi-family loans | 2,385 | (785) | 1,600 |
| Commercial and industrial loans, including owner occupied commercial real estate | 2,563 | 3,337 | 5,900 |
| Non-owner occupied commercial real estate | 444 | (397) | 47 |
| All other loans | 808 | 545 | 1,353 |
| Total loans | 9,585 | (510) | 9,075 |
| Other interest-earning assets | 1,040 | (158) | 882 |
| Total interest income | 12,233 | (473) | 11,760 |
| Interest expense | | | |
| Interest checking accounts | 956 | 1,026 | 1,982 |
| Money market deposit accounts | 7,581 | 408 | 7,989 |
| Other savings accounts | 308 | 127 | 435 |
| Certificates of deposit | 4,264 | (247) | 4,017 |
| Total interest-bearing deposits | 13,109 | 1,314 | 14,423 |
| Borrowings | 4,128 | (2,773) | 1,355 |
| Total interest expense | 17,237 | (1,459) | 15,778 |
| Net interest income | \$(5,004) | \$ 986 | \$(4,018) |

Net interest income for the three months ended September 30, 2018 was \$64.0 million, a decrease of \$4.0 million, or 5.9%, from net interest income of \$68.0 million for the three months ended September 30, 2017, as net interest margin (tax equivalent) narrowed by 15 basis points to 2.47% for third quarter 2018 compared to 2.62% for third quarter 2017. The net interest margin (tax equivalent) compression largely resulted from a 77 basis point increase in the cost of interest-bearing deposits, reflecting higher interest rates offered by Customers on its deposit products in order to remain competitive and attract new and retain existing deposit customers, and a 78 basis point increase in borrowing costs, reflecting higher short-term funding rates. The higher cost of funds was offset in part by a 47 basis point increase in the yield on interest-earning assets, primarily resulting from increased yields on all loan categories, reflecting higher short-term interest rates and increased prepayment fees of \$1.5 million in third quarter 2018 compared to third quarter 2017.

Interest expense on borrowings increased \$1.4 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. This increase was primarily driven by higher federal fund rates, partially offset by lower average balances of borrowings, which decreased \$0.5 billion for the three months ended September

30, 2018 compared to the three months ended September 30, 2017, as a result of decreases in the average balances of FHLB advances and federal funds purchased, as well as senior note borrowings due to the maturity and payment in full of \$63.3 million of senior notes in third quarter 2018.

Table of Contents

PROVISION FOR LOAN LOSSES

The provision for loan losses increased by \$0.6 million to \$2.9 million for the three months ended September 30, 2018, compared to \$2.4 million for the same period in 2017, reflecting Customers' initiatives to increase consumer loans. The provision for loan losses in third quarter 2018 included \$2.3 million for growth in the consumer loan portfolio and a \$0.9 million increase for impaired loans, offset in part by a release of reserve of \$0.2 million resulting from improved asset quality and lower incurred losses than previously estimated. The provision for loan losses in third quarter 2017 included provisions of \$1.4 million for loan portfolio growth and reserves of \$0.8 million for impaired loans.

For more information about the provision and allowance for loan losses and our loss experience, see "Credit Risk" and "Asset Quality" herein.

NON-INTEREST INCOME

The table below presents the components of non-interest income for the three months ended September 30, 2018 and 2017.

| | Three Months Ended September 30, | | | Percentage Change |
|--|--|----------|------------|----------------------|
| | 2018 | 2017 | Change | |
| (dollars in thousands) | | | | |
| Interchange and card revenue | \$7,084 | \$9,570 | \$(2,486) | (26.0)% |
| Deposit fees | 2,002 | 2,659 | (657) | (24.7)% |
| Bank-owned life insurance | 1,869 | 1,672 | 197 | 11.8% |
| Mortgage warehouse transactional fees | 1,809 | 2,396 | (587) | (24.5)% |
| Gain on sale of SBA and other loans | 1,096 | 1,144 | (48) | (4.2)% |
| Mortgage banking income | 207 | 257 | (50) | (19.5)% |
| (Loss) gain on sale of investment securities | (18,659) | 5,349 | (24,008) | (448.8)% |
| Impairment loss on investment securities | — | (8,349) | 8,349 | (100.0)% |
| Other | 6,676 | 3,328 | 3,348 | 100.6% |
| Total non-interest income | \$2,084 | \$18,026 | \$(15,942) | (88.4)% |

Interchange and card revenue

Included within interchange and card revenue for the three months ended September 30, 2018 was \$1.2 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of \$8.3 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication, and bank operations expense. For the three months ended September 30, 2017, debit and prepaid card interchange expense was \$1.2 million. If the three months ended September 30, 2017 was presented on a consistent basis with the three months ended September 30, 2018, the reported amount of the gross interchange and card revenue of \$9.6 million would have been presented net of the debit and prepaid card interchange expense of \$1.2 million, or \$8.4 million. When presented on a consistent basis, the \$1.3 million decline in interchange and card revenue was largely the result of lower activity volumes in the BankMobile business segment.

Deposit fees

The \$0.7 million decrease in deposit fees for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily resulted from reduced transaction volumes in the BankMobile business segment.

Mortgage warehouse transactional fees

The \$0.6 million decrease in mortgage warehouse transactional fees for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily resulted from reduced transaction volumes and reduced per transaction fees in Customers' mortgage warehouse business.

Table of Contents**(Loss) gain on sale of investment securities**

For the three months ended September 30, 2018, there was an \$18.7 million loss realized from the sale of \$495 million of lower-yielding debt securities, compared to a gain of \$5.3 million realized from the sale of \$549 million of debt securities for the three months ended September 30, 2017.

Impairment loss on investment securities

There were no other-than-temporary impairment losses on investment securities for the three months ended September 30, 2018. Customers recorded an other-than-temporary impairment loss of \$8.3 million for the three months ended September 30, 2017 for the full amount of decline in fair value of an equity investment below the cost basis established at June 30, 2017.

Other non-interest income

The \$3.3 million increase in other non-interest income for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to a \$2.8 million gain recognized from discontinuing cash flow hedge accounting for three interest rate swaps as of September 30, 2018 and a \$1.3 million increase in income from commercial operating leases. These increases were offset in part by a \$1.2 million negative mark-to-market adjustment on an equity investment.

NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the three months ended September 30, 2018 and 2017.

| | Three Months Ended September 30, | | | Percentage Change | |
|---|--|----------|-----------|----------------------|---|
| | 2018 | 2017 | Change | | |
| (dollars in thousands) | | | | | |
| Salaries and employee benefits | \$25,462 | \$24,807 | \$655 | 2.6 | % |
| Technology, communication, and bank operations | 11,657 | 14,401 | (2,744) | (19.1) | % |
| Professional services | 4,743 | 7,403 | (2,660) | (35.9) | % |
| Merger and acquisition related expenses | 2,945 | — | 2,945 | N/A | |
| Occupancy | 2,901 | 2,857 | 44 | 1.5 | % |
| FDIC assessments, non-income taxes, and regulatory fees | 2,415 | 2,475 | (60) | (2.4) | % |
| Provision for operating losses | 1,171 | 1,509 | (338) | (22.4) | % |
| Advertising and promotion | 820 | 404 | 416 | 103.0 | % |
| Loan workout | 516 | 915 | (399) | (43.6) | % |
| Other real estate owned expenses | 66 | 445 | (379) | (85.2) | % |
| Other | 4,408 | 5,824 | (1,416) | (24.3) | % |
| Total non-interest expense | \$57,104 | \$61,040 | \$(3,936) | (6.4) | % |

Salaries and employee benefits

The \$0.7 million increase in salaries and employee benefits for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily attributable to increases in compensation levels for existing team members, reflecting higher costs to maintain our workforce, and an increase in headcount as Customers continues to hire new team members in the markets it serves.

Technology, communication, and bank operations

Technology, communication, and bank operations expense for the three months ended September 30, 2018 excludes \$1.2 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the three months ended September 30, 2017 was presented on a consistent basis with the three months ended September 30, 2018, the reported amount of technology, communication, and bank operations expense of \$14.4 million would have been \$13.2 million. When presented on a consistent basis, technology, communication, and bank operations expense decreased \$1.5 million primarily due to lower activity volumes in the

BankMobile business segment.

61

Table of Contents

Professional services

The \$2.7 million decrease in professional services for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily attributable to reductions in consulting, legal, and other outside professional services as management continues its efforts to monitor and control expenses.

Merger and acquisition related expenses

The \$2.9 million increase in merger and acquisition related expenses for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to the termination of the spin-off and merger agreement between Customers and Flagship on October 18, 2018. In connection with the termination of that agreement, Customers recognized expenses of \$2.7 million during third quarter 2018 for amounts that, under the terms of the agreement, would have been reimbursed by Flagship only upon completion of the spin-off and merger.

Other non-interest expense

The \$1.4 million decrease in other non-interest expense for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily attributable to \$0.7 million in catch-up depreciation and amortization expense recorded in third quarter 2017 for BankMobile assets that were previously classified as held for sale as well as decreases in other miscellaneous expenses as management continues its efforts to monitor and control expenses.

INCOME TAXES

The table below presents income tax expense and the effective tax rate for the three months ended September 30, 2018 and 2017.

| | Three Months Ended September 30, | | | |
|----------------------------------|-------------------------------------|----------|------------|----------------------|
| | 2018 | 2017 | Change | Percentage Change |
| (dollars in thousands) | | | | |
| Income before income tax expense | \$6,057 | \$22,653 | \$(16,596) | (73.3)% |
| Income tax expense | 28 | 14,899 | (14,871) | (99.8)% |
| Effective tax rate | 0.46 | % 65.77 | % | |

The \$14.9 million decrease in income tax expense for the three months ended September 30, 2018 was primarily attributable to the elimination of deferred tax benefits from the other-than-temporary impairment loss on investment securities totaling \$7.7 million for the three months ended September 30, 2017, the lowering of the corporate federal income tax rate from 35% to 21% due to the adoption of the Tax Cut and Jobs Act of 2017, a decrease in pre-tax income of \$16.6 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, and a \$1.7 million favorable return to provision adjustment, which included the benefit of a research and development tax credit, recorded in third quarter 2018 upon completion of the 2017 income tax returns.

PREFERRED STOCK DIVIDENDS

Preferred stock dividends were \$3.6 million for the three months ended September 30, 2018 and 2017, respectively. There were no changes to the amount of preferred stock outstanding or the dividend rates from third quarter 2017 to third quarter 2018.

Table of Contents

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Net income available to common shareholders decreased \$3.4 million, or 7.3%, to \$43.0 million for the nine months ended September 30, 2018 when compared to net income available to common shareholders of \$46.4 million for the nine months ended September 30, 2017. The decreased net income available to common shareholders resulted primarily from a decrease in net interest income of \$2.7 million, or 1.4%, a decrease in non-interest income of \$20.1 million, or 33.9%, and an increase in non-interest expense of \$2.3 million, or 1.4%, offset in part by a decrease in the provision for loan losses of \$1.7 million and a decrease in income tax expense of \$20.0 million, or 58.4%.

