Customers Bancorp, Inc.
Form 10-K
March 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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)	(I.R.S. Employer Identification Number)

1015 Penn Avenue
Suite 103
Wyomissing PA 19610
(Address of principal executive offices)
(610) 933-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Voting Common Stock, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, par value $1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 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 and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	x	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 Act). Yes ¨ No x
The aggregate market value of common stock held by non-affiliates of the registrant was approximately $833,232,801 as of June 30, 2018, based upon the closing price quoted on the New York Stock Exchange for such date. Shares of common stock held by each executive officer and director have been excluded because such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.
On February 22, 2019, 31,080,573 shares of common stock were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement to be delivered to shareholders in connection with the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, as well as other written or oral communications made from time to time by us, contains 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 this Annual Report on 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. Our actual results may differ materially from those reflected in the forward-looking statements.

In addition to the risks described in the “Risk Factors” section of this Annual Report on Form 10-K and the other reports we file with the SEC, important factors to consider and evaluate with respect to such forward-looking statements include:

- Changes in external competitive market factors that might impact our results of operations;
- Changes in laws and regulations, including without limitation changes in capital requirements under Basel III;
- Changes in our business strategy or an inability to execute our strategy due to the occurrence of unanticipated events;
- Local, regional and national economic conditions and events, including real estate values, and the impact they may have on us and our customers;
- Costs and effects of regulatory and legal developments, including official and unofficial interpretations by regulatory agencies of laws and regulations, the results of regulatory examinations and the outcome of regulatory or other governmental inquiries and proceedings, such as fines or restrictions on our business activities;
- Our ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Our ability to access the capital markets to fund our operations and future growth;
- Changes in the level of non-performing and classified assets and charge-offs;
- Changes in estimates of future loan loss reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- Inflation, interest rate, securities market and monetary fluctuations;
- Timely development and acceptance of new banking products and services and perceived overall value of these products and services by users, including the products and services being developed and introduced to the market by the BankMobile division of Customers Bank;
- Changes in consumer spending, borrowing and saving habits;
- Technological changes;
- Significant disruption in the technology platforms on which we rely, including security failures, cyberattacks or other breaches of our systems or those of our customers, partners or service providers;
- Continued volatility in the credit and equity markets and its effect on the general economy;
- Effects of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- Our ability to identify potential candidates for, and consummate, acquisition or investment transactions;
- The timing of acquisition, investment, or disposition transactions;
-

Constraints on our ability to consummate an attractive acquisition or investment transaction because of significant competition for these opportunities;

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- The businesses of Customers Bank and any acquisition targets or merger partners and subsidiaries not integrating successfully or such integration being more difficult, time-consuming or costly than expected;
- Material differences in the actual financial results of merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame;
- Our ability to successfully implement our growth strategy, increase market share, control expenses and maintain liquidity;
- Customers Bank's ability to pay dividends to Customers Bancorp;
- Risks relating to BankMobile, including:

The possibility that the expected benefits of retaining BankMobile for 2 - 3 years may not be achieved;
Material variances in the adoption rate of BankMobile's services by new students and/or the usage rate of BankMobile's services by current student customers compared to our expectations;
The levels of usage of other BankMobile student customers following graduation of additional product and service offerings of BankMobile or Customers Bank, including mortgages and consumer loans, and the mix of products and services used;
Our ability to implement changes to BankMobile's product and service offerings under current and future regulations and governmental policies;
Our ability to effectively manage revenue and expense fluctuations that may occur with respect to BankMobile's student-oriented business activities, which result from seasonal factors related to the higher-education academic year;
BankMobile's ability to successfully implement its growth strategy, including the successful national launch of its existing white label deposit partnership and the development of other white label relationships, and control expenses.

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.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list of abbreviations and acronyms may be used throughout this Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements.

2004 Plan	2012 Amendment and Restatement of the Customers Bancorp, Inc. Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan
2010 Plan	2010 Stock Option Plan
ASC	Accountings Standards Codification
ALL	Allowance for loan losses
AOCI	Accumulated other comprehensive income
ASU	Accounting Standards Update
ATM	Automated teller machine
Bancorp	Customers Bancorp, Inc.
Bank	Customers Bank
BDO	BDO USA, LLP
BHCA	Bank Holding Company Act of 1956, as amended
BOLI	Bank-owned life insurance
BRRP	Bonus Recognition and Retention Program
CECL	Current expected credit loss
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	Consumer Financial Protection Bureau
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRA	Community Reinvestment Act
CUBI	Symbol for Customers Bancorp, Inc. common stock traded on the NYSE
Customers	Customers Bancorp, Inc. and Customers Bank, collectively
Customers Bancorp	Customers Bancorp, Inc.
Department	Pennsylvania Department of Banking and Securities
DIF	Deposit Insurance Fund
DOE	United States Department of Education
EGRRCPA	The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018
EPS	Earnings per share
ESPP	Employee Stock Purchase Plan
EVE	Economic value of equity
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
Federal Reserve Board	Board of Governors of the Federal Reserve System
FERPA	Family Educational Rights and Privacy Act of 1975
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FPRD	Final Program Review Determination
FRB	Federal Reserve Bank of Philadelphia
FTC Act	Federal Trade Commission Act
GDP	Gross domestic product
GLBA	Gramm-Leach-Bliley Act of 1999
HTM	Held to maturity

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IRS	Internal Revenue Service
Legacy Loans	Total 2009 and prior loans
LIBOR	London Interbank Offered Rate
LIHTC	Low Income House Tax Credit
LPO	Limited Purpose Office
MMDA	Money market deposit accounts
Non-QM	Non-qualified mortgage
NPA	Non-performing asset
NPL	Non-performing loan
NPRM	Notice of Proposed Rulemaking
NYSE	New York Stock Exchange
OCC	Office of the Comptroller of the Currency
OCI	Other comprehensive income
OFAC	Office of Foreign Assets Control
OIS	Overnight index swap
Order	Federal Deposit Insurance Act, as amended
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PATRIOT Act	Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
PCAOB	Public Accounting Oversight Board (United States)
PCI	Purchased Credit-Impaired
ROU	Right-of-use
SAB	Staff Accounting Bulletin
SAG	Special Assets Group
Sales Agreement	At Market Issuance Sales Agreement between Customers Bancorp and FBR Capital Markets & Co., Keefe, Bruyette & Woods, Inc. and Maxim Group LLC
SBA	Small Business Administration
SBA loans	Loans originated pursuant to the rules and regulations of the SBA
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Series C Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, series C
Series D Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, series D
Series E Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, series E
Series F Preferred Stock	Fixed-to-floating rate non-cumulative perpetual preferred stock, series F
SERP	Supplemental Executive Retirement Plan
SOFR	Secured overnight financing rate
Tax Act	2017 Tax Cuts and Jobs Act
TDR	Troubled debt restructuring
UDAAP	Unfair, Deceptive or Abusive Acts and Practices
U.S. GAAP	Accounting principles generally accepted in the United States of America
VA	Department of Veterans Affairs

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

PART I

Item 1. 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 (“Customers Bank” or the “Bank”), collectively referred to as "Customers" herein. Customers Bank is principally a commercial bank that has a branch-light strategy that serves its customers through a single-point-of-contact private banking strategy. In addition, Customers Bank has BankMobile, a division of Customers Bank, which offers state-of-the-art high-tech digital banking services to consumers, students and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners.

