Customers Bancorp, Inc.
Form 10-Q
May 05, 2016
Table of Contents

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

Form 10-Q

x Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016

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

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer ¨ Accelerated filer x

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

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

On April 28, 2016, 27,044,750 shares of Voting Common Stock were issued and outstanding.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
Table of Contents

Part I

Item 1.	Customers Bancorp, Inc. Consolidated Financial Statements as of March 31, 2016 and for the three month periods ended March 31, 2016 and 2015 (unaudited)	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	45
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	63
Item 4.	Controls and Procedures	66

PART II

Item 1.	Legal Proceedings	67
Item 1A.	Risk Factors	67
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	67
Item 3.	Defaults Upon Senior Securities	67
Item 4.	Mine Safety Disclosures	67
Item 5.	Other Information	67
Item 6.	Exhibits	68

SIGNATURES 69

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)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$63,849	$53,550
Interest-earning deposits	198,789	211,043
Cash and cash equivalents	262,638	264,593
Investment securities available for sale, at fair value	556,165	560,253
Loans held for sale (includes $1,941,602 and $1,757,807, respectively, at fair value)	1,969,280	1,797,064
Loans receivable	5,907,315	5,453,479
Allowance for loan losses	(37,605)	(35,647)
Total loans receivable, net of allowance for loan losses	5,869,710	5,417,832
FHLB, Federal Reserve Bank, and other restricted stock	92,269	90,841
Accrued interest receivable	21,206	19,939
Bank premises and equipment, net	12,444	11,531
Bank-owned life insurance	158,339	157,211
Other real estate owned	5,106	5,057
Goodwill and other intangibles	3,648	3,651
Other assets	88,077	70,233
Total assets	$9,038,882	$8,398,205
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$779,568	$653,679
Interest-bearing	5,699,047	5,255,822
Total deposits	6,478,615	5,909,501
Federal funds purchased	80,000	70,000
FHLB advances	1,633,700	1,625,300
Other borrowings	86,624	86,457
Subordinated debt	108,709	108,685
Accrued interest payable and other liabilities	51,985	44,360
Total liabilities	8,439,633	7,844,303
Shareholders' equity:		
Preferred stock, par value $1.00 per share; liquidation preference $25.00 per share; 100,000,000 shares authorized, 3,300,000 and 2,300,000 shares issued and outstanding as of March 31, 2016 and December 31, 2015	79,677	55,569
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 27,567,265 and 27,432,061 shares issued as of March 31, 2016 and December 31, 2015; 27,037,005 and 26,901,801 shares outstanding as of March 31, 2016 and December 31, 2015	27,567	27,432
Additional paid in capital	364,647	362,607
Retained earnings	140,924	124,511
Accumulated other comprehensive loss, net	(5,333)	(7,984)
Treasury stock, at cost (530,260 shares as of March 31, 2016 and December 31, 2015)	(8,233)	(8,233)
Total shareholders' equity	599,249	553,902
Total liabilities and shareholders' equity	$9,038,882	$8,398,205

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 March 31,	
	2016	2015
Interest income:		
Loans receivable	$54,472	$43,093
Loans held for sale	14,106	10,900
Investment securities	3,709	2,363
Other	1,111	2,362
Total interest income	73,398	58,718
Interest expense:		
Deposits	10,212	7,526
Other borrowings	1,606	1,488
FHLB advances	2,268	1,689
Subordinated debt	1,685	1,685
Total interest expense	15,771	12,388
Net interest income	57,627	46,330
Provision for loan losses	1,980	2,964
Net interest income after provision for loan losses	55,647	43,366
Non-interest income:		
Mortgage warehouse transactional fees	2,548	2,273
Bank-owned life insurance	1,123	1,061
Gain on sale of loans	644	1,231
Deposit fees	255	179
Mortgage loans and banking income	165	151
Gain on sale of investment securities	26	—
Other	733	838
Total non-interest income	5,494	5,733
Non-interest expense:		
Salaries and employee benefits	17,332	13,952
FDIC assessments, taxes, and regulatory fees	4,030	3,278
Professional services	2,657	1,913
Technology, communication and bank operations	2,643	2,531
Occupancy	2,325	2,101
Loan workout	418	269
Other real estate owned	287	884
Advertising and promotion	256	347
Other	3,957	2,190
Total non-interest expense	33,905	27,465
Income before income tax expense	27,236	21,634
Income tax expense	9,537	7,682
Net income	17,699	13,952
Preferred stock dividends	1,286	—
Net income available to common shareholders	$16,413	$13,952
Basic earnings per common share	$0.61	$0.52

Diluted earnings per common share	$0.57	$0.49

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Net income	$17,699	$13,952
Unrealized gains on securities:		
Unrealized holding gains on securities arising during the period	6,867	459
Income tax effect	(2,575)	(216)
Less: reclassification adjustment for gains on securities included in net income	(26)	—
Income tax effect	10	—
Net unrealized gains	4,276	243
Unrealized losses on cash flow hedges:		
Unrealized losses on cash flow hedges arising during the period	(2,600)	(1,946)
Income tax effect	975	778
Net unrealized losses	(1,625)	(1,168)
Other comprehensive income (loss), net of tax	2,651	(925)
Comprehensive income	$20,350	$13,027

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 March 31, 2016								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2015	2,300,000	$55,569	26,901,801	$27,432	$362,607	$124,511	$ (7,984)	$(8,233)	$553,902
Net income	—	—	—	—	—	17,699	—	—	17,699
Other comprehensive income	—	—	—	—	—	—	2,651	—	2,651
Issuance of common stock, net of offering costs of $15	—	—	7,291	7	152	—	—	—	159
Issuance of preferred stock, net of offering costs of $892	1,000,000	24,108	—	—	—	—	—	—	24,108
Preferred stock dividends	—	—	—	—	—	(1,286)	—	—	(1,286)
Share-based compensation expense	—	—	—	—	1,402	—	—	—	1,402
Exercise of warrants	—	—	12,377	12	106	—	—	—	118
Issuance of common stock under share-based compensation arrangements	—	—	115,536	116	380	—	—	—	496
Balance, March 31, 2016	3,300,000	$79,677	27,037,005	$27,567	$364,647	$140,924	$ (5,333)	$(8,233)	$599,249