Net interest income of \$196.4 million decreased \$2.7 million, or 1.4%, for the nine months ended September 30, 2018 when compared to net interest income of \$199.0 million for the nine months ended September 30, 2017. This decrease resulted primarily from a 13 basis point decrease in net interest margin (tax equivalent) to 2.58% for the nine months ended September 30, 2018 from 2.71% for the nine months ended September 30, 2017. The total cost of deposits and borrowings increased 55 basis points, which was mitigated in part by a 39 basis point increase in yield on interest-earning assets, primarily due to an increase in yield on loans of 34 basis points and a 36 basis point increase in yield on investment securities.

The provision for loan losses decreased \$1.7 million to \$4.3 million for the nine months ended September 30, 2018 when compared to the provision for loan losses of \$5.9 million for the same period in 2017. The provision for loan losses for the nine months ended September 30, 2018 included \$3.5 million for loan portfolio growth and \$1.9 million for impaired loans, offset in part by a \$1.2 million release that resulted from improved asset quality and lower incurred losses than previously estimated.

Non-interest income of \$39.1 million decreased \$20.1 million, or 33.9%, during the nine months ended September 30, 2018 when compared to non-interest income of \$59.2 million for the nine months ended September 30, 2017.

Included within non-interest income for the nine months ended September 30, 2018 was an \$18.7 million loss realized from the sale of \$495 million of lower-yielding investment securities and a \$1.5 million negative mark-to-market adjustment on an equity investment. Also included within non-interest income for the nine months ended September 30, 2018 was \$3.9 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of \$27.1 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication, and bank operations expense. For the nine months ended September 30, 2017, debit and prepaid card interchange expense was \$4.4 million. If the nine months ended September 30, 2017 was presented on a consistent basis with the nine months ended September 30, 2018, the reported amount of non-interest income of \$59.2 million would have been \$54.8 million and the gross interchange and card revenue of \$31.7 million would have been presented net of the debit and prepaid card interchange expense of \$4.4 million, or \$27.4 million. When presented on a consistent basis, interchange and card revenue decreased \$4.2 million in 2018 as compared to the same period in 2017 due to lower activity volumes in the BankMobile business segment. Other decreases in total non-interest income for the nine months ended September 30, 2018 included decreases in deposit fees and mortgage warehouse transactional fees of \$2.2 million and \$1.5 million, respectively, primarily resulting from reduced transaction volumes. These decreases in non-interest income were offset in part by an increase in other non-interest income of \$5.8 million, primarily due to a \$3.3 million increase in revenue from commercial operating leases and a \$2.8 million gain recognized from discontinuing cash flow hedge accounting for three interest rate swaps. For the nine months ended September 30, 2017, Customers realized \$8.5 million of gains from the sale of investment securities and recognized a \$12.9 million impairment loss on an equity investment.

Non-interest expense of \$163.1 million increased \$2.3 million, or 1.4%, for the nine months ended September 30, 2018 when compared to non-interest expense of \$160.8 million for the nine months ended September 30, 2017. Total non-interest expense for the nine months ended September 30, 2018 excludes \$3.9 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. If the nine months ended September 30, 2017 was presented on a consistent basis with the nine months ended September 30,

2018, the reported amount of non-interest expense of \$160.8 million would have been \$156.5 million, and technology, communication, and bank operations expense of \$33.2 million would have been \$28.9 million. When presented on a consistent basis, technology, communication and bank operations expense increased \$4.1 million, or 14.1%, to \$32.9 million for the nine months ended September 30, 2018 from \$28.9 million for the nine months ended September 30, 2017, given the continued investment in the BankMobile segment infrastructure and Customers' 2018 system conversion. Salaries and employee benefits increased \$8.6 million resulting from salary increases to existing team members and an increase in headcount. Merger and acquisition related expenses were \$3.9 million for the nine months ended September 30, 2018, compared to no similar expenses for the nine months ended September 30, 2017. These increases in non-interest expense were partially offset by a decrease in professional services expense of \$6.6 million, primarily attributable to reductions in consulting, legal, and other professional services as management continues its efforts to monitor and control expenses.

Table of Contents

Income tax expense of \$14.3 million decreased \$20.0 million, or 58.4%, for the nine months ended September 30, 2018 when compared to income tax expense of \$34.2 million for the nine months ended September 30, 2017. The decrease in income tax expense was driven primarily by a lower federal income tax rate from the adoption of the Tax Cut and Jobs Act of 2017, a decrease in pre-tax income of \$23.4 million, and a \$1.7 million return to provision adjustment, which included the benefit of a research and development tax credit, recorded in third quarter 2018 upon completion of the 2017 income tax returns. Customers' effective tax rate decreased to 20.9% for the nine months ended September 30, 2018, compared to 37.4% for the same period in 2017. Income tax expense included \$0.8 million and \$4.6 million of tax benefits recognized for the increase in the value of restricted stock units vesting and the exercise of stock options since the award date for the nine months ended September 30, 2018 and 2017, respectively. Preferred stock dividends were \$10.8 million for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings.

The following table summarizes Customers' net interest income and related interest spread and net interest margin for the periods indicated.

| | Nine Months Ended September 30, | | | | | |
|--|---------------------------------|----------------------------|---------------------------|-----------------|----------------------------|---------------------------|
| | 2018 | | | 2017 | | |
| | Average Balance | Interest Income or Expense | Average Yield or Cost (%) | Average Balance | Interest Income or Expense | Average Yield or Cost (%) |
| (dollars in thousands) | | | | | | |
| Assets | | | | | | |
| Interest-earning deposits | \$227,960 | \$3,071 | 1.80 % | \$327,154 | \$2,446 | 1.00 % |
| Investment securities (1) | 1,109,555 | 26,932 | 3.24 % | 971,710 | 21,017 | 2.88 % |
| Loans: | | | | | | |
| Commercial loans to mortgage companies | 1,677,895 | 61,294 | 4.88 % | 1,734,874 | 53,860 | 4.15 % |
| Multi-family loans | 3,584,640 | 102,859 | 3.84 % | 3,496,276 | 96,570 | 3.69 % |
| Commercial and industrial loans (2) | 1,716,907 | 59,682 | 4.65 % | 1,416,418 | 44,034 | 4.16 % |
| Non-owner occupied commercial real estate | 1,268,597 | 37,996 | 4.00 % | 1,290,762 | 37,654 | 3.90 % |
| All other loans | 469,877 | 17,155 | 4.88 % | 501,799 | 16,590 | 4.42 % |
| Total loans (3) | 8,717,916 | 278,986 | 4.28 % | 8,440,129 | 248,708 | 3.94 % |
| Other interest-earning assets | 122,736 | 5,660 | 6.17 % | 102,590 | 3,061 | 3.99 % |
| Total interest earning assets | 10,178,167 | 314,649 | 4.13 % | 9,841,583 | 275,232 | 3.74 % |
| Non-interest-earning assets | 398,570 | | | 367,595 | | |
| Total assets | \$10,576,737 | | | \$10,209,178 | | |
| Liabilities | | | | | | |
| Interest checking accounts | \$584,228 | 6,305 | 1.44 % | \$338,991 | 1,839 | 0.73 % |
| Money market deposit accounts | 3,426,620 | 42,769 | 1.67 % | 3,347,661 | 24,462 | 0.98 % |
| Other savings accounts | 63,772 | 514 | 1.08 % | 41,685 | 87 | 0.28 % |
| Certificates of deposit | 2,041,721 | 27,191 | 1.78 % | 2,489,970 | 22,546 | 1.21 % |
| Total interest-bearing deposits | 6,116,341 | 76,779 | 1.68 % | 6,218,307 | 48,934 | 1.05 % |
| Borrowings | 2,278,262 | 41,516 | 2.44 % | 1,836,654 | 27,255 | 1.98 % |
| Total interest-bearing liabilities | 8,394,603 | 118,295 | 1.88 % | 8,054,961 | 76,189 | 1.26 % |
| Non-interest-bearing deposits | 1,165,478 | | | 1,185,062 | | |
| Total deposits and borrowings | 9,560,081 | | 1.65 % | 9,240,023 | | 1.10 % |
| Other non-interest-bearing liabilities | 81,663 | | | 72,622 | | |
| Total liabilities | 9,641,744 | | | 9,312,645 | | |
| Shareholders' Equity | 934,993 | | | 896,533 | | |
| Total liabilities and shareholders' equity | \$10,576,737 | | | \$10,209,178 | | |
| Net interest income | | 196,354 | | | 199,043 | |
| Tax-equivalent adjustment (4) | | 514 | | | 399 | |
| Net interest earnings | | \$196,868 | | | \$199,442 | |
| Interest spread | | | 2.48 % | | | 2.64 % |
| Net interest margin | | | 2.58 % | | | 2.70 % |
| Net interest margin tax equivalent (4) | | | 2.58 % | | | 2.71 % |

(1) For presentation in this table, average balances and the corresponding average yields for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

- (2) Includes owner occupied commercial real estate loans.
- (3) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees. Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the nine months ended September 30, 2018 and 35% for the nine months ended September 30, 2017 presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the
- (4) current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

Table of Contents

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

| | Nine Months Ended September 30, 2018 vs. 2017 | | |
|--|---|----------|-----------|
| | Increase (Decrease) due to Change in | | |
| | Rate | Volume | Total |
| (amounts in thousands) | | | |
| Interest income | | | |
| Interest-earning deposits | \$1,530 | \$(905) | \$625 |
| Investment securities | 2,738 | 3,177 | 5,915 |
| Loans: | | | |
| Commercial loans to mortgage companies | 9,252 | (1,818) | 7,434 |
| Multi-family loans | 3,811 | 2,478 | 6,289 |
| Commercial and industrial loans, including owner occupied commercial real estate | 5,597 | 10,051 | 15,648 |
| Non-owner occupied commercial real estate | 995 | (653) | 342 |
| All other loans | 1,662 | (1,097) | 565 |
| Total loans | 21,317 | 8,961 | 30,278 |
| Other interest-earning assets | 1,911 | 688 | 2,599 |
| Total interest income | 27,496 | 11,921 | 39,417 |
| Interest expense | | | |
| Interest checking accounts | 2,580 | 1,886 | 4,466 |
| Money market deposit accounts | 17,717 | 590 | 18,307 |
| Other savings accounts | 360 | 67 | 427 |
| Certificates of deposit | 9,232 | (4,587) | 4,645 |
| Total interest-bearing deposits | 29,889 | (2,044) | 27,845 |
| Borrowings | 6,943 | 7,318 | 14,261 |
| Total interest expense | 36,832 | 5,274 | 42,106 |
| Net interest income | \$(9,336) | \$6,647 | \$(2,689) |

Net interest income for the nine months ended September 30, 2018 was \$196.4 million, a decrease of \$2.7 million, or 1.4%, when compared to net interest income of \$199.0 million for the nine months ended September 30, 2017, as net interest margin (tax equivalent) narrowed by 13 basis points to 2.58% for the nine months ended September 30, 2018 compared to 2.71% for the nine months ended September 30, 2017. The net interest margin (tax equivalent) compression largely resulted from a 63 basis point increase in the cost of interest-bearing deposits, reflecting higher interest rates offered by Customers on its deposit products in order to remain competitive and attract new and retain existing deposit customers, and a 46 basis point increase in borrowing costs, reflecting higher short-term funding rates. The higher cost of funds was offset in part by a 39 basis point increase in the yield on interest-earning assets, primarily resulting from increased yields on all loan categories, reflecting higher short-term interest rates and increased prepayment fees of \$2.0 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

Interest expense on total interest-bearing deposits increased \$27.8 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. This increase primarily resulted from the aforementioned increase in rates offered on all deposit categories. Interest expense on borrowings increased \$14.3

million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. This increase was driven by increased volume as average borrowings increased by \$441.6 million when compared to average borrowings for the nine months ended September 30, 2017, mostly due to higher average outstanding balances of short-term FHLB advances to fund the growth in interest-earning assets.