Business Summary

Customers Bancorp, through its wholly owned subsidiary Customers Bank, provides financial products and services to small and middle market businesses, not-for-profits, and consumers through its branches and offices 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. Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its loans to mortgage banking businesses. At December 31, 2018, Customers had total assets of $9.8 billion, including loans, net of the allowance for loan losses (including loans held for sale and loans receivable, mortgage warehouse, at fair value) of $8.5 billion, total deposits of $7.1 billion and shareholders’ equity of $1.0 billion.

Customers differentiates itself through its unique single-point-of-contact business strategy executed by very experienced management teams. Customers' strategic plan is to become a leading regional bank holding company through organic core loan and deposit growth and value-added acquisitions. Customers differentiates itself from its competitors through its focus on exceptional customer service supported by state-of-the-art technology. The primary customers of Customers Bank are privately held businesses, business customers, not-for-profit organizations and consumers. Customers Bank also focuses on certain low-cost specialty lending areas such as multi-family/commercial real estate lending and lending to commercial mortgage banking businesses. Customers Bank’s lending activities are funded in part by deposits from its branch-light business model, which seeks higher deposit levels per branch than a typical bank, combined with lower branch operating expenses, without sacrificing exceptional customer service and its digital bank deposit offerings. Customers also creates franchise value through its disciplined approach to acquisitions, both in terms of identifying targets and structuring transactions. Enterprise risk management is an important part of the strategies Customers employs.

Customers launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smart phone delivery channel. BankMobile refers to Customers' efforts to build a full-service bank that is accessible to our customers anywhere and anytime through the customer's smartphone or other web-enabled device. As part of the BankMobile strategic initiative, on June 15, 2016, Customers completed the acquisition of substantially all the assets and the assumption of certain liabilities of the OneAccount Student Checking and Refund Management Disbursement Services business from Higher One. Higher One was acquired by a subsidiary of Blackboard, Inc. in third quarter 2016, and we continue to refer to that combined business as “Higher One” throughout this document. BankMobile, including the Disbursement business, provides a nationwide deposit-aggregation platform. BankMobile focuses on the aggregation of low-cost deposits and currently offers no or low-fee banking, higher than average interest rates on savings and access to over 55,000 ATMs across the U.S. Customers believes that consolidating BankMobile with the Disbursement business uniquely positions it to become the graduating students' "bank for life" and service each graduate's financial needs throughout their life. BankMobile's revenues are largely derived from interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue. It is BankMobile's strategy to disrupt traditional banks' retail branch customer service delivery model and become the bank of choice for life of college students and middle-income and under-banked Americans using its low-cost digital delivery platform and superior deposit products, serve as a white label deposit partner to large companies, and disrupt payday lenders and high-cost check lenders by making low-cost quality banking services available to key under-banked markets. BankMobile has focused on the development of its "Banking as a Service" model, including research and development, and technology and product development for its white label partner. BankMobile has obtained and is applying for patents and copyrights to protect key elements of its products and delivery methods. This intellectual property will allow BankMobile to continue to differentiate its business from potential competitors.

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The management team of Customers consists of experienced banking executives led by its Chairman and CEO, Jay Sidhu, who joined Customers in June 2009. Mr. Sidhu brings over 40 years of banking experience, including 20 years as the CEO and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team have experience working together at Sovereign with Mr. Sidhu. Many other team members who have joined Customers' management team have significant experience helping build and lead other banking organizations. Combined, the Customers management team has significant experience in building a banking organization, completing and integrating mergers and acquisitions and developing valuable community and business relationships in its core markets.

Background and History

Customers Bancorp was incorporated in Pennsylvania in April 2010 to facilitate a reorganization into a bank holding company structure pursuant to which Customers Bank became a wholly owned subsidiary of Customers Bancorp (the “Reorganization”) on September 17, 2011. Customers Bancorp’s corporate headquarters are located at 1015 Penn Avenue, Wyomissing, Pennsylvania 19610. The main telephone number is (610) 933-2000.

The deposits of Customers Bank are insured by the FDIC. Customers Bank’s home office is located at 99 Bridge Street, Phoenixville, Pennsylvania 19460. The main telephone number is (610) 933-2000. BankMobile is a division of Customers Bank, first marketing its deposit products beginning in January 2015. As a division of Customers Bank, BankMobile's deposits are also insured by the FDIC.

Executive Summary

Customers' Markets

Market Criteria

Customers looks to grow organically as well as through selective acquisitions in its current and prospective markets. Customers believes that there is significant opportunity to both enhance its presence in its current markets and enter new complementary markets that meet its objectives. Customers focuses on markets that it believes are characterized by some or all of the following:

- Population density;
- Concentration of business activity;
- Attractive deposit bases;
- Significant market share held by large banks;
- Advantageous competitive landscape that provides opportunity to achieve meaningful market presence;
- Lack of consolidation in the banking sector and corresponding opportunities for add-on transactions;
- Potential for economic growth over time; and
- Management experience in the applicable markets.

BankMobile products are delivered to customers nationwide via its digital delivery channels, such as a smartphone or other web-enable device. The BankMobile business is currently focused on millennials, now the largest generation in the United States, developing white label relationships with large companies that wish to expand their relationships with their retail customers and employees and the under-banked who can utilize a low-cost banking services provider. As a general retail deposit product and related services provider, the BankMobile segment does not have a dependency on a particular customer, but is focused on providing deposit services to college students who receive federal government loans or grants and to customers of its white label partners. BankMobile currently provides deposit products and services to students on over 700 college and university campuses. Besides the student disbursements, BankMobile has focused on the development of its "Banking as a Service" model. In late November 2018, BankMobile's first white label banking partnership went live in beta test phase, offering BankMobile's best in class banking products to the partner's broad customer base.