	Three Months Ended March 31, 2015								
	Preferred Stock		Common Stock						
	Shares of Preferred Stock Outstanding	Preferred Stock	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2014	—	$—	26,745,529	$27,278	$355,822	$68,421	$ (122)	$(8,254)	$443,145

Net income	—	—	—	—	—	13,952	—	—	13,952
Other comprehensive loss	—	—	—	—	—	—	(925)	—	(925)
Share-based compensation expense	—	—	—	—	1,170	—	—	—	1,170
Issuance of common stock under share-based compensation arrangements	—	—	78,510	78	531	—	—	—	609
Balance, March 31, 2015	—	$—	26,824,039	$27,356	$357,523	$82,373	$ (1,047)	$(8,254)	$457,951

See accompanying notes to the unaudited consolidated financial statements.

6

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$17,699	$13,952
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses, net of change to FDIC receivable and clawback liability	1,980	2,964
Provision for depreciation and amortization	970	1,033
Share-based compensation	1,689	1,416
Deferred taxes	573	(1,540)
Net amortization of investment securities premiums and discounts	205	211
Loss (gain) on sale of investment securities	(26)	—
Gain on sale of mortgages and other loans	(810)	(1,266)
Origination of loans held for sale	(6,876,748)	(6,627,070)
Proceeds from the sale of loans held for sale	6,693,763	6,285,952
Increase in FDIC loss sharing receivable net of clawback liability	304	(134)
Amortization (accretion) of fair value discounts	(114)	32
Net loss on sales of other real estate owned	15	441
Valuation and other adjustments to other real estate owned, net of FDIC receivable	170	343
Earnings on investment in bank-owned life insurance	(1,123)	(1,061)
Increase in accrued interest receivable and other assets	(21,304)	(3,259)
Increase in accrued interest payable and other liabilities	4,254	3,574
Net Cash Used In Operating Activities	(178,503)	(324,412)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	12,902	20,739
Proceeds from sales of investment securities available for sale	2,848	—
Purchases of investment securities available for sale	(5,000)	—
Net increase in loans	(448,956)	(148,554)
Proceeds from sales of loans	6,946	141,437
Purchases of bank-owned life insurance	—	(15,000)
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	(1,428)	204
Reimbursements from the FDIC on loss sharing agreements	(320)	(302)
Purchases of bank premises and equipment	(1,665)	(829)
Proceeds from sales of other real estate owned	86	1,619
Net Cash Used In Investing Activities	(434,587)	(686)
Cash Flows from Financing Activities		
Net increase in deposits	569,116	360,789
Net (decrease) increase in short-term borrowed funds from the FHLB	(16,600)	(98,000)
Net increase in federal funds purchased	10,000	—
Proceeds from long-term FHLB borrowings	25,000	25,000
Net proceeds from issuance of preferred stock	24,108	—
Preferred stock dividends paid	(1,214)	—
Exercise and redemption of warrants	118	—
Proceeds from issuance of common stock	607	109
Net Cash Provided by Financing Activities	611,135	287,898
Net Decrease in Cash and Cash Equivalents	(1,955)	(37,200)

Cash and Cash Equivalents – Beginning	264,593	371,023
Cash and Cash Equivalents – Ending	$262,638	$333,823

(continued)

Supplementary Cash Flows Information		
Interest paid	$13,018	$10,550
Income taxes paid	15,789	2,762
Non-cash items:		
Transfer of loans to other real estate owned	$320	$159

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, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); and Manhattan, New York. The Bank has 14 full-service branches and provides commercial banking products, primarily loans and deposits. Customers Bank provides 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 and Philadelphia, Pennsylvania. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Customers Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities. Customers Bancorp has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

NOTE 2 - ACQUISITION ACTIVITY
Pending Acquisition of Higher One, Inc.'s One Account Student Checking and Refund Management Disbursement Services Business
On December 15, 2015, Customers announced that it had entered into an Asset Purchase Agreement (the "Agreement") to acquire assets related to the One Account Student Checking and Refund Management Disbursement Services business ("Disbursements") of Higher One, Inc. ("Higher One"). Pursuant to the Agreement, Customers will acquire all assets of the Disbursements business, including all property and equipment, existing contractual relationships with vendors and educational institutions, and all intellectual property, will assume certain normal business related liabilities, and will commit to hire approximately 225 current Higher One employees primarily located in New Haven, Connecticut that manage the Disbursement business and serve the customers. Customers intends to retain these team members in New Haven. Customers will pay Higher One an aggregate of $42 million in cash in connection with the acquisition of the Disbursements business. Under the Agreement, Customers will pay Higher One $17 million in cash at closing and make cash payments of $10 million each on the first and second anniversaries of the closing. Customers also will pay Higher One $5 million in cash for Higher One's services under a transition services agreement. The transaction was approved by Higher One stockholders in April 2016 with the transaction closing anticipated to occur, subject to the successful conclusion of all transition activities, in the second quarter of 2016 but no later than July 1, 2016.
NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION
Basis of Presentation
The interim unaudited consolidated financial statements of Customers Bancorp, Inc. and subsidiaries have been prepared pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers Bancorp and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. The December 31, 2015 consolidated balance sheet presented in this report has been derived from Customers Bancorp’s audited 2015 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods

presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2015 consolidated financial statements of Customers Bancorp and subsidiaries included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 26, 2016. 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; Investment Securities; Loan Accounting Framework; Allowance for Loan Losses; Goodwill; Investments in FHLB, Federal