Table of Contents**PROVISION FOR LOAN LOSSES**

The provision for loan losses decreased by \$1.7 million to \$4.3 million for the nine months ended September 30, 2018, compared to \$5.9 million for the same period in 2017. The provision for loan losses for the nine months ended September 30, 2018 included \$3.5 million for loan portfolio growth and \$1.9 million for impaired loans, offset in part by a release of \$1.2 million resulting from improved asset quality and lower incurred losses than previously estimated. The provision for loan losses for the nine months ended September 30, 2017 included \$2.3 million for loan portfolio growth and \$3.9 million for impaired loans, offset in part by a release of \$0.8 million resulting from improved asset quality and lower incurred losses than previously estimated.

For more information about the provision and allowance for loan losses and our loss experience, see “Credit Risk” and “Asset Quality” herein.

NON-INTEREST INCOME

The table below presents the components of non-interest income for the nine months ended September 30, 2018 and 2017.

| | Nine Months Ended September 30, | | | |
|--|---------------------------------------|-----------|------------|----------------------|
| | 2018 | 2017 | Change | Percentage Change |
| (dollars in thousands) | | | | |
| Interchange and card revenue | \$23,127 | \$31,729 | \$(8,602) | (27.1)% |
| Bank-owned life insurance | 5,769 | 5,297 | 472 | 8.9 % |
| Deposit fees | 5,726 | 7,918 | (2,192) | (27.7)% |
| Mortgage warehouse transactional fees | 5,663 | 7,139 | (1,476) | (20.7)% |
| Gain on sale of SBA and other loans | 3,404 | 3,045 | 359 | 11.8 % |
| Mortgage banking income | 532 | 703 | (171) | (24.3)% |
| (Loss) gain on sale of investment securities | (18,659) | 8,532 | (27,191) | (318.7)% |
| Impairment loss on investment securities | — | (12,934) | 12,934 | (100.0)% |
| Other | 13,558 | 7,741 | 5,817 | 75.1 % |
| Total non-interest income | \$39,120 | \$59,170 | \$(20,050) | (33.9)% |

Interchange and card revenue

Included within interchange and card revenue for the nine months ended September 30, 2018 was \$3.9 million of debit and prepaid card interchange expense, which was recorded as a reduction to the gross amount of interchange and card revenue of \$27.1 million as a result of the adoption of the new revenue recognition guidance as described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION on a modified retrospective basis. Prior to the adoption of the new revenue recognition guidance, these expenses were included within non-interest expense and reported as technology, communication, and bank operations expense. For the nine months ended September 30, 2017, debit and prepaid card interchange expense was \$4.4 million. If the nine months ended September 30, 2017 was presented on a consistent basis with the nine months ended September 30, 2018, the reported amount of gross interchange and card revenue of \$31.7 million would have been presented net of the debit and prepaid card interchange expense of \$4.4 million, or \$27.4 million. When presented on a consistent basis, interchange and card revenue decreased \$4.2 million as a result of lower activity volumes in the BankMobile business segment.

Deposit fees

The \$2.2 million decrease in deposit fees for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily resulted from reduced transaction volumes at BankMobile.

Mortgage warehouse transactional fees

The \$1.5 million decrease in mortgage warehouse transactional fees for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily resulted from reduced transaction volumes and reduced per transaction fees in Customers' mortgage warehouse business due to the general slowdown of mortgage originations across the United States.

Table of Contents**(Loss) gain on sale of investment securities**

For the nine months ended September 30, 2018, Customers realized a loss of \$18.7 million from the sale of \$495 million of lower-yielding investment securities, compared to a gain of \$8.5 million from the sale of \$662 million of investment securities for the nine months ended September 30, 2017. The 2018 loss results from the fixed rate nature of the bonds relative to the higher market interest rates for those bonds in the third quarter of 2018.

Impairment loss on investment securities

There were no other-than-temporary impairment losses on investment securities for the nine months ended September 30, 2018. Customers recorded an other-than-temporary impairment loss of \$12.9 million for the nine months ended September 30, 2017 for the full amount of decline in fair value of an equity investment below the cost basis established at December 31, 2016.

Other non-interest income

The \$5.8 million increase in other non-interest income for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to a \$2.8 million gain recognized from discontinuing cash flow hedge accounting for three interest rate swaps as of September 30, 2018 and a \$3.3 million increase in income from commercial operating leases. These increases were offset in part by a \$1.5 million negative mark-to-market adjustment on an equity investment.

NON-INTEREST EXPENSE

The table below presents the components of non-interest expense for the nine months ended September 30, 2018 and 2017.

| | Nine Months Ended September 30, | | Change | Percentage Change | |
|---|------------------------------------|-----------|---------|----------------------|---|
| | 2018 | 2017 | | | |
| (dollars in thousands) | | | | | |
| Salaries and employee benefits | \$78,135 | \$69,569 | \$8,566 | 12.3 | % |
| Technology, communication, and bank operations | 32,923 | 33,227 | (304) | (0.9) | % |
| Professional services | 14,563 | 21,142 | (6,579) | (31.1) | % |
| Occupancy | 8,876 | 8,228 | 648 | 7.9 | % |
| FDIC assessments, non-income taxes, and regulatory fees | 6,750 | 6,615 | 135 | 2.0 | % |
| Provision for operating losses | 3,930 | 4,901 | (971) | (19.8) | % |
| Merger and acquisition related expenses | 3,920 | — | 3,920 | N/A | |
| Loan workout | 1,823 | 1,844 | (21) | (1.1) | % |
| Advertising and promotion | 1,529 | 1,108 | 421 | 38.0 | % |
| Other real estate owned expenses | 164 | 550 | (386) | (70.2) | % |
| Other | 10,521 | 13,634 | (3,113) | (22.8) | % |
| Total non-interest expense | \$163,134 | \$160,818 | \$2,316 | 1.4 | % |
| Salaries and employee benefits | | | | | |

The \$8.6 million increase in salaries and employee benefits for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to salary increases for existing team members and increased headcount as Customers continues to hire new team members in the markets it serves.

Technology, communication, and bank operations

Technology, communication, and bank operations for the nine months ended September 30, 2018 excludes \$3.9 million of debit and prepaid card interchange expense as a result of the adoption of the new revenue recognition guidance on January 1, 2018. For the nine months ended September 30, 2017, debit and prepaid card interchange

expense was \$4.4 million. If the nine months ended September 30, 2017 was presented on a consistent basis with the nine months ended September 30, 2018, the reported amount of technology, communication, and bank operations expense of \$33.2 million would have been \$28.9 million. When presented on a consistent basis, technology, communication and bank operations expense increased \$4.1 million to \$32.9

Table of Contents

million for the nine months ended September 30, 2018 from \$28.9 million for the nine months ended September 30, 2017, as a result of the continued investment in the BankMobile segment infrastructure and Customers' 2018 system conversion.

Professional services

The \$6.6 million decrease in professional services for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily driven by a reduction in expenses for consulting, legal, and other professional fees as management continues its efforts to monitor and control expenses.

Provision for operating losses

The \$3.9 million provision for operating losses represents Customers' estimated liability for losses resulting from fraud or theft-based transactions that have generally been disputed by deposit account holders mainly from its BankMobile Disbursements business but where such disputes have not been resolved as of the end of the reporting period. The reserve is based on historical rates of loss on such transactions and the provision adjusts the reserve to the estimated liability.

Merger and acquisition related expenses

The \$3.9 million increase in merger and acquisition related expenses for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily related to the planned spin-off and merger of BankMobile and a residual expense resulting from the 2016 acquisition of the Disbursement business. Upon termination of the spin-off and merger agreement between Customers and Flagship on October 18, 2018, Customers recognized expenses of \$2.7 million during third quarter 2018 for amounts that, under the terms of that agreement, would have been reimbursed by Flagship only upon completion of the spin-off and merger.

Other non-interest expense

The \$3.1 million decrease in other non-interest expense for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was generated by numerous specific cost saves and reflects management's continued efforts to monitor and control expenses.

INCOME TAXES

The table below presents income tax expense and the effective tax rate for the nine months ended September 30, 2018 and 2017.

| | Nine Months Ended September 30, | | | |
|----------------------------------|------------------------------------|----------|------------|----------------------|
| | 2018 | 2017 | Change | Percentage Change |
| (dollars in thousands) | | | | |
| Income before income tax expense | \$68,083 | \$91,458 | \$(23,375) | (25.6)% |
| Income tax expense | 14,250 | 34,236 | (19,986) | (58.4)% |
| Effective tax rate | 20.93 | % 37.43 | % | |

The \$20.0 million decrease in income tax expense for the nine months ended September 30, 2018 was primarily attributable to the lowering of the corporate federal income tax rate from 35% to 21% due to the adoption of the Tax Cut and Jobs Act of 2017, a decrease in pre-tax income of \$23.4 million, and a \$1.7 million favorable return to provision adjustment, which included the benefit of a research and development tax credit, recorded in third quarter 2018 upon completion of the 2017 income tax returns. Offsetting these items was a lower tax benefit of \$3.8 million recognized during the nine months ended September 30, 2018 compared to the same period in 2017 for an increase in the fair value of restricted stock units vesting and the exercise of stock options since the award date.