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Current Markets

Customers' target market is broadly defined as extending from the Greater Washington, D.C. area to Boston, Massachusetts roughly following Interstate 95. As of December 31, 2018, Customers had bank branches or LPOs serving residents and businesses in the following locations:

Market	Offices	Type
Berks County, PA	4	Branch
Boston, MA	1	LPO
Mercer County, NJ	1	Branch/LPO
New York, NY	1	LPO
Philadelphia-Southeastern, PA	9	Branch/LPO
Portsmouth, NH	1	LPO
Providence, RI	1	LPO
Suffolk County, NY	1	LPO
Westchester County, NY	1	Branch/LPO
Chicago, IL	1	LPO
Washington, D.C.	1	LPO

Customers believes its target market has highly attractive demographic, economic and competitive dynamics that are consistent with its objectives and favorable to executing its organic core loan and deposit growth and acquisition strategies.

The BankMobile suite of deposit products and services is provided nationally through digital delivery channels, such as a smartphone or other web-enabled device. The BankMobile deposit products and services are available nationwide throughout the United States. Customers believes that digital delivery without geographic limitations is the future of retail banking.

Prospective Markets

The organic core loan and deposit growth strategy of Customers focuses on expanding market share in its existing and contiguous markets by generating deposits, loan and fee-based services through its Concierge Banking® high-touch single-point-of-contact personalized service supported by state-of-the-art technology for its commercial, consumer, not-for-profit and specialized lending markets. While Customers has not acquired any banks since 2011, its bank acquisition strategy is focused where such acquisitions further Customers' objectives and meet its critical success factors. Customers will also consider other acquisitions that will contribute to its banking business. As Customers evaluates potential acquisition and asset purchase opportunities, it believes that there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the regulatory burden. The BankMobile suite of deposit products and services is delivered through digital delivery channels, such as a smartphone or other web-enabled device across the United States. As such, the product does not have geographic limitations. Currently, BankMobile is focused on the market for deposits but is continuing the development of loan products and relationships with market place lenders that will facilitate competing in loan markets, either as a direct lender or referral to other lenders.

Competitive Strengths

- Experienced and respected management team. An integral element of Customers' business strategy is to capitalize on and leverage the prior experience of its executive management team. The management team is led by Chairman and CEO, Jay Sidhu, who is the former CEO and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team of Customers have experience working together at Sovereign with Mr. Sidhu, including Richard Ehst, President and Chief Operating Officer, as well as Jim Collins, Chief Administration Officer. During their tenure at Sovereign, these individuals established a track record of producing strong financial results, integrating acquisitions, managing risk, working with regulators and achieving organic growth and expense control. Team leaders Timothy Romig, Pennsylvania and New Jersey Banking Group Executive Vice President; Steve Issa, New England Marketing President and Chief Lending Officer and Lyle Cunningham, Executive Vice President, Managing Director & Market President - New York Metro, Chicago, and Washington D.C. and Specialty

Finance; all with over 30 years of experience. Ken Keiser, Director of Multi-Family and Investment Commercial Real Estate Lending, leads the commercial real estate and multi-family lending group and brings more than 40 years of experience including oversight of the Mid-Atlantic commercial real estate group at Sovereign. In addition, the banking to mortgage companies group, which

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primarily includes commercial loans (warehouse facilities) to residential mortgage originators is led by Glenn Hedde, President of Warehouse Lending, who brings more than 28 years of experience in this sector. This team has significant experience in successfully building a banking organization as well as existing valuable community and business relationships in our core markets.

- Unique Asset and Deposit Generation Strategies. Customers focuses on local market lending combined with relatively low-risk specialty lending segments. Local market asset generation provides various types of business lending products and consumer lending products, such as mortgage loans and home equity loans. Customers has also established a multi-family and commercial real estate product line that is focused on the Mid-Atlantic region, particularly New York City. The strategy is to focus on obtaining deposits and refinancing existing loans with other banks, using teams recruited from other banks, conservative underwriting standards and minimizing costs. Through the multi-family and commercial real estate product, Customers earns interest and fee income and generates commercial deposits. Customers also maintains a specialty lending business, commercial loans to mortgage originators, which is a national business where Customers Bank provides liquidity to non-depository mortgage companies to fund their mortgage pipelines and meet other business needs. Through the loans to mortgage banking businesses, Customers earns interest and fee income and generates core deposits.
- BankMobile Strategy. Customers launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smartphone delivery channel. BankMobile refers to Customers' efforts to build a full-service bank that is accessible to its customers anywhere and anytime through the customer's smartphone or other web-enabled device. BankMobile provides a nationwide deposit-aggregation platform. BankMobile principally has a "banking as a service" business model and focuses on the aggregation of low-cost deposits and currently offers no or low-fee banking, higher than average interest rates on savings and access to over 55,000 ATMs across the U.S. Customers believes that consolidating BankMobile with the acquired Disbursement business uniquely positions BankMobile to service 1 million students across America and to become the graduating students "bank for life" and service each graduate's financial needs throughout their life. Successful execution of the BankMobile strategy, including its consolidation with the Disbursement business through colleges and universities across America and similar white-label partnerships, greatly accelerates BankMobile's ability to achieve profitability. BankMobile's revenues are largely derived from interchange and card revenue, deposit fees, university card and disbursement fees and university subscription revenue.
- Attractive low-credit risk profile. Customers has sought to maintain high asset quality and moderate credit risk by using conservative underwriting standards and early identification of potential problem assets. Customers has also formed a SAG to manage classified and NPAs. As of December 31, 2018, only $27.5 million, or 0.32%, of Customers Bank's total loan portfolio was non performing.
- Superior Community Banking Model. Customers expects to drive organic core loan and deposit growth by employing its Concierge Banking® and single-point-of-contact strategies, which provide specific relationship managers or private bankers for all customers, delivering an appointment banking approach available 12 hours a day, seven days a week. This allows Customers to provide services in a personalized, convenient and expeditious manner. This approach, coupled with superior technology, including remote account opening, remote deposit capture, mobile banking and the first fee-free mobile digital bank, BankMobile, results in a competitive advantage over larger institutions, which management believes contributes to the profitability of its franchise and allows Customers Bank to generate core deposits. The “high-tech, high-touch,” model requires less staff and smaller branch locations to operate, thereby significantly reducing operating costs.
- Acquisition Expertise. The depth of Customers' management team and their experience working together and successfully completing acquisitions provides unique insight in identifying and analyzing potential markets and acquisition targets. The experience of Customers' team, which includes the acquisition and integration of over 35 institutions, as well as numerous asset and branch acquisitions, provides a substantial advantage in pursuing and consummating future acquisitions. Additionally, management believes Customers' strengths in structuring transactions to limit its risk, its experience in the financial reporting and regulatory process related to troubled bank acquisitions, and its ongoing risk management expertise, particularly in problem loan workouts, collectively enable it to capitalize on the potential of the franchises it acquires. With Customers' depth of operational experience in

connection with completing merger and acquisition transactions, it expects to be able to integrate and reposition acquired franchises cost-efficiently with a minimum disruption to customer relationships.