Reserve Bank, and other restricted stock; Other Real Estate Owned; FDIC Loss Sharing Receivable and Clawback Liability; Bank-Owned Life Insurance; Bank Premises and Equipment; Treasury Stock; Income Taxes; Share-Based Compensation; Derivative Instruments and Hedging; Comprehensive Income; Earnings per Share and Segment Information. Certain prior period amounts have been reclassified to conform to current period presentation. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09—Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The Board issued this ASU as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this ASU involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. In addition, the amendments in this ASU eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-07—Investments—Equity Method and Joint Ventures. To simplify the accounting for equity method investments, the amendments in the ASU eliminate the requirement in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The ASU is effective for all entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-06—Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the “clearly and closely related” criterion. The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. Namely, this decision sequence requires that an entity consider whether:

1. the payoff is adjusted based on changes in an index;
2. the payoff is indexed to an underlying other than interest rates or credit risk;
3. the debt involves a substantial premium or discount; and
4. the call (put) option is contingently exercisable.

The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-05—Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The term novation refers to replacing one counterparty to a derivative instrument with a new counterparty. That change occurs for a variety of reasons, including financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, an entity managing against internal credit limits, or in response to laws or regulatory requirements.

The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging

relationship provided that

Table of Contents

all other hedge accounting criteria continue to be met. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-04—Liabilities—Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products. When an entity sells a prepaid stored-value product (such as gift cards, telecommunication cards, and traveler's checks), it recognizes a financial liability for its obligation to provide the product holder with the ability to purchase goods or services at a third-party merchant. When a prepaid stored-value product goes unused wholly or partially for an indefinite time period, the amount that remains on the product is referred to as breakage. There currently is diversity in the methodology used to recognize breakage. Subtopic 405-20 includes derecognition guidance for both financial liabilities and nonfinancial liabilities, and Topic 606, Revenue from Contracts with Customers, includes authoritative breakage guidance but excludes financial liabilities.

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. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases. 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. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessees. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. 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. A modified retrospective transition approach is required for lessors for sales-type, direct financing, 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. Customers is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall. The guidance in this ASU among other things, (1) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) 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, (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) 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, (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (7) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In November 2015, the FASB issued ASU 2015-17, Income Taxes. The amendments in this ASU, which will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards (IFRS), require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The amendments in this ASU apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU.

Table of Contents

For public business entities, the amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.
In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the guidance in this ASU eliminates the requirement to retrospectively account for those adjustments and requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance in this ASU was effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years and should be applied prospectively to adjustment to provisional amounts that occur after the effective date of this ASU. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.
In April 2015 and August 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements- Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, respectively. The guidance in these ASUs is intended to simplify presentation of debt issuance costs, and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability consistent with debt discounts and is applicable on a retrospective basis. The guidance in these ASUs was effective for interim and annual periods beginning after December 15, 2015. The adoption of these ASUs on January 1, 2016 resulted in a reclassification adjustment, which reduced "Other borrowings" by $1.8 million and "Subordinated debt" by $1.3 million with corresponding decrease in "Other assets" of $3.1 million as of December 31, 2015.
In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. The guidance in this ASU is intended to amend the update, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this ASU affect the following areas:
1. Limited partnerships and similar legal entities.
2. Evaluating fees paid to a decision maker or a service provider as a variable interest.
3. The effect of fee arrangements on the primary beneficiary determination.
4. The effect of related parties on the primary beneficiary determination.
5. Certain investment funds.

The guidance in this ASU was effective for annual and interim periods beginning after December 15, 2015. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.
In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The guidance in this ASU was issued as part of the FASB's initiative to reduce complexity in accounting standards and eliminates from GAAP the concept of extraordinary items. The guidance in this ASU was effective in the first quarter 2016. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.
In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging : Determining Whether the Host contract in a Hybrid Financial Instrument in the Form of a Share is More Akin to Debt or to Equity. The guidance in this ASU requires entities that issue or invest in a hybrid financial instrument to separate an embedded derivative feature from a host contract and account for the feature as a derivative. In the case of derivatives embedded in a hybrid financial instrument that is issued in the form of a share, that criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. If the host contract is akin to equity, then equity-like features (for example, a conversion option) are considered clearly and closely related to the host contract and, thus, would not be separated from the host contract. If the host contract is akin to debt, then equity-like features are not considered clearly and closely related to the host contract. In the latter case, an entity may be required to separate the equity-like embedded derivative feature from the debt host contract if certain other criteria in Subtopic

815-15 are met. Similarly, debt-like embedded derivative features may require separate accounting from an equity-like host contract. The guidance in this ASU was effective in first quarter 2016. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-13, Consolidation: Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The guidance in this ASU applies to a reporting entity that is required to

Table of Contents

consolidate a collateralized financing entity under the Variable Interest Entities guidance when: (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Codification Topics; and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance in this ASU was effective in first quarter 2016. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation. The guidance in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite period, the remaining unrecognized cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The guidance in this ASU was effective in first quarter 2016. The adoption of this ASU did not have an impact on Customers' financial condition or results of operations.

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

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Customers does not expect this ASU to have a significant impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-08—Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net). While the ASU does not change the core provisions of Topic 606, it clarifies the implementation guidance on principal versus agent considerations. Namely, the ASU clarifies and offers guidance to help determine when the reporting entity is providing goods or services to a customer itself (i.e. the entity is a principal), or merely arranging for that good or service to be provided by the other party (i.e. the reporting entity is an agent). If the entity is a principal, it recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When the reporting entity is an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party.