PREFERRED STOCK DIVIDENDS

Preferred stock dividends were \$10.8 million for the nine months ended September 30, 2018 and 2017, respectively. There were no changes to the amount of preferred stock outstanding or the dividend rates for the first nine months of 2018 compared to the first nine months of 2017.

Table of Contents

Financial Condition

General

Customers' total assets were \$10.6 billion at September 30, 2018. This represented a \$0.8 billion increase from total assets of \$9.8 billion at December 31, 2017. The increase in total assets was primarily attributable to increases in cash and cash equivalents of \$0.5 billion, largely resulting from proceeds received from the sale of lower-yielding investment securities during third quarter 2018, and investment securities of \$0.2 billion. Customers expects total assets to be under \$10 billion by the end of 2018 as management focuses on optimizing balance sheet mix, enhancing liquidity, improving capital, expanding net interest margin, and maximizing the return on average assets.

Total liabilities were \$9.7 billion at September 30, 2018. This represented a \$0.7 billion increase from \$8.9 billion at December 31, 2017. The increase in total liabilities resulted primarily from an increase in total deposits of \$1.7 billion, offset in part by reductions in FHLB advances of \$0.8 billion and federal funds purchased of \$0.2 billion.

The following table presents certain key condensed balance sheet data as of September 30, 2018 and December 31, 2017:

| | September 30, 2018 | December 31, 2017 (As Restated) | Change | Percentage Change |
|---|-----------------------|---------------------------------------|------------|----------------------|
| (dollars in thousands) | | | | |
| Cash and cash equivalents | \$ 666,034 | \$ 146,323 | \$ 519,711 | 355.2 % |
| Investment securities, at fair value | 668,851 | 471,371 | 197,480 | 41.9 % |
| Loans held for sale (includes \$1,383 and \$1,886, respectively, at fair value) | 1,383 | 146,077 | (144,694) | (99.1)% |
| Loans receivable, mortgage warehouse, at fair value | 1,516,327 | 1,793,408 | (277,081) | (15.4)% |
| Loans receivable | 7,239,950 | 6,768,258 | 471,692 | 7.0 % |
| Allowance for loan losses | (40,741) | (38,015) | (2,726) | 7.2 % |
| Total assets | 10,617,104 | 9,839,555 | 777,549 | 7.9 % |
| Total deposits | 8,513,714 | 6,800,142 | 1,713,572 | 25.2 % |
| Federal funds purchased | — | 155,000 | (155,000) | (100.0)% |
| FHLB advances | 835,000 | 1,611,860 | (776,860) | (48.2)% |
| Other borrowings | 123,779 | 186,497 | (62,718) | (33.6)% |
| Subordinated debt | 108,953 | 108,880 | 73 | 0.1 % |
| Total liabilities | 9,662,292 | 8,918,591 | 743,701 | 8.3 % |
| Total shareholders' equity | 954,812 | 920,964 | 33,848 | 3.7 % |
| Total liabilities and shareholders' equity | 10,617,104 | 9,839,555 | 777,549 | 7.9 % |

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and interest-earning deposits. Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled \$12.9 million at September 30, 2018. This represented a \$7.4 million decrease from \$20.4 million at December 31, 2017. These balances vary from day to day, primarily due to variations in customers' deposit activities with Customers.

Interest-earning deposits consist of cash deposited at other banks, primarily the Federal Reserve Bank of Philadelphia. Interest-earning deposits were \$653.1 million and \$125.9 million at September 30, 2018 and December 31, 2017, respectively. The increase in interest-earning deposits can be mostly attributed to proceeds received from the sale of lower-yielding investment securities in third quarter 2018, which were subsequently used to pay down FHLB advances in October 2018. Additionally, the balance of interest-earning deposits varies from day to day, depending on several factors, such as fluctuations in customers' deposits with Customers, payment of checks drawn on customers' accounts and strategic investment decisions made to maximize Customers' net interest income, while effectively managing interest-rate risk and liquidity.

Table of Contents

Investment Securities

The investment securities portfolio is an important source of interest income and liquidity. It consists of mortgage-backed securities (guaranteed by an agency of the United States government), corporate debt and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, provide collateral for other borrowings and diversify the credit risk of interest-earning assets. The portfolio is structured to optimize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

Investment securities totaled \$668.9 million at September 30, 2018 compared to \$471.4 million at December 31, 2017. The increase in investment securities was primarily the result of purchases of agency-guaranteed mortgage-backed securities and corporate securities totaling \$763.2 million, largely during the first quarter of 2018, offset in part by the sale of \$494.8 million of lower-yielding securities during the third quarter of this year, and maturities, calls and principal repayments totaling \$38.9 million during the nine months ended September 30, 2018.

For financial reporting purposes, available-for-sale debt securities are carried at fair value. Unrealized gains and losses on available-for-sale debt securities are included in other comprehensive income and reported as a separate component of shareholders' equity, net of the related tax effect. Beginning January 1, 2018, changes in the fair value of marketable equity securities previously classified as available for sale are recorded in earnings in the period in which they occur and are no longer deferred in accumulated other comprehensive income. Amounts previously recorded to accumulated other comprehensive income were reclassified to retained earnings on January 1, 2018. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional details related to the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities.

LOANS

Existing lending relationships are primarily with small and middle market businesses and individual consumers primarily in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; and Chicago, Illinois. The portfolio of loans to mortgage banking businesses is nationwide. The loan portfolio consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate and commercial and industrial loans. Customers continues to focus on small and middle market business loans to grow its commercial lending efforts, particularly its commercial and industrial loan portfolio and its specialty mortgage lending business, and has announced its entry into non-QM residential mortgage lending and plans to increase its consumer lending activities. In addition, Customers has been deemphasizing its multi-family business and has significantly limited originations of loans yielding less than 5.25% in order to reduce net interest margin compression.

Commercial Lending

Customers' commercial lending is divided into five groups: Business Banking, Small and Middle Market Business Banking, Multi-Family and Commercial Real Estate Lending, Mortgage Banking Lending, and Equipment Finance. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest- rate risk and higher productivity levels.

The commercial lending group focuses primarily on companies with annual revenues ranging from \$1 million to \$100 million, which typically have credit requirements between \$0.5 million and \$10 million.

The small and middle market business banking platform originates loans, including Small Business Administration loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial solutions to the small business owners in its communities. A division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.

Table of Contents

In 2009, Customers launched its lending to mortgage banking businesses products, which primarily provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business in 2009 during a period of market turmoil. Customers saw an opportunity to provide liquidity to this business segment at attractive spreads. There was also the opportunity to attract escrow deposits and to generate fee income in this business. The goal of the mortgage banking business lending group is to originate loans that provide liquidity to mortgage banking companies. These loans are primarily used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. The underlying residential loans are taken as collateral for Customers' commercial loans to the mortgage companies. As of September 30, 2018 and December 31, 2017, commercial loans to mortgage banking businesses totaled \$1.5 billion and \$1.8 billion, respectively, and are reported as loans receivable, mortgage warehouse, at fair value.

The goal of Customers' multi-family lending group is to build a portfolio of high-quality multi-family loans within Customers' covered markets, while cross selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first lien mortgage on the multi-family property, plus an assignment of all leases related to such property. As of September 30, 2018, Customers had multi-family loans of \$3.5 billion outstanding, comprising approximately 40.0% of the total loan portfolio, compared to \$3.6 billion, or approximately 41.9% of the total loan portfolio, at December 31, 2017.

The equipment finance group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies, and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of September 30, 2018 and December 31, 2017, Customers had \$157.4 million and \$152.5 million, respectively, of equipment finance loans outstanding. As of September 30, 2018 and December 31, 2017, Customers had \$39.3 million and \$26.6 million of equipment finance leases, respectively. As of September 30, 2018 and December 31, 2017, Customers had \$40.7 million and \$21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of \$3.4 million and \$0.5 million, respectively.

As of September 30, 2018, Customers had \$8.1 billion in commercial loans outstanding, totaling approximately 92.6% of its total loan portfolio, which includes loans held for sale and loans receivable mortgage warehouse at fair value, compared to commercial loans outstanding of \$8.4 billion, comprising approximately 96.2% of its loan portfolio, at December 31, 2017.

Consumer Lending

Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. As of September 30, 2018, Customers had \$645.0 million in consumer loans outstanding, or 7.4% of the total loan portfolio, compared to \$329.8 million, or 3.8% of the total loan portfolio, as of December 31, 2017. During third quarter 2018, Customers purchased \$72.7 million of residential mortgage and other consumer loans from third party financial institutions. Customers plans to expand its product offerings in real estate secured consumer lending, as well as other consumer lending activities, and has announced its entry into the non-QM residential mortgage market.

Customers has launched a community outreach program in Philadelphia to finance homeownership in urban communities. As part of this program, Customers is offering an "Affordable Mortgage Product." This community outreach program is penetrating the underserved population, especially in low and moderate income neighborhoods. As part of this commitment, a loan production office was opened in Progress Plaza, 1501 North Broad Street, Philadelphia, PA. The program includes homebuyer seminars that prepare potential homebuyers for homeownership by teaching money management and budgeting skills, including the financial responsibilities that come with having a mortgage and owning a home. The "Affordable Mortgage Product" is offered throughout Customers' assessment areas.

Table of Contents

Loans Held for Sale

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

| | September 30, 2018 | December 31, 2017 |
|---|--------------------------|-------------------------|
| (amounts in thousands) | | (As Restated) |
| Commercial loans: | | |
| Multi-family loans at lower of cost or fair value | \$ — | \$ 144,191 |
| Total commercial loans held for sale | — | 144,191 |
| Consumer loans: | | |
| Residential mortgage loans, at fair value | 1,383 | 1,886 |
| Loans held for sale | \$ 1,383 | \$ 146,077 |

At September 30, 2018, loans held for sale totaled \$1.4 million, or 0.02% of the total loan portfolio, and \$146.1 million, or 1.7% of the total loan portfolio, at December 31, 2017. Loans held for sale are carried on the balance sheet at either fair value (due to the election of the fair value option) or at the lower of cost or fair value. An allowance for loan losses is not recorded on loans that are classified as held for sale.

Loans Receivable

Loans receivable (excluding loans held for sale and loans reported at their fair value), net of the allowance for loan losses, increased by \$469.0 million to \$7.2 billion at September 30, 2018 from \$6.7 billion at December 31, 2017.