Customers believes its ability to operate efficiently is enhanced by its centralized risk-management structure, its access to attractive labor and real estate costs in its markets, and an infrastructure that is unencumbered by legacy systems. Furthermore,

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Customers anticipates additional expense synergies from the integration of its acquisitions, which it believes will enhance its financial performance.

Segments

Beginning in third quarter 2016, Customers revised its segment financial reporting to reflect the manner in which its chief operating decision makers had begun allocating resources and assessing performance subsequent to Customers' acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile technology platform late in second quarter 2016.

Management has determined that Customers' operations consist of two reportable segments - Customers Bank 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. For more information on Customers' reportable operating segments, see NOTE 22 - BUSINESS SEGMENTS to the consolidated financial statements.

Products

Customers offers a broad range of traditional loan and deposit banking products and financial services, and non-traditional products and services through the successful launch of BankMobile in January 2015, to its commercial and consumer customers. Customers offers an array of lending products to cater to its customers’ needs, including commercial mortgage warehouse loans, multi-family and commercial real estate loans, business banking, small business loans, equipment financing, residential mortgage loans and other consumer loans. Customers also offers traditional deposit products, including commercial and consumer checking accounts, non-interest-bearing demand accounts, MMDA, savings accounts, time deposit accounts and cash management services. Prior to January 2015, deposit products were available to customers only through branches of Customers Bank. With the successful launch of BankMobile, the acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile platform and its white-label partnership, Customers is able to provide banking to millennials, students, middle class American families and underserved consumers throughout the United States.

BankMobile is focused on providing quality low-cost deposit products and related services to its customers, such as no-or-low-fee checking, no opening balance requirements, instant virtual debit cards and similar customer friendly technology enabled services. Customers can also obtain cash free of any fees from over 55,000 ATMs in the United States. BankMobile has developed its capabilities to deliver retail loan products, such as personal loans and credit cards to its customers, either as a referral or direct lender, as its technological capabilities have developed. In late November 2018, BankMobile's first white label banking partnership went live in beta test phase, offering BankMobile's best in class banking products to the partner's broad customer base.

Lending Activities

Customers Bank focuses its lending efforts on the following lending areas:

- Commercial Lending – Customers' focus is on Business Banking (i.e., commercial and industrial lending), including Small and Middle Market Business Banking (including SBA loans), Commercial Loans to Mortgage Companies, and to a lesser extent Multi-Family and Commercial Real Estate Lending, and
- Consumer Lending – local-market mortgage and home equity lending.

Commercial Lending

Customers' commercial lending activities are 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 SBA 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.

The goal of Customers' multi-family lending group is to manage 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. During the years ended December 31, 2018 and 2017, Customers originated approximately $355 million and $1.2 billion, respectively, of multi-family loans. As part of its strategic initiatives, Customers is deemphasizing its lower-yielding multi-family lending activities and focusing on growing relationship-based commercial and industrial lending activities.

The goal of commercial loans to mortgage companies is to provide liquidity to mortgage companies. The loans are predominately short-term facilities used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans that collateralize our commercial loans to mortgage companies are insured or guaranteed by the U.S. Government through one of its programs, such as FHA, VA, or they are conventional loans eligible for sale to Fannie Mae and Freddie Mac. Customers is currently expanding its product offerings to mortgage companies to meet a wider array of business needs. During the years ended December 31, 2018 and 2017, Customers Bank funded $27.2 billion and $30.1 billion of mortgage loans, respectively, to mortgage originators via warehouse facilities. The commercial loans to mortgage companies are reported as loans receivable, mortgage warehouse, at fair value.

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 December 31, 2018 and 2017, Customers had $172.9 million and $152.5 million, respectively, of equipment finance loans outstanding. As of December 31, 2018 and 2017, Customers had $54.5 million and $26.6 million of equipment finance leases, respectively. As of December 31, 2018 and 2017, Customers had $54.5 million and $21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $4.8 million and $0.5 million, respectively.

As of December 31, 2018 and 2017, Customers Bank had $7.8 billion and $8.4 billion, respectively, in commercial loans outstanding, composing approximately 91.6% and 96.2%, respectively, of its total loan portfolio, which includes loans held for sale and loans receivable, mortgage warehouse, at fair value. During the years ended December 31, 2018 and 2017, the Bank originated $600 million and $1.4 billion, respectively, of commercial loans, exclusive of multi-family loan originations and loans to mortgage originators via warehouse facilities.

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. These areas also support Customers' commitment to lower-and-moderate-income families in its market area. 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 Bank 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.

As of December 31, 2018 and 2017, Customers had $721.8 million and $329.8 million, respectively, in consumer loans outstanding, comprising 8.4% and 3.8%, respectively, of Customers' total loan portfolio. During the years ended December 31, 2018 and 2017, Customers purchased $398.5 million and $264.1 million of consumer loans,

respectively.
Private Banking
Beginning in 2013, Customers introduced a Private Banking model for its commercial clients in the major markets within its geographic footprint. This unique model provides unparalleled service to customers through an in-market team of experienced

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private bankers. Acting as a single-point-of-contact for all the banking needs of Customers' commercial clients, these private bankers deliver the whole bank – not only to its clients, but to their families, their management teams and their employees, as well. With a world-class suite of sophisticated cash management products, these private bankers deliver on Customers' "high-tech, high-touch" strategy and provide real value to its mid-market commercial clients. Customers opened its first private banking representative office in Manhattan in second quarter 2013, and eventually, all of its markets will be served by private bankers.