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist in determining whether the Control criteria are met. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified

goods or services and an agent for others. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

In March 2016, the FASB issued ASU No. 2016-10—Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing. This ASU clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The ASU includes targeted improvements based on input the Board received from the Transition Resource Group for Revenue Recognition and other stakeholders. The ASU seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and

Table of Contents

complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers, which will be effective for fiscal years beginning after December 31, 2016 for public entities. The effective date and transition requirements for the amendments in this Update are the same as those in Update 2014-09. Customers does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

NOTE 4 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT (1)

The following tables present the changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016				
	Available-for-sale-securities				
(amounts in thousands)	Unrealized Gains (Losses)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Loss on Cash Flow Hedge	Total
Balance - December 31, 2015	$(4,602)	$ (584)	$ (5,186)	$ (2,798)	$(7,984)
Other comprehensive income (loss) before reclassifications	4,255	37	4,292	(1,625)	2,667
Amounts reclassified from accumulated other comprehensive loss to net income (2)	(16)	—	(16)	—	(16)
Net current-period other comprehensive income (loss)	4,239	37	4,276	(1,625)	2,651
Balance - March 31, 2016	$(363)	$ (547)	$ (910)	$ (4,423)	$(5,333)

	Three Months Ended March 31, 2015				
	Available-for-sale-securities				
(amounts in thousands)	Unrealized Gains (Losses) (2)	Foreign Currency Items	Total Unrealized Gains (Losses)	Unrealized Loss on Cash Flow Hedge	Total
Balance - December 31, 2014	$1,156	$ (14)	$ 1,142	$ (1,264)	$(122)
Other comprehensive income (loss) before reclassifications	121	122	243	(1,168)	(925)
Amounts reclassified from accumulated other comprehensive loss to net income (2)	—	—	—	—	—
Net current-period other comprehensive income (loss)	121	122	243	(1,168)	(925)
Balance - March 31, 2015	$1,277	$ 108	$ 1,385	$ (2,432)	$(1,047)

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

(2) Reclassification amounts are reported as "Gain on sale of investment securities" on the Consolidated Statements of Income.

Table of Contents

NOTE 5 — EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2016	2015
(amounts in thousands, except share and per share data)		
Net income available to common shareholders	$16,413	$ 13,952
Weighted-average number of common shares outstanding - basic	26,945,062	26,777,389
Share-based compensation plans	1,530,409	1,276,340
Warrants	307,630	284,074
Weighted-average number of common shares - diluted	28,783,101	28,337,803
Basic earnings per common share	$0.61	$ 0.52
Diluted earnings per common share	$0.57	$ 0.49

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

	Three Months Ended March 31,	
	2016	2015
Anti-dilutive securities:		
Share-based compensation awards	606,995	18,683
Warrants	52,242	52,242
Total anti-dilutive securities	659,237	70,925

NOTE 6 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of March 31, 2016 and December 31, 2015 are summarized in the tables below:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Agency-guaranteed residential mortgage-backed securities	$285,259	$ 2,359	$ (1,329)	$286,289
Agency-guaranteed commercial real estate mortgage-backed securities	204,921	2,485	(9)	207,397
Corporate notes (1)	44,927	303	(209)	45,021
Equity securities (2)	22,514	—	(5,056)	17,458
	$557,621	$ 5,147	$ (6,603)	$556,165

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

(2) Consists primarily of equity securities issued by a foreign entity.

Table of Contents

	December 31, 2015			
(amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
Agency-guaranteed residential mortgage-backed securities	$299,392	$ 1,453	$(2,741)	$298,104
Agency-guaranteed commercial real estate mortgage-backed securities	206,719	—	(3,849)	202,870
Corporate notes (1)	39,925	320	(178)	40,067
Equity securities (2)	22,514	—	(3,302)	19,212
	$568,550	$ 1,773	$(10,070)	$560,253

(1) Includes subordinated debt issued by other bank holding companies.
(2) Consists primarily of equity securities issued by a foreign entity.

The following table presents proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(amounts in thousands)	2016	2015
Proceeds from sale of available-for-sale securities	$2,848	$ —
Gross gains	$26	—
Gross losses	—	—
Net gains	$26	$ —

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

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

	March 31, 2016	
(amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	37,927	37,911
Due after ten years	7,000	7,110
Agency-guaranteed residential mortgage-backed securities	285,259	286,289
Agency-guaranteed commercial real estate mortgage-backed securities	204,921	207,397
Total debt securities	$535,107	$538,707

Table of Contents

Gross unrealized losses and fair value of Customers' investments aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
(amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Agency-guaranteed residential mortgage-backed securities	$13,858	$(23)	$56,604	$(1,306)	$70,462	$(1,329)
Agency-guaranteed commercial real estate mortgage-backed securities	20,954	(9)	—	—	20,954	(9)
Corporate notes (1)	18,718	(209)	—	—	18,718	(209)
Equity securities (2)	17,452	(5,055)	6	(1)	17,458	(5,056)
Total	$70,982	$(5,296)	$56,610	$(1,307)	$127,592	$(6,603)

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
(amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Agency-guaranteed residential mortgage-backed securities	$102,832	$(535)	$57,357	$(2,206)	160,189	$(2,741)
Agency-guaranteed commercial real estate mortgage-backed securities	202,870	(3,849)	—	—	202,870	(3,849)
Corporate notes (1)	9,748	(178)	—	—	9,748	(178)
Equity securities (2)	19,206	(3,301)	6	(1)	19,212	(3,302)
Total	$334,656	$(7,863)	$57,363	$(2,207)	$392,019	$(10,070)

(1) Includes subordinated debt issued by other bank holding companies.
(2) Consists primarily of equity securities in a foreign entity.

At March 31, 2016, there were eight available-for-sale investment securities in the less-than-twelve-month category and thirteen available-for-sale investment securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. All amounts are expected to be recovered when market prices recover or at maturity. The unrealized losses on the equity securities reflect decreases in market price and adverse changes in foreign currency exchange rates. Customers evaluated the financial condition and capital strength of the issuer of these securities and concluded that the decline in fair value was temporary and estimated the value could reasonably recover by way of increases in market price or positive changes in foreign currency exchange rates. Customers intends to hold these securities for the foreseeable future and does not intend to sell the securities before the price recovers. Customers considers it more likely than not that it will not be required to sell the securities. Accordingly, Customers concluded that the securities are not other-than-temporarily impaired as of March 31, 2016.