Loans receivable as of September 30, 2018 and December 31, 2017 consisted of the following:

| | September 30, 2018 | December 31, 2017 |
|---|--------------------------|-------------------------|
| (amounts in thousands) | | (As Restated) |
| Loans receivable, mortgage warehouse, at fair value | \$1,516,327 | \$1,793,408 |
| Loans receivable: | | |
| Commercial: | | |
| Multi-family | 3,504,540 | 3,502,381 |
| Commercial and industrial (including owner occupied commercial real estate) | 1,841,704 | 1,633,818 |
| Commercial real estate non-owner occupied | 1,157,849 | 1,218,719 |
| Construction | 95,250 | 85,393 |
| Total commercial loans receivable | 6,599,343 | 6,440,311 |
| Consumer: | | |
| Residential real estate | 509,853 | 234,090 |
| Manufactured housing | 82,589 | 90,227 |
| Other | 51,210 | 3,547 |
| Total consumer loans receivable | 643,652 | 327,864 |
| Loans receivable | 7,242,995 | 6,768,175 |
| Deferred (fees)/costs and unamortized (discounts)/premiums, net | (3,045) | 83) |
| Allowance for loan losses | (40,741) | (38,015) |
| Total loans receivable, net of allowance for loan losses | \$8,715,536 | \$8,523,651 |

Credit Risk

Customers manages credit risk by maintaining diversification in its loan portfolio, establishing and enforcing prudent underwriting standards and collection efforts, and continuous and periodic loan classification reviews. Management also considers the effect of credit risk on financial performance by reviewing quarterly and maintaining an adequate allowance for loan losses. Credit losses are charged when they are identified, and provisions are added when it is estimated that a loss has occurred, to the allowance for loan losses at least quarterly. The allowance for loan losses is

estimated at least quarterly.

73

Table of Contents

The provision for loan losses was \$2.9 million and \$2.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$4.3 million and \$5.9 million for the nine months ended September 30, 2018 and 2017, respectively. The allowance for loan losses maintained for loans receivable (excluding loans held for sale and loans receivable mortgage warehouse loans, at fair value) was \$40.7 million, or 0.56% of loans receivable, at September 30, 2018 and \$38.0 million, or 0.56% of loans receivable, at December 31, 2017. Net charge-offs were \$0.5 million for the three months ended September 30, 2018, a decrease of \$2.0 million compared to the same period in 2017. The decrease in net charge-offs period over period was mainly driven by a decrease in net charge-off activities in the commercial and industrial loan portfolio. Net charge-offs were \$1.5 million for the nine months ended September 30, 2018, a decrease of \$3.4 million compared to the same period in 2017. The decrease in net charge-offs period over period was mainly driven by a decrease in net charge-off activities related to the commercial and industrial loan portfolio. This decrease was partially offset by an increase in net charge-off activities in the other consumer loan portfolio.

The table below presents changes in the Bank's allowance for loan losses for the periods indicated.

Analysis of the Allowance for Loan Losses

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---|--|----------|---|----------|
| (amounts in thousands) | | | | |
| Balance at the beginning of the period | \$38,288 | \$38,458 | \$38,015 | \$37,315 |
| Loan charge-offs (1) | | | | |
| Commercial and industrial | 90 | 2,032 | 314 | 4,079 |
| Commercial real estate owner occupied | — | — | 501 | — |
| Commercial real estate non-owner occupied | — | 77 | — | 485 |
| Residential real estate | — | 120 | 407 | 410 |
| Other consumer | 437 | 356 | 1,155 | 602 |
| Total Charge-offs | 527 | 2,585 | 2,377 | 5,576 |
| Loan recoveries (1) | | | | |
| Commercial and industrial | 30 | 54 | 205 | 337 |
| Commercial real estate owner occupied | — | — | 326 | 9 |
| Commercial real estate non-owner occupied | 5 | — | 5 | — |
| Construction | 11 | 27 | 231 | 157 |
| Residential real estate | 6 | 7 | 69 | 34 |
| Other consumer | 4 | 1 | 10 | 101 |
| Total Recoveries | 56 | 89 | 846 | 638 |
| Total net charge-offs | 471 | 2,496 | 1,531 | 4,938 |
| Provision for loan losses | 2,924 | 2,352 | 4,257 | 5,937 |
| Balance at the end of the period | \$40,741 | \$38,314 | \$40,741 | \$38,314 |

(1) Charge-offs and recoveries on purchased-credit-impaired loans that are accounted for in pools are recognized on a net basis when the pool matures.

The allowance for loan losses is based on a quarterly evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb probable losses incurred as of the balance sheet date. All commercial loans, with the exception of mortgage warehouse loans, at fair value, are assigned internal credit-risk ratings, based upon an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly by the responsible officer, and the risk ratings are adjusted when considered appropriate. The risk assessment allows management to identify problem loans timely. Management considers a variety of factors and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate an appropriate level of allowance for loan losses. Refer to Critical Accounting Policies

herein and NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements in its 2017 Form 10-K for further discussion on management's methodology for estimating the allowance for loan losses.

Table of Contents

Approximately 83% of Customers' commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, "the real estate portfolio"). Customers' lien position on the real estate collateral will vary on a loan-by-loan basis and will change as a result of changes in the value of the collateral. Current appraisals providing current value estimates of the property are received when Customers' credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal, including that real estate values have deteriorated. The credit committee and loan officers review loans that are 15 or more days delinquent and all non-accrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk-rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographic area and other factors that may affect the cash flow of the loan. If a loan is individually evaluated for impairment, the collateral value or discounted cash flow analysis is generally used to determine the estimated fair value of the underlying collateral, net of estimated selling costs, and compared to the outstanding loan balance to determine the amount of reserve necessary, if any. Appraisals used in this evaluation process are typically less than two years aged. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to estimate the fair value of the loan, net of estimated selling costs, and compared to the outstanding loan balance to estimate the required reserve.

These impairment measurements are inherently subjective as they require material estimates, including, among others, estimates of property values in appraisals, the amounts and timing of expected future cash flows on individual loans, and general considerations for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which require judgment and may be susceptible to significant change over time and as a result of changing economic conditions or other factors. Pursuant to ASC 310-10-35, Loan Impairment, and ASC 310-40, Troubled Debt Restructurings by Creditors, impaired loans, consisting primarily of non-accrual and restructured loans, are considered in the methodology for determining the allowance for loan losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral (less estimated costs to sell) if principal repayment is expected to come from the sale or operation of such collateral.

Asset Quality

Customers divides its loan portfolio into two categories to analyze and understand loan activity and performance: loans that were originated and loans that were acquired. Customers further segments the originated and acquired loan categories by loan product or other characteristic generally defining a shared characteristic with other loans in the same group. Customers' originated loans were subject to the current underwriting standards that were put in place in 2009. Management believes this segmentation better reflects the risk in the portfolio and the various types of reserves that are available to absorb loan losses that may emerge in future periods. Credit losses from originated loans are absorbed by the allowance for loan losses. Credit losses from acquired loans are absorbed by the allowance for loan losses, nonaccretable difference fair value marks, and cash reserves. As described below, the allowance for loan losses is intended to absorb only those losses estimated to have been incurred after acquisition, whereas the fair value mark and cash reserves absorb losses estimated to have been embedded in the acquired loans at acquisition. The schedule that follows includes both loans held for sale and loans held for investment.

Table of Contents

Asset Quality at September 30, 2018

| Loan Type | Total Loans | Current | 30-89 Days Past Due | 90 Days or More Past Due and Accruing | Non- accrual/ NPL (a) | OREO (b) | NPA (a)+(b) | NPL to Loan Type (%) | NPA to Loans + OREO (%) |
|--|-------------|-------------|------------------------------|--|-----------------------------|-------------|----------------|----------------------------------|--|
| (dollars in thousands) | | | | | | | | | |
| Originated Loans | | | | | | | | | |
| Multi-Family | \$3,502,079 | \$3,500,736 | \$— | \$— | \$1,343 | \$— | \$1,343 | 0.04 % | 0.04 % |
| Commercial & Industrial (1) | 1,760,668 | 1,746,352 | — | — | 14,316 | 621 | 14,937 | 0.81 % | 0.85 % |
| Commercial Real Estate Non-Owner Occupied | 1,144,214 | 1,144,214 | — | — | — | — | — | — % | — % |
| Residential | 106,052 | 103,018 | 979 | — | 2,055 | 57 | 2,112 | 1.94 % | 1.99 % |
| Construction | 95,250 | 95,250 | — | — | — | — | — | — % | — % |
| Other consumer | 1,359 | 1,322 | 37 | — | — | — | — | — % | — % |
| Total Originated Loans (2) | 6,609,622 | 6,590,892 | 1,016 | — | 17,714 | 678 | 18,392 | 0.27 % | 0.28 % |
| Loans Acquired | | | | | | | | | |
| Bank Acquisitions | 131,854 | 125,399 | 1,969 | 480 | 4,006 | 400 | 4,406 | 3.04 % | 3.33 % |
| Loan Purchases | 501,519 | 492,971 | 3,518 | 3,109 | 1,921 | 372 | 2,293 | 0.38 % | 0.46 % |
| Total Loans Acquired | 633,373 | 618,370 | 5,487 | 3,589 | 5,927 | 772 | 6,699 | 0.94 % | 1.06 % |
| Deferred costs and unamortized premiums, net | (3,045) | (3,045) | — | — | — | — | — | | |
| Loans Receivable | 7,239,950 | 7,206,217 | 6,503 | 3,589 | 23,641 | 1,450 | 25,091 | 0.33 % | 0.35 % |
| Loans Receivable, Mortgage Warehouse, at Fair Value | 1,516,327 | 1,516,327 | — | — | — | — | — | | |
| Total Loans Held for Sale | 1,383 | 1,383 | — | — | — | — | — | | |
| Total Portfolio | \$8,757,660 | \$8,723,927 | \$6,503 | \$3,589 | \$23,641 | \$1,450 | \$25,091 | 0.27 % | 0.29 % |

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.

(2) Does not include loans receivable, mortgage warehouse, at fair value.

Asset Quality at September 30, 2018 (continued)

| Loan Type | Total Loans | NPL | ALL | Cash Reserve | Total Credit Reserves | Reserves to Loans (%) | Reserves to NPLs (%) |
|---|-------------|---------|----------|-----------------|-----------------------------|-----------------------------|----------------------------|
| (dollars in thousands) | | | | | | | |
| Originated Loans | | | | | | | |
| Multi-Family | \$3,502,079 | \$1,343 | \$11,829 | \$— | \$11,829 | 0.34 % | 880.79 % |
| Commercial & Industrial (1) | 1,760,668 | 14,316 | 15,268 | — | 15,268 | 0.87 % | 106.65 % |
| Commercial Real Estate Non-Owner Occupied | 1,144,214 | — | 4,246 | — | 4,246 | 0.37 % | — % |
| Residential | 106,052 | 2,055 | 2,048 | — | 2,048 | 1.93 % | 99.66 % |
| Construction | 95,250 | — | 1,062 | — | 1,062 | 1.11 % | — % |
| Other consumer | 1,359 | — | 103 | — | 103 | 7.58 % | — % |
| Total Originated Loans (2) | 6,609,622 | 17,714 | 34,556 | — | 34,556 | 0.52 % | 195.08 % |
| Loans Acquired | | | | | | | |
| Bank Acquisitions | 131,854 | 4,006 | 3,773 | — | 3,773 | 2.86 % | 94.18 % |
| Loan Purchases | 501,519 | 1,921 | 2,412 | 527 | 2,939 | 0.59 % | 152.99 % |
| Total Loans Acquired | 633,373 | 5,927 | 6,185 | 527 | 6,712 | 1.06 % | 113.24 % |

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| | | | | | | | | |
|---|-------------|---|----------|----------|--------|----------|--------|---------|
| Deferred costs and unamortized premiums, net | (3,045 |) | — | — | — | — | | |
| Loans Receivable | 7,239,950 | | 23,641 | 40,741 | 527 | 41,268 | 0.57 % | 174.56% |
| Loans Receivable, Mortgage Warehouse, at Fair Value | 1,516,327 | | — | — | — | — | | |
| Total Loans Held for Sale | 1,383 | | — | — | — | — | | |
| Total Portfolio | \$8,757,660 | | \$23,641 | \$40,741 | \$ 527 | \$41,268 | 0.47 % | 174.56% |

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.