Deposit Products and Other Funding Sources

Customers offers a variety of deposit products to its customers, including checking accounts, savings accounts, MMDA and other deposit accounts, including fixed-rate, fixed-maturity retail time deposits ranging in terms from 30 days to five years, individual retirement accounts, and non-retail time deposits consisting of jumbo certificates greater than or equal to $100,000. Using its high touch supported by high tech model, Customers has experienced strong growth in core deposits. Customers also utilizes wholesale deposit products, money market and certificates of deposit obtained through listing services and borrowings from the FHLB as a sources of funding. These funding sources offer attractive funding costs in comparison to traditional sources of funding given the current interest-rate environment.

Financial Products and Services

In addition to traditional banking activities, Customers provides other financial services to its customers, including: mobile phone banking, internet banking, wire transfers, electronic bill payment, lock box services, remote deposit capture services, courier services, merchant processing services, cash vault, controlled disbursements, positive pay and cash management services (including account reconciliation, collections and sweep accounts). In January 2015, Customers successfully launched BankMobile, America's first mobile platform based full-service consumer bank. In June 2016, Customers acquired the Disbursement business of Higher One and subsequently combined that business with the BankMobile platform. The Disbursement business assists higher educational institutions in their distributions of Title IV monies to students. In combining the businesses, BankMobile serviced over 1.0 million active deposit accounts at December 31, 2018.

Competition

Customers competes with other financial institutions for deposit and loan business. Competitors include other commercial banks, savings banks, savings and loan associations, insurance companies, securities brokerage firms, credit unions, finance companies, mutual funds, money market funds and certain government agencies. Financial institutions compete principally on the quality of the services rendered, interest rates offered on deposit products, interest rates charged on loans, fees and service charges, the convenience of banking office locations and hours of operation and in the consideration of larger commercial borrowers, lending limits.

Many competitors are significantly larger than Customers and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, Customers is subject to regulation, while certain of its competitors are not. Non-regulated companies face relatively few barriers to entry into the financial services industry. Customers' larger competitors enjoy greater name recognition and greater resources to finance wide ranging advertising campaigns. Customers competes for business principally on the basis of high-quality, personal service to customers, customer access to Customers' decision makers and competitive interest and fee structure. Customers also strives to provide maximum convenience of access to services by employing innovative delivery vehicles such as internet banking, and the convenience of Concierge Banking® and our single-point-of-contact business model.

Customers' current market is primarily served by large national and regional banks, with a few larger institutions capturing more than 50% of the deposit market share. Customers' large competitors primarily utilize expensive, branch-based models to sell products to consumers and small businesses, which requires Customers' larger competitors to price their products with wider margins and charge more fees to justify their higher expense base. While maintaining physical branch locations remains an important component of Customers' strategy, Customers utilizes an operating model with fewer and less expensive locations, thereby lowering overhead costs and allowing for greater pricing flexibility.

BankMobile competes for deposit customers with traditional bank branches that may have a physical presence near the university and college campuses it serves, large national banks, as well as smaller regional or local banks, with other student and disbursement businesses, both banks and prepaid card providers, and with local and national loan providers. Banks providing student disbursement services include PNC, Wells Fargo Bank, and U.S. Bank. BankMobile continues to develop strategies to white label deposit products to commercial entities, again competing with traditional bank deposit product branch

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delivery channels. In late November 2018, BankMobile's first white label banking partnership went live in beta test phase, offering BankMobile's best in class banking products to the partner's broad customer base.

Employees

As of December 31, 2018, Customers had 827 full-time equivalent team members, including approximately 247 team members dedicated to the BankMobile business segment.

Available Information

Customers Bancorp’s internet website address is www.customersbank.com. Information on Customers Bancorp’s website is not part of this Annual Report on Form 10-K. Investors can obtain copies of Customers Bancorp’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, on Customers Bancorp’s website (accessible under “About Us” – “Investor Relations” – “SEC Filings”) as soon as reasonably practicable after Customers Bancorp has filed such materials with, or furnished them to, the Securities and Exchange Commission. Customers Bancorp will also furnish a paper copy of such filings free of charge upon request. Customers Bancorp’s filings can also be accessed at the SEC’s internet website: www.sec.gov.

SUPERVISION AND REGULATION

GENERAL

Customers Bancorp is subject to extensive regulation, examination and supervision by the Pennsylvania Department of Banking and Securities and, as a member of the Federal Reserve System, by the Federal Reserve Board. Federal and state banking laws and regulations govern, among other things, the scope of a bank’s business, the investments a bank may make, the reserves against deposits a bank must maintain, terms of deposit accounts, loans a bank makes, the interest rates it charges and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

PENNSYLVANIA BANKING LAWS

Pennsylvania banks that are Federal Reserve members may establish new branch offices only after approval by the Pennsylvania Department of Banking and Securities and the Federal Reserve Board. Approval by these regulators can be subject to a variety of factors, including the convenience and needs of the community, whether the institution is sufficiently capitalized and well managed, issues of safety and soundness, the institution’s record of meeting the credit needs of its community, whether there are significant supervisory concerns with respect to the institution or affiliated organizations, and whether any financial or other business arrangement, direct or indirect, involving bank “insiders” (directors, officers, employees and 10%-or-greater shareholders) which involves terms and conditions more favorable to the insiders than would be available in a comparable transaction with unrelated parties.

Under the Pennsylvania Banking Code, Customers Bank is permitted to branch throughout Pennsylvania.

Pennsylvania law also provides Pennsylvania state-chartered banks elective parity with the power of national banks, federal thrifts, and state-chartered institutions in other states as authorized by the FDIC, subject to a required notice to the Pennsylvania Department of Banking and Securities. The Pennsylvania Banking Code also imposes restrictions on payment of dividends, as well as minimum capital requirements.

In October 2012, Pennsylvania enacted three laws known as the “Banking Law Modernization Package,” all of which became effective on December 24, 2012. The intended goal of the law, which applies to Customers Bank, is to modernize Pennsylvania’s banking laws and to reduce regulatory burden at the state level where possible, given the increased regulatory demands at the federal level as described below.

The law also permits banks to disclose formal enforcement actions initiated by the Department, clarifies that the Department has examination and enforcement authority over subsidiaries as well as affiliates of regulated banks and bolsters the Department’s enforcement authority over its regulated institutions by clarifying its ability to remove directors, officers and employees from institutions for violations of laws or orders or for any unsafe or unsound practice or breach of fiduciary duty. Changes to existing law also allow the Department to assess civil money penalties of up to $25,000 per violation.

The law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports

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provided by officers, employees, attorneys, accountants or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

Interstate Branching. Federal law allows the Federal Reserve and FDIC, and the Pennsylvania Banking Code allows the Pennsylvania Department of Banking and Securities, to approve an application by a state banking institution to acquire interstate branches. For more information on federal law, see the discussion under "Federal Banking Laws – Interstate Branching" that follows.