At March 31, 2016 and December 31, 2015, Customers Bank had pledged investment securities aggregating $286.3 million and $299.8 million fair value, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

16

Table of Contents

NOTE 7 – LOANS HELD FOR SALE

The composition of loans held for sale as of March 31, 2016 and December 31, 2015 was as follows:

(amounts in thousands)	March 31, 2016	December 31, 2015
Commercial loans:		
Mortgage warehouse loans at fair value	$1,940,558	$1,754,950
Multi-family loans at lower of cost or fair value	27,678	39,257
Commercial loans held for sale	1,968,236	1,794,207
Consumer loans:		
Residential mortgage loans at fair value	1,044	2,857
Loans held for sale	$1,969,280	$1,797,064

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

Table of Contents

NOTE 8 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of March 31, 2016 and December 31, 2015:

(amounts in thousands)	March 31, 2016	December 31, 2015
Commercial:		
Multi-family	$3,210,177	$2,909,439
Commercial and industrial (including owner occupied commercial real estate)	1,160,389	1,111,400
Commercial real estate non-owner occupied	1,052,162	956,255
Construction	103,061	87,240
Total commercial loans	5,525,789	5,064,334
Consumer:		
Residential real estate	267,031	271,613
Manufactured housing	110,830	113,490
Other	3,474	3,708
Total consumer loans	381,335	388,811
Total loans receivable	5,907,124	5,453,145
Deferred costs and unamortized premiums, net	191	334
Allowance for loan losses	(37,605)	(35,647)
Loans receivable, net of allowance for loan losses	$5,869,710	$5,417,832

Table of Contents

The following tables summarize loans receivable by loan type and performance status as of March 31, 2016 and December 31, 2015:

	March 31, 2016						
(amounts in thousands)	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit-Impaired Loans (3)	Total Loans (4)
Multi-family	$—	$ —	$ —	$—	$3,206,569	$ 3,608	$3,210,177
Commercial and industrial	4	—	4	6,035	841,166	1,470	848,675
Commercial real estate - owner occupied	—	—	—	2,689	296,285	12,740	311,714
Commercial real estate - non-owner occupied	—	—	—	2,610	1,037,684	11,868	1,052,162
Construction	—	—	—	—	102,827	234	103,061
Residential real estate	3,487	—	3,487	2,325	253,006	8,213	267,031
Manufactured housing (5)	3,296	2,292	5,588	2,356	99,572	3,314	110,830
Other consumer	20	—	20	99	3,127	228	3,474
Total	$6,807	$ 2,292	$ 9,099	$16,114	$5,840,236	$ 41,675	$5,907,124

	December 31, 2015						
(amounts in thousands)	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non-Accrual	Current (2)	Purchased-Credit-Impaired Loans (3)	Total Loans (4)
Multi-family	$—	$ —	$ —	$—	$2,905,789	$ 3,650	$2,909,439
Commercial and industrial	39	—	39	1,973	799,595	1,552	803,159
Commercial real estate - owner occupied	268	—	268	2,700	292,312	12,961	308,241
Commercial real estate - non-owner occupied	1,997	—	1,997	1,307	940,895	12,056	956,255
Construction	—	—	—	—	87,006	234	87,240
Residential real estate	2,986	—	2,986	2,202	257,984	8,441	271,613
Manufactured housing (5)	3,752	2,805	6,557	2,449	101,132	3,352	113,490
Other consumer	107	—	107	140	3,227	234	3,708
Total	$9,149	$ 2,805	$ 11,954	$10,771	$5,387,940	$ 42,480	$5,453,145

(1) Includes past due loans that are accruing interest because collection is considered probable.
(2) Loans where next payment due is less than 30 days from the report date.
(3) Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing. Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.
(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.
(5) Manufactured housing loans purchased in 2010 are subject to cash reserves held at the Bank that are used to fund past-due payments when the loan becomes 90 days or more delinquent. Subsequent purchases are subject to

varying provisions in the event of borrowers' delinquencies.

As of March 31, 2016 and December 31, 2015, the Bank had $1.2 million and $1.2 million, respectively, of residential real estate held in other real estate owned. As of March 31, 2016 and December 31, 2015, the Bank had initiated foreclosure proceedings on $0.9 million and $0.6 million, respectively, on loans secured by residential real estate.

Table of Contents

Allowance for loan losses

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

The changes in the allowance for loan losses for the three months ended March 31, 2016 and 2015 and the loans and allowance for loan losses by loan class based on impairment evaluation method as of March 31, 2016 and December 31, 2015 are as follows. The amounts presented for the provision for loan losses below do not include the effect of changes to estimated benefits resulting from the FDIC loss share arrangements for the covered loans.

Three Months Ended March 31, 2016	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
(amounts in thousands)									
Ending Balance, December 31, 2015	$12,016	$8,864	$1,348	$8,420	$1,074	$3,298	$494	$133	$35,647
Charge-offs	—	—	—	—	—	—	—	(42)	(42)
Recoveries	—	56	—	8	433	—	—	—	497
Provision for loan losses	119	1,039	62	120	(243)	378	(26)	54	1,503
Ending Balance, March 31, 2016	$12,135	$9,959	$1,410	$8,548	$1,264	$3,676	$468	$145	$37,605
As of March 31, 2016									
Loans:									
Individually evaluated for impairment	$393	$27,286	$9,936	$4,624	$—	$4,843	$8,898	$98	$56,078
Collectively evaluated for impairment	3,206,176	819,919	289,038	1,035,670	102,827	253,975	98,618	3,148	5,809,371
Loans acquired with credit deterioration	3,608	1,470	12,740	11,868	234	8,213	3,314	228	41,675
	$3,210,177	$848,675	$311,714	$1,052,162	$103,061	$267,031	$110,830	$3,474	$5,907,124
Allowance for loan losses:									
	$209	$2,834	$1	$135	$—	$445	$—	$46	$3,670