(2) Does not include loans receivable, mortgage warehouse, at fair value.

Table of Contents

Originated Loans

Post 2009 originated loans (excluding loans held for sale and loans receivable mortgage warehouse at fair value) totaled \$6.6 billion at September 30, 2018, compared to \$6.4 billion at December 31, 2017. The management team adopted new underwriting standards that management believes better limits risks of loss in 2009 and has worked to maintain these standards. Only \$17.7 million, or 0.27% of post 2009 originated loans, were non-performing at September 30, 2018, compared to \$20.0 million of post 2009 originated loans, or 0.31% of post 2009 originated loans, at December 31, 2017. The post 2009 originated loans were supported by an allowance for loan losses of \$34.6 million (0.52% of post 2009 originated loans) and \$33.3 million (0.52% of post 2009 originated loans), respectively, at September 30, 2018 and December 31, 2017. Total 2009 and prior loans ("legacy loans") were \$23.4 million and \$25.6 million at September 30, 2018 and December 31, 2017, respectively.

Loans Acquired

At September 30, 2018, total acquired loans were \$633.4 million, or 8.7% of loans receivable, compared to \$328.8 million, or 4.9% of loans receivable, at December 31, 2017. Non-performing acquired loans totaled \$5.9 million and \$6.4 million at September 30, 2018 and December 31, 2017, respectively. When loans are acquired, they are recorded on the balance sheet at fair value. Acquired loans include purchased portfolios, FDIC failed-bank acquisitions, and unassisted acquisitions. Of the manufactured housing loans purchased prior to 2012, \$48.0 million were supported by a \$0.5 million cash reserve at September 30, 2018, compared to \$51.9 million supported by a cash reserve of \$0.6 million at December 31, 2017. The cash reserve was created as part of the purchase transaction to absorb losses and is maintained in a demand deposit account at the Bank. All current losses and delinquent interest are absorbed by this reserve and any recoveries of those losses, as well as the proceeds from the sale of the repossessed properties securing the loans, are placed back into the reserve. For the manufactured housing loans purchased in 2012, the seller has an obligation to pay the Bank the full payoff amount of the defaulted loan, including any principal, unpaid interest, or advances on the loans, once the borrower vacates the property. At September 30, 2018, \$27.8 million of these loans were outstanding, compared to \$31.4 million at December 31, 2017.

The price paid for acquired loans considered management's judgment as to the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the cash flow forecast to incorporate changes in the credit outlook. Generally, a decrease in forecasted cash flows for a purchased loan will result in a provision for loan losses, and absent charge-offs, an increase in the allowance for loan losses. Acquired loans have a significantly higher percentage of non-performing loans than loans originated after September 2009. Management acquired these loans with the expectation that non-performing loan levels would be elevated, and therefore incorporated that expectation into the price paid. Customers has assigned these loans to its Special Assets Group, a team that focuses on workouts for these acquired non-performing assets. Total acquired loans were supported by reserves (allowance for loan losses and cash reserves) of \$6.7 million (1.06% of total acquired loans) and \$5.4 million (1.64% of total acquired loans) at September 30, 2018 and December 31, 2017, respectively.

Table of Contents

DEPOSITS

The components of deposits were as follows at the dates indicated:

| | September 30, 2018 | December 31, 2017 | Change | Percentage Change |
|------------------------------|-----------------------|----------------------|--------------|----------------------|
| (dollars in thousands) | | | | |
| Demand, non-interest bearing | \$ 1,338,167 | \$ 1,052,115 | \$ 286,052 | 27.2 % |
| Demand, interest bearing | 833,176 | 523,848 | 309,328 | 59.0 % |
| Savings, including MMDA | 3,948,890 | 3,318,486 | 630,404 | 19.0 % |
| Time, \$100,000 and over | 1,271,783 | 1,284,855 | (13,072) | (1.0)% |
| Time, other | 1,121,698 | 620,838 | 500,860 | 80.7 % |
| Total deposits | \$ 8,513,714 | \$ 6,800,142 | \$ 1,713,572 | 25.2 % |

Customers offers a variety of deposit accounts, including checking, savings, money market deposit accounts (“MMDA”), and time deposits. Deposits are primarily obtained from Customers' geographic service area and nationwide through branchless digital banking, deposit brokers, listing services and other relationships. Transaction deposits increased by \$1.2 billion, or 25.0%, to \$6.1 billion at September 30, 2018, from \$4.9 billion at December 31, 2017. This increase is primarily driven by Customers' initiative to improve its net interest margin by expanding its sources of lower-cost funding. These efforts, along with the seasonality of the Disbursement business, resulted in increases to nearly all deposit categories. Total time deposits were \$2.4 billion at September 30, 2018, an increase of \$0.5 billion, or 25.6%, from \$1.9 billion at December 31, 2017.

At September 30, 2018, the Bank had \$1.9 billion in state and municipal deposits to which it had pledged available borrowing capacity through the FHLB to the depositor through a letter of credit arrangement. At September 30, 2018, the balance of state and municipal deposits was \$1.9 billion.

BORROWINGS

Borrowed funds from various sources are generally used to supplement deposit growth and meet other operating needs. Customers' borrowings generally include short-term and long-term advances from the FHLB, federal funds purchased, senior unsecured notes and subordinated debt. Subordinated debt is also considered as Tier 2 capital for certain regulatory calculations. As of September 30, 2018 and December 31, 2017, total outstanding borrowings were \$1.1 billion and \$2.1 billion, respectively, which represented a decrease of \$1.0 billion, or 48.2%. These repayments of borrowings are in line with Customers' strategy to reduce its cost of funding and focus on deposit growth in order to improve net interest margins. On July 31, 2018, the 6.375% senior notes with an aggregate principal amount of \$63.3 million issued by Customers Bancorp in July 2013 matured and were paid in full.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a financial institution is a measure of that institution's ability to meet depositors' needs for funds, to satisfy or fund loan commitments, and for other operating purposes. Ensuring adequate liquidity is an objective of the asset/liability management process. Customers coordinates its management of liquidity with its interest rate sensitivity and capital position, and strives to maintain a strong liquidity position.

Customers' investment portfolio provides periodic cash flows through regular maturities and amortization and can be used as collateral to secure additional liquidity funding. As of September 30, 2018 and December 31, 2017, Customers had unpledged marketable investments of \$481.8 million and \$454.4 million, respectively. Customers' principal sources of funds are deposits, borrowings, principal and interest payments on loans, other funds from operations, and proceeds from common and preferred stock issuances. Borrowing arrangements are maintained with the Federal Home Loan Bank and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Longer-term borrowing arrangements are also maintained with the Federal Home Loan Bank. As of September 30,

2018, Customers' borrowing capacity with the Federal Home Loan Bank was \$4.5 billion, of which \$0.8 billion was utilized in borrowings and \$1.9 billion of available capacity was utilized to collateralize state and municipal deposits. As of December 31, 2017, Customers' borrowing capacity with the Federal Home Loan Bank was \$4.3 billion, of which \$1.6 billion was utilized in borrowings and \$1.8 billion of available capacity was utilized to collateralize state and municipal deposits. As of September 30, 2018 and December 31, 2017, Customers' borrowing capacity with the Federal Reserve Bank of Philadelphia was \$90.8 million and \$142.5 million, respectively.

Table of Contents

Net cash flows provided by operating activities were \$98.4 million during the nine months ended September 30, 2018, compared to \$30.3 million during the nine months ended September 30, 2017.

Net cash flows used in investment activities were \$0.3 billion during the nine months ended September 30, 2018, compared to \$1.1 billion during the nine months ended September 30, 2017.

Cash used in investment activities consisted of the following:

- Originations of mortgage warehouse loans totaled \$21.7 billion during the nine months ended September 30, 2018, compared to \$22.7 billion during the nine months ended September 30, 2017.

Purchases of investment securities available for sale totaled \$763.2 million during the nine months ended September 30, 2018, compared to \$796.6 million during the nine months ended September 30, 2017.

Cash flows used to fund new loans held for investment totaled \$20.5 million and \$921.0 million during the nine months ended September 30, 2018 and 2017, respectively.

Cash flows used to purchase loans totaled \$347.7 million and \$262.6 million during the nine months ended September 30, 2018 and 2017, respectively.

Purchases of bank owned life insurance policies were \$90.0 million during the nine months ended September 30, 2017. There were no such purchases of bank owned life insurance policies during the nine months ended September 30, 2018.

- Net purchases of FHLB, Federal Reserve Bank, and other restricted stock totaled \$30.2 million during the nine months ended September 30, 2017.

Purchases of leased assets under operating leases were \$21.8 million during the nine months ended September 30, 2018. There were no such purchases of leased assets under operating leases during the nine months ended September 30, 2017.

Cash provided by investment activities consisted of the following:

Proceeds from repayments of mortgage warehouse loans totaled \$22.0 billion during the nine months ended September 30, 2018, compared to \$22.9 billion during the nine months ended September 30, 2017.

Proceeds from maturities, calls and principal repayments of securities available for sale totaled \$38.9 million for the nine months ended September 30, 2018, compared to \$36.5 million for the nine months ended September 30, 2017.

Proceeds from sales of investment securities available for sale amounted to \$476.2 million during the nine months ended September 30, 2018, compared to \$670.5 million for the nine months ended September 30, 2017.

Proceeds from the sale of loans held for investment totaled \$42.2 million during the nine months ended September 30, 2018, compared to \$124.7 million during the nine months ended September 30, 2017.

Proceeds from FHLB, Federal Reserve Bank and other restricted stock totaled \$31.7 million during the nine months ended September 30, 2018.