Pennsylvania banking laws authorize banks in Pennsylvania to acquire existing branches or branch de novo in other states and also permit out-of-state banks to acquire existing branches or branch de novo in Pennsylvania.

In April 2008, Banking Regulators in the States of New Jersey, New York and Pennsylvania entered into a Memorandum of Understanding (the "Interstate MOU") to clarify their respective roles, as home and host state regulators, regarding interstate branching activity on a regional basis pursuant to the Riegle-Neal Amendments Act of 1997. The Interstate MOU establishes the regulatory responsibilities of the respective state banking regulators regarding bank regulatory examinations and is intended to reduce the regulatory burden on state-chartered banks branching within the region by eliminating duplicative host state compliance exams.

Under the Interstate MOU, the activities of branches Customers established in New Jersey or New York would be governed by Pennsylvania state law to the same extent that federal law governs the activities of the branch of an out-of-state national bank in such host states. Issues regarding whether a particular host state law is preempted are to be determined in the first instance by the Pennsylvania Department of Banking and Securities. In the event that the Pennsylvania Department of Banking and Securities and the applicable host state regulator disagree regarding whether a particular host state law is pre-empted, the Pennsylvania Department of Banking and Securities and the applicable host state regulator would use their reasonable best efforts to consider all points of view and to resolve the disagreement.

FEDERAL BANKING LAWS

Interstate Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (called the "Interstate Act"), among other things, permits bank holding companies to acquire banks in any state. A bank may also merge with a bank in another state. Interstate acquisitions and mergers are subject, in general, to certain concentration limits and state entry rules relating to the age of the bank. Under the Interstate Act, the responsible federal regulatory agency is permitted to approve the acquisition of less than all of the branches of an insured bank by an out-of-state bank or bank holding company without the acquisition of an entire bank, only if the law of the state in which the branch is located permits. Under the Interstate Act, branches of state-chartered banks that operate in other states are covered by the laws of the chartering state, rather than the host state. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") created a more permissive interstate branching regime by permitting banks to establish de novo branches in any state if a bank chartered by such state would have been permitted to establish the branch. For more information on interstate branching under Pennsylvania law, see "Pennsylvania Banking Laws – Interstate Branching" above.

Prompt Corrective Action. Federal banking law mandates certain "prompt corrective actions," which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements, "significantly undercapitalized" if it has a common equity tier 1 risk-based capital ratio that is less than 3.0%, or has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage ratio that is less than 3.0%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers and a prohibition on the payment of certain “management fees” to any “controlling person.” Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors or sale of the institution to a willing purchaser. If an institution is deemed to be “critically undercapitalized” and

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continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

Safety and Soundness; Regulation of Bank Management. The Federal Reserve Board possesses the power to prohibit a bank from engaging in any activity that would be an unsafe and unsound banking practice and in violation of the law. Moreover, Federal law enactments have expanded the circumstances under which officers or directors of a bank may be removed by the institution's Federal supervisory agency; restricted and further regulated lending by a bank to its executive officers, directors, principal shareholders or related interests thereof; restricted management personnel of a bank from serving as directors or in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area; and restricted management personnel from borrowing from another institution that has a correspondent relationship with the bank for which they work.

Capital Rules. Federal banking agencies have issued certain "risk-based capital" guidelines, which supplemented existing capital requirements. In addition, the Federal Reserve Board imposes certain "leverage" requirements on member banks. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

The risk-based capital guidelines require all banks and bank holding companies to maintain capital levels in compliance with "risk-based capital" ratios. In these ratios, the on-balance-sheet assets and off-balance sheet exposures are assigned a risk-weight based upon the perceived and historical risk of incurring a loss of principal from that exposure. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also may consider interest-rate risk. Institutions with interest-rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. Customers currently monitors and manages its assets and liabilities for interest-rate risk, and management believes that the interest-rate risk rules which have been implemented and proposed will not materially adversely affect its operations.

The Federal Reserve Board's "leverage" ratio rules require member banks which are rated the highest in the composite areas of capital, asset quality, management, earnings and liquidity to maintain a ratio of "Tier 1" capital to "adjusted total assets" of not less than 3.0%. For banks which are not the most highly rated, the minimum "leverage" ratio will range from 4.0% to 5.0%, or higher at the discretion of the Federal Reserve Board, and is required to be at a level commensurate with the nature of the level of risk of the bank's condition and activities.

For purposes of the capital requirements, "Tier 1," or "core," capital is defined to include common shareholders' equity and certain noncumulative perpetual preferred stock and related surplus. "Tier 2," or "qualifying supplementary," capital is defined to include a bank's allowance for loan losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain "hybrid capital instruments" and certain term subordinated debt instruments.

Capital Rules. In July 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bancorp and Customers Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012 and implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010 and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include risk-based capital and leverage ratios, planned to be phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. Effective January 1, 2015, the new minimum capital level requirements applicable to the Bancorp and Customers Bank under the final rules were:

(i) a common equity Tier 1 risk-based capital ratio of 4.5%;

(ii) a Tier 1 risk-based capital ratio of 6%;

(iii) a total risk-based capital ratio of 8% and

(iv) a Tier 1 leverage ratio of 4% for all institutions.

The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements.

The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter.

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Effective January 1, 2018, the minimum capital level requirements (including the capital conservation buffer) applicable to the Bancorp and Customers Bank under the final rules are:
(i) a common equity Tier 1 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%.
Considering the capital conservation buffer, to avoid limitations on certain actions or activities, banks will be required to maintain the following ratios beginning January 1, 2019:
(i) a common equity Tier 1 capital ratio of 7.0%;
(ii) a Tier 1 risk-based capital ratio of 8.5%; and
(iii) a total risk-based capital ratio of 10.5%.
Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if their capital levels fall below the minimum capital level plus capital conservation buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.
Basel III provided discretion for regulators to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to "advanced approach banks" (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Bancorp and Customers Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, (which includes the Bancorp) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010, as additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.
In addition, the final rules provide for smaller banking institutions (less than $250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of AOCI in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. Customers Bank selected the opt-out election in its March 31, 2015 Call Report.
The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including Customers Bank, if their capital levels begin to show signs of weakness. These revisions took effect on January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as "well capitalized:"
(i) a common equity Tier 1 capital ratio of 6.5%;
(ii) a Tier 1 risk-based capital ratio of 8%;
(iii) a total risk-based capital ratio of 10%; and
(iv) a Tier 1 leverage ratio of 5%.
The final rules set forth certain changes for the calculation of risk-weighted assets, which were required to be utilized as of January 1, 2015. The standardized approach final rule utilizes an increased number of credit-risk exposure categories and risk weights and also addresses:
(i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;
(ii) revisions to recognition of credit-risk mitigation;
(iii) rules for risk weighting of equity exposures and past-due loans;
(iv) revised capital treatment for derivatives and repo-style transactions and
(v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the "advance approach rules" that apply to banks with greater than $250 billion in consolidated assets.