Individually evaluated for impairment									
Collectively evaluated for impairment	11,926	6,906	1,409	4,229	1,264	2,193	97	43	28,067
Loans acquired with credit deterioration	—	219	—	4,184	—	1,038	371	56	5,868
	$12,135	$9,959	$1,410	$8,548	$1,264	$3,676	$468	$145	$37,605

20

Table of Contents

Three Months Ended March 31, 2015	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
(amounts in thousands)									
Ending Balance, December 31, 2014	$8,493	$4,784	$4,336	$9,198	$1,047	$2,698	$262	$114	$30,932
Charge-offs	—	(21)	—	(318)	(769)	—	—	(36)	(1,144)
Recoveries	—	22	14	9	15	—	—	83	143
Provision for loan losses	(297)	1,962	233	849	559	297	84	(52)	3,635
Ending Balance, March 31, 2015	$8,196	$6,747	$4,583	$9,738	$852	$2,995	$346	$109	$33,566
As of December 31, 2015									
Loans:									
Individually evaluated for impairment	$661	$17,621	$8,329	$4,831	$—	$4,726	$8,300	$140	$44,608
Collectively evaluated for impairment	2,905,128	783,986	286,951	939,368	87,006	258,446	101,838	3,334	5,366,057
Loans acquired with credit deterioration	3,650	1,552	12,961	12,056	234	8,441	3,352	234	42,480
	$2,909,439	$803,159	$308,241	$956,255	$87,240	$271,613	$113,490	$3,708	$5,453,145
Allowance for loan losses:									
Individually evaluated for impairment	$—	$1,990	$1	$148	$—	$84	$—	$50	$2,273
Collectively evaluated for impairment	12,016	6,650	1,347	3,858	1,074	2,141	98	28	27,212
Loans acquired with credit deterioration	—	224	—	4,414	—	1,073	396	55	6,162
	$12,016	$8,864	$1,348	$8,420	$1,074	$3,298	$494	$133	$35,647

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 March 31, 2016 and December 31, 2015, funds available for reimbursement, if necessary, were $1.4 million and $1.2 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

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 loans that are individually evaluated for impairment as of March 31, 2016 and December 31, 2015 and the average recorded investment and interest income recognized for the three months ended March 31, 2016 and 2015. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	March 31, 2016			Three Months Ended March 31, 2016	
(amounts in thousands)	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Multi-family	$—	$—	$ —	$331	$ —
Commercial and industrial	18,950	19,921	—	15,503	187
Commercial real estate owner occupied	9,924	9,924	—	9,121	94
Commercial real estate non-owner occupied	4,083	4,083	—	4,180	23
Construction	—	—	—	—	—
Other consumer	45	45	—	47	—
Residential real estate	4,154	4,154	—	4,243	24
Manufactured housing	8,898	8,898	—	8,599	109
With an allowance recorded:					
Multi-family	393	393	209	197	5
Commercial and industrial	8,336	8,685	2,834	6,951	71
Commercial real estate owner occupied	12	12	1	12	—
Commercial real estate non-owner occupied	541	541	135	548	2
Construction	—	—	—	—	—
Other consumer	53	53	46	73	—
Residential real estate	689	689	445	542	—
Total	$56,078	$57,398	$ 3,670	$50,347	$ 515

Table of Contents

	December 31, 2015			Three Months Ended March 31, 2015	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no related allowance recorded:					
Multi-family	$661	$661	$ —	$—	$ —
Commercial and industrial	12,056	13,028	—	10,374	164
Commercial real estate owner occupied	8,317	8,317	—	8,668	110
Commercial real estate non-owner occupied	4,276	4,276	—	6,587	83
Construction	—	—	—	2,325	—
Other consumer	48	48	—	21	—
Residential real estate	4,331	4,331	—	3,781	21
Manufactured housing	8,300	8,300	—	2,653	23
With an allowance recorded:					
Commercial and industrial	5,565	5,914	1,990	4,156	5
Commercial real estate - owner occupied	12	12	1	800	—
Commercial real estate non-owner occupied	555	555	148	610	—
Construction	—	—	—	—	—
Other consumer	92	92	50	84	1
Residential real estate	395	395	84	364	—
Total	$44,608	$45,929	$ 2,273	$40,423	$ 407

Troubled Debt Restructurings

At March 31, 2016 and December 31, 2015, there were $14.0 million and $11.4 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 six-month performance requirement; however, it will remain classified as impaired. Generally, the Bank requires sustained performance for nine months before returning a TDR to accrual status.

Modification of purchased-credit-impaired loans that are accounted for within loan pools in accordance with the accounting standards for purchased-credit-impaired loans do not result in the removal of these loans from the pool even if modifications would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, modifications of loans within such pools are not considered TDRs.

The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three months ended March 31, 2016 and 2015. There were no modifications that involved forgiveness of debt.

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Extensions of maturity	3	$ 1,995	—	$ —
Interest-rate reductions	23	864	3	405
Total	26	$ 2,859	3	$ 405

23

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 months ended March 31, 2016 and 2015.

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Commercial and industrial	1	$ 76	—	$ —
Commercial real estate non-owner occupied	1	1,844	—	—
Manufactured housing	23	864	2	207
Residential real estate	1	75	1	198
Total loans	26	$ 2,859	3	$ 405

At March 31, 2016 and December 31, 2015, there were no commitments to lend additional funds to debtors whose terms have been modified in TDRs.
As of March 31, 2016, thirty-six manufactured housing loans totaling $1.9 million, two commercial and industrial loans totaling $0.5 million, and one commercial real estate non-owner occupied loan totaling $0.2 million modified as TDRs within the past twelve months, defaulted on payments. As of March 31, 2015, six manufactured housing loans totaling $0.5 million were modified as TDRs within the last 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 were three specific allowances as a result of TDR modifications during the three months ended March 31, 2016, totaling $0.2 million for two commercial and industrial loans, and $0.1 million for one commercial real estate non-owner-occupied loan. There were zero specific allowances resulting from TDR modifications during the three months ended March 31, 2015.