Net cash flows provided by financing activities were \$0.7 billion during the nine months ended September 30, 2018, compared to \$1.0 billion for the nine months ended September 30, 2017. During the nine months ended September 30, 2018, a net increase in deposits provided cash flows of \$1.7 billion, and proceeds from issuance of common stock provided \$3.4 million. These cash flow increases were partially offset by repayments of short-term borrowed funds from the FHLB totaling \$776.9 million, federal funds purchased of \$155.0 million, and long-term debt of \$63.3 million, and preferred stock dividends paid of \$10.8 million. During the nine months ended September 30, 2017, a net increase in short-term borrowed funds from the FHLB provided net cash flows of \$0.6 billion, a net increase in deposits provided cash flows of \$293.3 million, proceeds from the issuance of five-year senior notes provided \$98.6 million, and a net increase in federal funds purchased provided net cash flows of \$64.0 million, partially offset by the payment of preferred stock dividends of \$10.8 million. These financing activities provided sufficient cash flows to support Customers' investing and operating activities.

Table of Contents

On July 31, 2018, the 6.375% senior notes with an aggregate principal amount of \$63.3 million issued by Customers Bancorp in July 2013 matured. Customers had sufficient funds accumulated at the Bancorp to make payment to the debtholders upon maturity of the senior notes. Overall, based on our core deposit base and available sources of borrowed funds, management believes that Customers has adequate resources to meet its short-term and long-term cash requirements for the foreseeable future.

CAPITAL ADEQUACY AND SHAREHOLDERS' EQUITY

Shareholders' equity increased \$33.8 million, or 3.7%, to \$954.8 million at September 30, 2018 when compared to shareholders' equity of \$921.0 million at December 31, 2017. The primary components of the net increase were as follows:

- net income of \$53.8 million for the nine months ended September 30, 2018;
- share-based compensation expense of \$5.6 million for the nine months ended September 30, 2018; and
- issuance of common stock under share-based compensation arrangements of \$3.7 million for the nine months ended September 30, 2018.

The increases were offset in part by:

- other comprehensive loss of \$18.6 million for the nine months ended September 30, 2018, arising primarily from unrealized fair value losses recognized on available-for-sale debt securities; and
- preferred stock dividends of \$10.8 million for the nine months ended September 30, 2018.

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

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

Table of Contents

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

| (dollars in thousands) | Actual | | Minimum Capital Levels to be Classified as: | | | | | |
|--|-------------|----------|---|---------|------------------|----------|---------------------|---------|
| | Amount | Ratio | Adequately Capitalized | | Well Capitalized | | Basel III Compliant | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2018: | | | | | | | | |
| Common equity Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$740,968 | 8.703 % | \$383,113 | 4.500 % | N/A | N/A | \$542,744 | 6.375 % |
| Customers Bank | \$1,054,869 | 12.393 % | \$383,042 | 4.500 % | \$553,282 | 6.500 % | \$542,642 | 6.375 % |
| Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$958,418 | 11.257 % | \$510,818 | 6.000 % | N/A | N/A | \$670,448 | 7.875 % |
| Customers Bank | \$1,054,869 | 12.393 % | \$510,722 | 6.000 % | \$680,963 | 8.000 % | \$670,323 | 7.875 % |
| Total capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$1,080,245 | 12.688 % | \$681,090 | 8.000 % | N/A | N/A | \$840,721 | 9.875 % |
| Customers Bank | \$1,204,825 | 14.154 % | \$680,963 | 8.000 % | \$851,204 | 10.000 % | \$840,563 | 9.875 % |
| Tier 1 capital (to average assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$958,418 | 8.913 % | \$430,099 | 4.000 % | N/A | N/A | \$430,099 | 4.000 % |
| Customers Bank | \$1,054,869 | 9.814 % | \$429,939 | 4.000 % | \$537,423 | 5.000 % | \$429,939 | 4.000 % |
| As of December 31, 2017: | | | | | | | | |
| Common equity Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$689,494 | 8.805 % | \$352,368 | 4.500 % | N/A | N/A | \$450,248 | 5.750 % |
| Customers Bank | \$1,023,564 | 13.081 % | \$352,122 | 4.500 % | \$508,621 | 6.500 % | \$449,934 | 5.750 % |
| Tier 1 capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$906,963 | 11.583 % | \$469,824 | 6.000 % | N/A | N/A | \$567,704 | 7.250 % |
| Customers Bank | \$1,023,564 | 13.081 % | \$469,496 | 6.000 % | \$625,994 | 8.000 % | \$567,307 | 7.250 % |
| Total capital (to risk-weighted assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$1,021,601 | 13.047 % | \$626,432 | 8.000 % | N/A | N/A | \$724,313 | 9.250 % |
| Customers Bank | \$1,170,666 | 14.961 % | \$625,994 | 8.000 % | \$782,493 | 10.000 % | \$723,806 | 9.250 % |
| Tier 1 capital (to average assets) | | | | | | | | |
| Customers Bancorp, Inc. | \$906,963 | 8.937 % | \$405,949 | 4.000 % | N/A | N/A | \$405,949 | 4.000 % |
| Customers Bank | \$1,023,564 | 10.092 % | \$405,701 | 4.000 % | \$507,126 | 5.000 % | \$405,701 | 4.000 % |

The capital ratios above reflect the capital requirements under "Basel III" adopted effective first quarter 2015 and the capital conservation buffer phased in beginning January 1, 2016. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. As of September 30, 2018, the Bank and Customers Bancorp were in compliance with the Basel III requirements. See "NOTE 8 - REGULATORY CAPITAL" to Customers' unaudited financial statements for additional discussion regarding regulatory capital requirements.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

Customers is involved with financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of business to meet the financing needs of the Bank's customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheets.

With commitments to extend credit, exposures to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. The same credit policies are used in making commitments and conditional obligations as for on-balance sheet instruments. Because they involve credit risk similar to extending a loan, commitments to extend credit are subject to the Bank's credit policy and other underwriting standards.

As of September 30, 2018 and December 31, 2017, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

| | September | December |
|--|------------|------------|
| | 30, 2018 | 31, 2017 |
| (amounts in thousands) | | |
| Commitments to fund loans | \$ 171,538 | \$ 333,874 |
| Unfunded commitments to fund mortgage warehouse loans | 1,535,720 | 1,567,139 |
| Unfunded commitments under lines of credit and credit card | 821,601 | 485,345 |
| Letters of credit | 45,188 | 39,890 |
| Other unused commitments | 5,104 | 6,679 |

Commitments to fund loans, unfunded commitments to fund mortgage warehouse loans, unfunded commitments under lines of credit letters of credit and credit cards are agreements to extend credit to or for the benefit of a customer in the ordinary course of the Bank's business.

Commitments to fund loans and unfunded commitments under lines of credit may be obligations of the Bank as long as there is no violation of any condition established in the contract. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if the Bank deems it necessary upon extension of credit, is based upon management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. government through one of its programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Effect of Government Monetary Policies

Our earnings are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. An important function of the Federal Reserve Board is to regulate the money supply and interest rates. Among the instruments used to implement those objectives are open market operations in United States government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect rates charged on loans or paid for deposits.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

The largest component of Customers' net income is net interest income, and the majority of its financial instruments are interest-rate sensitive assets and liabilities with various term structures and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest-rate risk. Interest-rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals and differences in lending and funding rates. Customers' asset/liability committee actively seeks to monitor and control the mix of interest-rate sensitive assets and interest-rate sensitive liabilities.

Customers uses two complementary methods to analyze and measure interest-rate sensitivity as part of the overall management of interest-rate risk; they are income simulation modeling and estimates of economic value of equity.

The combination of these two methods provides a reasonably comprehensive summary of the levels of interest-rate risk of Customers' exposure to time factors and changes in interest-rate environments.

Income simulation modeling is used to measure interest-rate sensitivity and manage interest-rate risk. Income simulation considers not only the impact of changing market interest rates upon forecasted net interest income but also other factors such as yield-curve relationships, the volume and mix of assets and liabilities, customer preferences and general market conditions.

Through the use of income simulation modeling, Customers has estimated the net interest income for the period ending September 30, 2019, based upon the assets, liabilities and off-balance sheet financial instruments in existence at September 30, 2018. Customers has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately ("rate shocks"). For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200, and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were only decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the Down 200 and Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. The following table reflects the estimated percentage change in estimated net interest income for the period ending September 30, 2019, resulting from changes in interest rates.

Net change in net interest income

| Rate Shocks | % Change |
|-------------|-------------|
| Up 3% | (3.0)% |
| Up 2% | (1.4)% |
| Up 1% | (0.4)% |
| Down 1% | (4.4)% |

The net changes in net interest income in all scenarios are within Customers Bank's interest rate risk policy guidelines. Economic Value of Equity ("EVE") estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200, and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were only decreased immediately by 100 basis points due to the limitations of the current low interest rate environment that renders the Down 200 and Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. This method of measurement primarily evaluates the longer term repricing risks and options in Customers Bank's balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at September 30, 2018, resulting from shocks to interest rates.

| Rate Shocks | From base |
|-------------|--------------|
| Up 3% | (21.2)% |

Up 2% (12.8)%

Up 1% (5.7)%

Down 1% 1.2 %

The net changes in economic value of equity in all scenarios are within Customers Bank's interest rate risk policy guidelines.

83

Table of Contents

Management believes that the assumptions and combination of methods utilized in evaluating estimated net interest income are reasonable. However, the interest rate sensitivity of our assets, liabilities and off-balance sheet financial instruments, as well as the estimated effect of changes in interest rates on estimated net interest income, could vary substantially if different assumptions are used or actual experience differs from the assumptions used in the model.

Item 4. Controls and Procedures

(a) **Management's Evaluation of Disclosure Controls and Procedures.** As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp's disclosure controls and procedures were not effective at September 30, 2018 because of a material weakness in internal control over financial reporting that resulted in the incorrect classification of cash flows used in and provided by Customers' commercial mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investing on the consolidated balance sheets.

Revised Management's Report from the 2017 Form 10-K. Under the supervision and with the participation of Customers Bancorp's Chief Executive Officer and Chief Financial Officer, Customers Bancorp's management assessed the effectiveness of Customers Bancorp's internal control over financial reporting as of December 31, 2017. In making that assessment, management used the criteria set forth in the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its initial evaluation under the COSO criteria, management concluded that Customers Bancorp's internal control over financial reporting was effective as of December 31, 2017. Subsequently, in November 2018, management concluded that Customers Bancorp did not maintain effective controls over the appropriate classifications of cash flows used in and provided by its mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investment on its consolidated balance sheets. On November 12, 2018, Customers Bancorp's Audit Committee of the Board of Directors authorized management to restate its previously issued audited consolidated financial statements for 2017, 2016, and 2015 and the interim unaudited consolidated financial statements as of and for the three month periods ended March 31, 2018 and 2017 and the three and six month periods ended June 30, 2018 and 2017, respectively. Accordingly, management has concluded that the control deficiency that resulted in the incorrect classifications of the cash flows used in and provided by its mortgage warehouse lending activities between operating and investing activities on the consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale instead of held for investment on its consolidated balance sheets constituted a material weakness as of December 31, 2017. Solely as a result of this material weakness, management has revised its earlier assessment and has now concluded that Customers Bancorp's internal control over financial reporting was not effective as of December 31, 2017.