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In addition, in December 2018, the U.S. federal banking agencies finalized rules that would permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new current expected credit loss accounting rule on retained earnings over a period of three years.

As of December 31, 2018 and 2017, Customers Bank and the Bancorp met all capital adequacy requirements to which they were subject. For additional information on Customers' regulatory capital ratios, refer to "NOTE 17 – REGULATORY MATTERS" to the consolidated financial statements.

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank bill was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. Among many other provisions, the legislation:

- established the Financial Stability Oversight Council, a federal agency acting as the financial system's systemic risk regulator with the authority to review the activities of significant bank holding companies and non-bank financial firms, to make recommendations and impose standards regarding capital, leverage, conflicts and other requirements for financial firms and to impose regulatory standards on certain financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;
- created a new CFPB within the U.S. Federal Reserve, which has substantive rule-making authority over a wide variety of consumer financial services and products, including the power to regulate unfair, deceptive or abusive acts or practices;
- permitted state attorney generals and other state enforcement authorities broader power to enforce consumer protection laws against banks;
- authorized federal regulatory agencies to ban compensation arrangements at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation's financial system;
- granted the U.S. Government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions, such as bank holding companies, that fall outside the existing resolution authority of the FDIC;
- required that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the issuer. On June 29, 2011, for banks with assets of $10 billion or greater, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction and 5 basis points multiplied by the value of the transaction;
- gave the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which may result in increased deposit insurance premiums for Customers in the future;
- increased the deposit insurance coverage limit for insurable deposits to $250,000 generally, and removes the limit entirely for transaction accounts;
- permitted banks to pay interest on business demand deposit accounts;
- extended the national bank lending (or loans-to-one-borrower) limits to other institutions;
- prohibited banks subject to enforcement action such as a memorandum of understanding from changing their charter without the approval of both their existing charter regulator and their proposed new charter regulator; and
- imposed new limits on asset purchase and sale transactions between banks and their insiders.

The EGRRCPA was signed into law by President Trump on May 24, 2018 and directs the Federal Reserve Board to monitor emerging risks to financial stability and enact supervision and prudential standards applicable to bank holding companies with total assets of $250 billion or more and non-bank covered companies designated as systematically important by the Financial Stability Oversight Council. In general, the EGRRCPA increases the statutory asset threshold, defined in the Dodd-Frank Act, above which the Federal Reserve is required to apply these enhanced prudential standards from $50 billion to $250 billion and immediately raised the asset threshold for stress testing from $10 billion to $100 billion for bank holding companies. Bank holding companies with $250 billion or more in total consolidated assets remain fully subject to the Dodd-Frank Act's enhanced prudential standards requirements. As a result, Customers is no longer subject to stress testing regulations or any requirement to publish the results of our stress testing. Customers will continue to perform certain stress tests internally and incorporate the economic models and information developed through our stress testing program into our risk management and business planning activities.

In July 2018, the Federal Reserve stated that it would no longer require bank holding companies with less than $100 billion in total consolidated assets to comply with the modified version of the liquidity coverage ratio. In addition, in October 2018, the federal bank regulators proposed to revise their liquidity requirements so that banking organizations that are not global

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systemically important banks and have less than $250 billion in total consolidated assets and less than $75 billion in each of off-balance-sheet exposure, nonbank assets, cross-jurisdictional activity and short-term wholesale funding would not be subject to any liquid coverage ratio or net stable funding ratio requirements.

In February 2014, the Federal Reserve adopted rules to implement certain of these enhanced prudential standards. Beginning in 2015, the rules require publicly traded bank holding companies with $10 billion or more in total consolidated assets to establish risk committees and require bank holding companies with $50 billion or more in total consolidated assets to comply with enhanced liquidity and overall risk management standards. Customers has established a risk committee and is in compliance with this requirement. In October 2018, the Federal Reserve and the other federal bank regulators proposed rules that would tailor the application of the enhanced prudential standards to bank holding companies and depository institutions pursuant to the EGRRCPA amendments, including by raising the asset threshold for application of many of these standards. For example, all publicly traded bank holding companies with $50 billion or more in total consolidated assets would be required to maintain a risk committee.

Many of these provisions are subject to further rule making and to the discretion of regulatory bodies, including Customers Bank’s primary federal banking regulator, the Federal Reserve. It is not possible to predict at this time the extent to which regulations authorized or mandated by the Dodd-Frank Act and EGRRCPA will impose requirements or restrictions on Customers Bank in addition to or different from the provisions summarized above.

Regulatory Reform and Legislation. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of Customers in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. Customers cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on its financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to Customers or our subsidiaries could have a material effect on our business, financial condition and results of operations.

Deposit Insurance Assessments. Customers Bank’s deposits are insured by the FDIC up to the limits set forth under applicable law and are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the “Act”). Under this system, the amount of FDIC assessments paid by an individual insured depository institution, like Customers Bank, is based on the level of perceived risk incurred in its activities. The FDIC places a depository institution in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rates based on certain specified financial ratios.