Purchased Credit Impaired Loans
The changes in accretable yield related to purchased-credit-impaired loans for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
(amounts in thousands)		
Accretable yield balance, ending balance prior year	$12,947	$17,606
Accretion to interest income	(470)	(660)
Reclassification from nonaccretable difference and disposals, net	145	(1,522)
Accretable yield balance, end of period	$12,622	$15,424

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

reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC receivable balance (with a related charge to the provision for loan losses). Increases in expected cash flows on covered loans and decreases in expected cash flows from the FDIC loss sharing receivable, when there are no previously recorded impairments, are considered together and recognized over the remaining life of the loans as interest income. Decreases in the valuations of other real estate owned

Table of Contents

covered by the loss sharing agreements are recorded net of the estimated FDIC receivable as an increase to other real estate owned expense (a component of non-interest expense).
The FDIC loss sharing receivable balance will be reduced through a charge to the provision for loan losses, with no offsetting reduction to the allowance for loan losses, as the period to submit losses under the FDIC loss sharing arrangements approaches expiration and the estimated losses in the covered loans have not yet emerged or been realized in a final disposition event. The period to submit losses under the FDIC loss sharing arrangements for non-single family loans expired in third quarter 2015. The period to submit losses under the FDIC loss sharing arrangements for single family loans expires in third quarter 2017. The final maturity of the FDIC loss sharing arrangements occurs in third quarter 2020. As of March 31, 2016 and December 31, 2015, loans covered under loss sharing arrangements with the FDIC were $13.2 million and $13.8 million, respectively.

As part of the FDIC loss sharing arrangements, Customers also assumed a liability to be paid within 45 days days subsequent to the maturity or termination of the loss sharing arrangements that is contingent upon actual losses incurred over the life of the arrangements relative to expected losses and the consideration paid upon acquisition of the failed institutions ("the Clawback Liability"). Due to cash received on the covered assets in excess of the original expectations of the FDIC, the Bank anticipates that it will be required to pay the FDIC at the end of its loss sharing arrangements. As of March 31, 2016, a clawback liability of $2.4 million has been recorded. To the extent actual losses on the covered assets are less than estimated losses, the clawback liability will increase. To the extent actual losses on the covered assets are more than the estimated losses, the clawback liability will decrease.

As of March 31, 2016, the Bank expected to pay $0.1 million to the FDIC resulting from a recovery of previously reimbursed loss amounts, net of estimated losses and reimbursement of external costs, such as legal fees, real estate taxes and appraisal expenses, and estimated the clawback liability due to the FDIC in 2020 at $2.4 million. The net amount of $2.5 million is presented as the "Accrued interest payable and other liabilities" in the accompanying consolidated balance sheet.
The following table presents changes in the allowance for loan losses and the FDIC loss sharing receivable, including the effect of the estimated clawback liability for the three months ended March 31, 2016 and 2015.

	Allowance for Loan Losses Three Months Ended March 31,	
(amounts in thousands)	2016	2015
Ending balance, prior year	$ 35,647	$ 30,932
Provision for loan losses (1)	1,503	3,635
Charge-offs	(42)	(1,144)
Recoveries	497	143
Ending balance	$ 37,605	$ 33,566

	FDIC Loss Sharing Receivable/ Clawback Liability Three Months Ended March 31,	
(amounts in thousands)	2016	2015
Ending balance, prior year	$ (2,083)	$ 2,320
Increased (decreased) estimated cash flows (2)	(477)	671
Other activity, net (a)	(304)	134
Cash payments to the FDIC	320	302
Ending balance	$ (2,544)	$ 3,427
(1) Provision for loan losses	$ 1,503	$ 3,635
(2) Effect attributable to FDIC loss share arrangements	477	(671)

Net amount reported as provision for loan losses	$ 1,980	$ 2,964

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

25

Table of Contents

Credit Quality Indicators

Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate, construction, and residential real estate 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. Manufactured housing and other consumer loans are evaluated based on the payment activity of the loan and individual loans are not assigned an internal risk rating unless delinquent.

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

The risk rating grades are defined as follows:

“1” – Pass/Excellent

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

“2” – Pass/Superior

Loans rated 2 are those for which the borrower has a strong financial condition, balance sheet, operations, cash flow, debt capacity and coverage with ratios better than industry norms. The borrowers of these loans exhibit a limited leverage position, are virtually immune to local economies, 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; have little industry risk; move in diversified markets; and are experienced and competent in their industry. These borrowers’ access to capital markets is limited mostly to private sources, often secured, but the borrower typically has access to a wide range of refinancing alternatives.

“4” – Pass/Good

Loans rated 4 have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher grade borrower. These loans carry a normal level of risk, with very low loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the higher quality loans.

“5” – Satisfactory

Loans rated 5 are extended to borrowers who are determined to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower’s historical financial information may indicate erratic performance, but current trends are positive and the quality of

Table of Contents

financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.

"6" – Satisfactory/Bankable with Care

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

"7" – Special Mention

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

"8" – Substandard

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

"9" – Doubtful

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

"10" – Loss

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

Risk ratings are not established for certain consumer loans, including 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 the loans receivable portfolio as of March 31, 2016 and December 31, 2015.