Remediation Plan. Customers Bancorp conducted a comprehensive analysis of the classifications of cash flows within its consolidated statements of cash flows and established new accounting policies and disclosure control procedures for the classification and reporting of its mortgage warehouse lending transactions on the consolidated balance sheet and statements of cash flows. Management expects these efforts to remediate the identified material weakness and strengthen internal control over financial reporting. As management continues to evaluate and work to enhance internal control over financial reporting, it may determine that additional measures are required to address control deficiencies, strengthen internal control over financial reporting, or it may determine to modify the remediation plan described above.

(b) **Changes in Internal Control Over Financial Reporting.** During the quarter ended September 30, 2018, there have been no changes in Customers Bancorp's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Customers Bancorp's internal control over financial reporting. However, as described above, management did implement changes in internal control over financial reporting during fourth quarter

2018 designed to remediate a material weakness related to the classification and reporting of its mortgage warehouse lending transactions on its consolidated balance sheets and statements of cash flows.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information supplements and amends our discussion set forth under Part I, Item 3. "Legal Proceedings" in our 2017 Form 10-K.

Edelman Matter

On April 13, 2017, a class action complaint captioned Shaya Edelman, individually, and on behalf of all others similarly situated v. Higher One Holdings, Inc., WEX Bank, Inc., and Customers Bancorp, Inc., Case 2:17-cv-01700-RBS, was filed in the United States District Court for the Eastern District of Pennsylvania. The plaintiff generally alleged, among other things, violations of state consumer protection statutes and federal public policy promulgated in the Higher Education Act, Department of Education Regulations, the Electronic Funds Transfer Act, Regulation E and various common law violations through the offering and use of the Higher One checking account and debit card. Customers Bank, Higher One Holdings, Inc. and Wex Bank, Inc. filed a motion to compel arbitration and stay proceedings. On August 28, 2018, as a result of the Parties' voluntary resolution of the matter, the Court entered an order dismissing the case pursuant to Federal Rule of Civil Procedure 41(A).

United States Department of Education Matter

In third quarter 2018, Customers received a Final Program Review Determination ("FPRD") letter dated September 5, 2018 from the United States Department of Education (the "DOE") regarding a focused program review of Higher One's/Customers Bank's administration, as a third party servicer, of the programs authorized pursuant to Title IV of the Higher Education Act of 1965. The DOE program review covered the award years beginning in 2013 through the FPRD issuance date, including the time period when Higher One was acting as the third party servicer prior to Customers' acquisition of the Disbursement business on June 15, 2016. The FPRD determined that, with respect to students enrolled at specified partner institutions, Higher One/Customers did not provide convenient fee-free access to ATMs or bank branch offices in such locations as required by the DOE's cash management regulations. Those regulations, which were in effect during the period covered by the program review and were revised during that period, seek, among other purposes, to ensure that students can make fee-free cash withdrawals. The FPRD determined that students incurred prohibited costs in accessing Title IV credit balance funds, and the FPRD classifies those costs as financial liabilities of Customers. The FPRD also requires Customers to take prospective action to increase ATM access for students at certain of its partner institutions. Customers disagrees with the FPRD and has elected to appeal the FPRD, including the asserted financial liabilities, and a request for review has been submitted to trigger an administrative process before the DOE's Office of Hearing and Appeals. Customers intends to vigorously defend itself against the financial liabilities established in the FPRD through that administrative appeals process and it further intends to pursue resolution of the FPRD's prospective action requirements during the appeals resolution process. Customers is currently unable to predict the outcome of the appeal and resolution efforts, and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Risk Factors" included within the 2017 Form 10-K. Set forth below are factors that supplement or amend certain factors discussed in "Risk Factors" included within the 2017 Form 10-K and additional factors that you should carefully consider. As previously disclosed, the agreement between Customers and Flagship relating to the planned spin-off and merger of BankMobile was terminated on October 18, 2018. As a result, the risks discussed in the Form 10-K relating to the planned spin-off and merger of BankMobile should be considered in the context of such

termination and Customers' current intention to retain and operate BankMobile, as discussed elsewhere in this Form 10-Q.

The risks described within the 2017 Form 10-K and below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial also may materially adversely affect our business, financial condition and/or operating results. See "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements."

Table of Contents

Our business and future success may suffer if we are unable to continue to successfully implement our strategy for BankMobile.

The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies, including BankMobile, are not fully tested, and we may incur substantial expenses and devote significant management time and resources in order for BankMobile to compete effectively. Revenue generated from BankMobile's no-fee or very-low-fee banking strategy may not perform as well as we expect or enhance the value of our business as a whole, and it could materially and adversely affect our financial condition and results of operations. Additionally, the anticipated benefits of our White Label program may not be realized to the extent forecasted, or Customers may incur substantial expenses in the operation of the White Label program that outweigh the benefits realized, if any, which could have a material and adverse affect on our financial condition and results of operations. Also, if the benefits of BankMobile do not meet the expectations of financial or industry analysts, the market price of our common stock may decline.

While we retain and operate BankMobile, we will continue to face the risks and challenges associated with the BankMobile business.

As long as we retain and operate BankMobile, we will continue to face the risks and challenges associated with the BankMobile business, including those relating to the integration of the Disbursement business and the successful launch and operation of the White Label program. We cannot assure you that we will be able to address and manage these risks so as to preserve or increase the value of BankMobile, and any failure to preserve or increase the value of BankMobile could adversely affect the business of Customers as a whole and our ability to otherwise dispose of BankMobile on favorable terms, or at all.

If our total assets exceed \$10 billion while we retain and operate BankMobile, our business and potential for future success could be materially adversely affected.

Under federal law and regulation, if our total assets exceed \$10 billion as of December 31 of each year, we will no longer qualify as a small issuer of debit cards and we will not receive the optimal debit card processing fee. Failure to qualify for the small issuer exception would result in a significant reduction in interchange fee income could result in the BankMobile segment operating unprofitably or charging additional fees to students to replace the lost revenue. Customers expects total assets to be under \$10 billion by December 31, 2018 through the normal seasonality of the mortgage warehouse business, which tends to decline in the winter months. If our total assets exceed \$10 billion as of December 31, 2018, our financial condition and results of operations could be adversely affected.

Planned changes in the composition of our loan portfolio may expose us to increased lending risks.

As we continue to maintain our assets at \$10 billion or less, we intend to continue emphasizing the origination of commercial loans, including specialty loans and loans to mortgage banking businesses while deemphasizing our multi-family loan portfolio. Our focus will be on funding commercial and industrial and consumer loan growth with the run-off of our multi-family loan portfolio. Changes in the composition of our loan portfolio could have a significant adverse effect on our overall credit profile, which could result in a higher percentage of non-accrual loans, increased provision for loan losses, and an increased level of net charge-offs, all of which could have a material and adverse effect on our financial condition and results of operations. Consumer loans are particularly affected by economic conditions, including interest rates, the rate of unemployment, housing prices, the level of consumer confidence, changes in consumer spending, and the number of personal bankruptcies. A weakening in business or economic conditions, including higher unemployment levels or declines in home prices could adversely affect borrowers' ability to repay their loans, which could negatively impact our credit performance.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 26, 2013, Customers announced that the Board of Directors had authorized a stock repurchase plan in which the Bancorp could acquire up to 5% of its then current outstanding shares at prices not to exceed a 20% premium over the then current book value. The repurchase program has no expiration date but may be suspended, modified or discontinued at any time, and the Bancorp has no obligation to repurchase any amount of its common stock under the program.

During the three and nine months ended September 30, 2018, Customers did not repurchase any of its shares. The maximum number of shares available to be purchased under the plan is 750,551 shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| | |
|----------------|-------------|
| Exhibit No. | Description |
|----------------|-------------|

| | |
|-----|---|
| 2.1 | <u>Letter Agreement, dated as of August 7, 2018, by and between Flagship Community Bank, BankMobile Technologies, Inc., Customers Bank and Customers Bancorp, Inc., incorporated by reference to Exhibit 3.8 to the Customers Bancorp Form 10Q filed with the SEC on August 9, 2018</u> |
|-----|---|

| | |
|-----|---|
| 3.1 | <u>Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on April 30, 2012</u> |
|-----|---|

| | |
|-----|--|
| 3.2 | <u>Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp Form 8-K filed with the SEC on April 30, 2012</u> |
|-----|--|

| | |
|-----|--|
| 3.3 | <u>Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012</u> |
|-----|--|

| | |
|-----|---|
| 3.4 | <u>Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on May 18, 2015</u> |
|-----|---|

| | |
|-----|---|
| 3.5 | <u>Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on January 29, 2016</u> |
|-----|---|

| | |
|-----|---|
| 3.6 | <u>Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on April 28, 2016</u> |
|-----|---|

| | |
|-----|--|
| 3.7 | <u>Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on</u> |
|-----|--|

September 16, 2016

4.1 Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013

4.2 First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013

87

Table of Contents

| | |
|-------------|--|
| <u>4.3</u> | <u>6.375% Global Note in aggregate principal amount of \$55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013</u> |
| <u>4.4</u> | <u>Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013</u> |
| <u>4.5</u> | <u>6.375% Global Note in aggregate principal amount of \$8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013</u> |
| <u>4.6</u> | <u>Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on June 26, 2014</u> |
| <u>4.7</u> | <u>Form of Warrant issued by Berkshire Bancorp, Inc., incorporated by reference to Exhibit 10.23 to the Customers Bancorp Form S-1/A filed with the SEC on April 25, 2012</u> |
| <u>4.8</u> | <u>Second Supplemental Indenture, dated as of June 30, 2017, by and between Customers Bancorp, Inc. as Issuer, and Wilmington Trust, National Association, As Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on June 30, 2017</u> |
| <u>31.1</u> | <u>Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</u> |
| <u>31.2</u> | <u>Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</u> |
| <u>32.1</u> | <u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002</u> |
| <u>32.2</u> | <u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002</u> |
| 101 | The Exhibits filed as part of this report are as follows: |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document. |

Table of Contents

SIGNATURES

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

Customers Bancorp, Inc.

November 13, 2018 By: /s/ Jay S. Sidhu
Name: Jay S. Sidhu
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

November 13, 2018 By: /s/ Robert E. Wahlman
Name: Robert E. Wahlman
Title: Chief Financial Officer
(Principal Financial Officer)

Table of Contents

Exhibit Index

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Table of Contents

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91