	March 31, 2016								
	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
(amounts in thousands)									
Pass/Satisfactory	$3,208,368	$820,836	$299,042	$1,047,331	$103,061	$263,517	$—	$—	$5,742,155
Special Mention	393	19,911	8,059	2,053	—	280	—	—	30,696
Substandard	1,416	7,928	4,613	2,778	—	3,234	—	—	19,969
Performing (1)	—	—	—	—	—	—	102,886	3,355	106,241
Non-performing (2)	—	—	—	—	—	—	7,944	119	8,063
Total	$3,210,177	$848,675	$311,714	$1,052,162	$103,061	$267,031	$110,830	$3,474	$5,907,124

	December 31, 2015								
	Multi-family	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
(amounts in thousands)									
Pass/Satisfactory	$2,907,362	$784,892	$295,762	$950,886	$87,240	$268,210	$—	$—	$5,294,352
Special Mention	661	14,052	7,840	1,671	—	282	—	—	24,506
Substandard	1,416	4,215	4,639	3,698	—	3,121	—	—	17,089
Performing (1)	—	—	—	—	—	—	104,484	3,461	107,945
Non-performing (2)	—	—	—	—	—	—	9,006	247	9,253
Total	$2,909,439	$803,159	$308,241	$956,255	$87,240	$271,613	$113,490	$3,708	$5,453,145

(1) Includes consumer and other installment loans not subject to risk ratings.
(2) Includes loans that are past due and still accruing interest and loans on nonaccrual status.

Table of Contents

NOTE 9 - SHAREHOLDERS’ EQUITY

On January 29, 2016, Customers Bancorp issued 1,000,000 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D (the "Series D Preferred Stock") at a price of $25.00 per share in a public offering. Dividends on the Series D Preferred Stock will accrue and be payable quarterly in arrears, at a fixed rate per annum equal to 6.50% from the original issue date to, but excluding, March 15, 2021, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.09% per annum.

Customers received net proceeds after expenses of $24.1 million from the offering, after deducting offering costs. The net proceeds will be used for general corporate purposes, which may include working capital and the funding of organic growth at Customers Bank.

On May 18, 2015, Customers Bancorp issued 2,300,000 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, (the "Series C Preferred Stock") par value $1.00 per share, with a liquidation preference of $25.00 per share. Customers Bancorp will pay dividends on the Series C Preferred Stock only when, as, and if declared by the board of directors or a duly authorized committee of the board and to the extent that it has lawfully available funds to pay dividends. Dividends on the Series C Preferred Stock will accrue and be payable quarterly in arrears, on the 15th day of March, June, September, and December of each year, commencing on September 15, 2015, at a fixed rate per annum equal to 7.00% from the original issue date to, but excluding, June 15, 2020, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.30% per annum.

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

The Series C and Series D Preferred Stock have no stated maturity, are not subject to any mandatory redemption, sinking fund or other similar provisions and will remain outstanding unless redeemed at Customers Bancorp's option. Customers Bancorp may redeem the Series C and Series D Preferred Stock at its option, at a redemption price equal to $25.00 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), (i) in whole or in part, from time to time, on any dividend payment date on or after June 15, 2020 for Series C Preferred Stock and May 15, 2021 for Series D Preferred Stock or (ii) in whole but not in part, within 90 days following the occurrence of a regulatory capital treatment event. Any redemption of the Series C and Series D Preferred Stock are subject to prior approval of the Board of Governors of the Federal Reserve System. The Series C and Series D Preferred Stock qualify as Tier 1 capital under regulatory capital guidelines. Except in limited circumstances, the Series C and Series D Preferred Stock do not have any voting rights.

On March 15, 2016, Customers paid a quarterly cash dividend on its Series C Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock of $0.4375 per share to shareholders of record on February 29, 2016.

On March 15, 2016, Customers also paid a quarterly cash dividend on its Series D Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock of $0.2076 per share to shareholders of record on February 29, 2016.

Table of Contents

NOTE 10 — SHARE-BASED COMPENSATION

Stock Options

The following table summarizes stock option activity for the three months ended March 31, 2016.

(amounts in thousands, except Weighted-average exercise price)	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2015	3,731,761	$ 14.33		
Granted	10,000	26.55		
Exercised	(31,169)	10.76		394
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2016	3,710,592	$ 14.40	6.55	$ 34,290
Exercisable at March 31, 2016	905,561	$ 9.57	4.30	$ 12,731

Cash received from the exercise of options during the three months ended March 31, 2016 was $0.3 million with a related tax benefit of $0.1 million.

Restricted Stock Units

There were 149,706 restricted stock units granted during the three months ended March 31, 2016. Of the aggregate restricted stock units granted, 86,654 were granted under the Bonus Recognition and Retention Program and are subject to five-year cliff vesting. The remaining units were granted under the Bancorp's Restated and Amended 2004 Incentive Equity and Deferred Compensation Plan and are subject to either a three-year waterfall vesting with one third of the amount vesting annually or a three-year cliff vesting. The following table summarizes restricted stock unit activity for the three months ended March 31, 2016.

	Restricted Stock Units	Weighted-average Grant-date Fair Value
Outstanding and unvested at December 31, 2015	873,264	$ 14.24
Granted	149,706	22.96
Vested	(97,298)	14.78
Forfeited	(198)	17.65
Outstanding and unvested at March 31, 2016	925,474	$ 15.59

Total share-based compensation expense for the three months ended March 31, 2016 and 2015 was $1.4 million and $1.2 million, respectively.

Customers Bancorp has a policy that permits its directors to elect to receive shares of voting common stock in lieu of their cash retainers. During the three months ended March 31, 2016, Customers Bancorp issued 11,068 shares of voting common stock with a fair value of $0.3 million to directors as compensation for their services during the first three months of 2016. The fair values were determined based on the opening price of the common stock on the day the shares were issued.

Table of Contents

NOTE 11 — 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 Bancorp must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under the regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity, total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (as defined in the regulations). At March 31, 2016 and December 31, 2015, the Bank and Bancorp met all capital adequacy requirements to which they were subject.

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

Table of Contents

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