In February 2011, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning in April 2011, ranging from 2.5 to 45 basis points of Tier I capital.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977, the record of a bank holding company and its subsidiary banks must be considered by the appropriate Federal banking agencies, including the Federal Reserve Board, in reviewing and approving or disapproving a variety of regulatory applications including approval of a branch or other deposit facility, office relocation, a merger and certain acquisitions. Federal banking agencies have demonstrated an increased readiness to deny applications based on unsatisfactory CRA performance. The Federal Reserve Board is required to assess Customers' record to determine if it is meeting the credit needs of the community, including the low-and-moderate- income neighborhoods that it serves. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the CRA to require, among other things, that the Federal Reserve Board make publicly available an evaluation of the bank's record of meeting the credit needs of its entire community, including low-and-moderate-income neighborhoods. This evaluation includes a descriptive rating (outstanding,

satisfactory, needs to improve or substantial noncompliance) and a statement describing the basis for the rating.
Incentive Compensation. In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a

group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Customers, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, Section 956 of the Dodd-Frank Act required certain regulators (including the FDIC, SEC and Federal Reserve Board) to adopt requirements or guidelines prohibiting excessive compensation. In April and May 2016, the Federal Reserve, jointly with five other federal regulators, published a proposed rule in response to Section 956 of the Dodd-Frank Act, which requires implementation of regulations or guidelines to: (i) prohibit incentive-based payment arrangements that encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss and (ii) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). Under the proposed rule, Customers would fall into the smallest category (Level 3), which applies to financial institutions with average total consolidated assets greater than $1 billion and less than $50 billion. The proposed rules would establish general qualitative requirements applicable to all covered entities, which would include (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements and (v) mandating appropriate record keeping. Under the proposed rule, larger financial institutions with total consolidated assets of at least $50 billion would also be subject to additional requirements applicable to such institutions' "senior executive officers" and "significant risk-takers." These additional requirements would not be applicable to Customers because it currently has less than $50 billion in total consolidated assets. Comments on the proposed rule were due by July 22, 2016. As of the date of this document, the final rule has not yet been published by these regulators.

Consumer Protection Laws. Customers Bank is subject to a variety of consumer protection laws, including the Truth in Lending Act, the Truth in Savings Act adopted as part of the FDICIA, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Funds Transfer Act, the Real Estate Settlement Procedures Act and the regulations adopted thereunder. In the aggregate, compliance with these consumer protection laws and regulations involves substantial expense and administrative time on the part of Customers.

UDAP and UDAAP. Banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as "UDAP," and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as "UDAAP," which have been delegated to the CFPB for supervision. The CFPB has published its first Supervision and

Examination Manual that addresses compliance with and the examination of UDAAP.
Bank Holding Company Regulation
As a bank holding company, Customers Bancorp is also subject to additional regulation.
The Bank Holding Company Act requires the Bancorp to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank.

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It also prohibits acquisition by the Bancorp of more than five percent (5%) of the voting shares of, or interest in, or all or substantially all of the assets of, any bank located outside of the state in which a current bank subsidiary is located unless such acquisition is specifically authorized by laws of the state in which such bank is located. A bank holding company is prohibited from engaging in or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh the possible adverse effects. Applications under the Bank Holding Company Act and the Change in Control Act are subject to review, based upon the record of compliance of the applicant with the CRA.

The Bancorp is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. Further, under Section 106 of the 1970 amendments to the Bank Holding Company Act and the Federal Reserve Board's regulations, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or provision of any property or services. The so-called "anti-tie-in" provisions state generally that a bank may not extend credit, lease, sell property or furnish any service to a customer on the condition that the customer obtains additional credit or service from the bank, or on the condition that the customer not obtain other credit or service from a competitor.

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. A number of activities are authorized by Federal Reserve Board regulation, while other activities require prior Federal Reserve Board approval. The types of permissible activities are subject to change by the Federal Reserve Board.

Item 1A. Risk Factors

Risks Related to the Bancorp's Banking Operations

If our allowance for loan losses is insufficient to absorb losses in our loan portfolio, our earnings could decrease.

Lending money is a substantial part of our business, and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- the financial condition and cash flows of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the discount on the loan at the time of its acquisition and capital, which could have regulatory implications;
- the duration of the loan;
- the credit history of a particular borrower; and
- changes in economic and industry conditions.

At December 31, 2018, Customers' allowance for loan losses totaled $40.0 million, which represents 0.56% of total loans held for investment (excluding loans receivable mortgage warehouse at fair value). Management makes various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the probability of their making payments, as well as the value of real estate and other assets serving as collateral for the repayment of many of our loans.

In determining the amount of the allowance for loan losses, significant factors considered include loss experience in particular segments of the portfolio, trends and absolute levels of classified and criticized loans, trends and absolute levels in delinquent loans, trends in risk ratings, trends in industry and Customers' charge-offs by particular segments and changes in existing general economic and business conditions affecting our lending areas and the national economy. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance.

Management reviews and re-estimates the allowance for loan losses quarterly. Additions to our allowance for loan losses as a result of management's reviews and re-estimates could materially decrease net income. Our regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses

by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

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.

Our emphasis on commercial, multi-family/commercial real estate and mortgage warehouse lending may expose us to increased lending risks.

We intend to continue emphasizing the origination of commercial loans and specialty loans, including loans to mortgage banking businesses. Commercial loans, including multi-family and commercial real estate loans, can expose a lender to risk of non-payment and loss because repayment of the loans often depends on the successful operation of a business or property and the borrower’s cash flows. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four-family residential mortgage loans. In addition, we may need to increase our allowance for loan losses in the future to account for an increase in probable credit losses associated with such loans. Also, we expect that many of our commercial borrowers will have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four-family residential mortgage loan.

As a lender to mortgage banking businesses, we provide financing to mortgage bankers by purchasing, subject to resale under a master repurchase agreement, the underlying residential mortgages on a short-term basis pending the ultimate sale of the mortgages to investors. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and possible default by the borrower, closing agents and the residential borrower on the underlying mortgage, any of which could result in credit losses. The risk of fraud associated with this type of lending includes, but is not limited to, settlement process risks, the risk of financing nonexistent loans or fictitious mortgage loan transactions, or the risk that collateral delivered is fraudulent or non-existent, creating a risk of loss of the full amount financed on the underlying residential mortgage loan, or in the settlement processes. In first quarter 2013, fraud was discovered in our commercial mortgage warehouse loan portfolio. Additional fraudulent transactions could have a material adverse effect on our financial condition and results of operations.

Our lending to commercial mortgage businesses is a significant part of our assets and earnings. This business is subject to seasonality of the mortgage lending business, and volumes are likely to decline if interest rates increase, generally. A decline in the rate of growth, volume or profitability of this business unit, or a loss of its leadership could adversely affect our results of operations and financial condition.

As of December 31, 2018, we had $7.8 billion in commercial loans outstanding, approximately 91.6% of our total loan portfolio, which includes loans held for sale and loans receivable mortgage warehouse at fair value.

Decreased origination, volume and pricing decisions of competitors may adversely affect our profitability.

We currently operate a residential mortgage banking business but plan to expand our origination, sale and servicing of residential mortgage loans in the future. We also began selling recent multi-family loan originations to third parties in third quarter 2014. Changes in market interest rates and pricing decisions by our loan competitors may adversely affect demand for our residential-mortgage and multi-family loan products, the revenue realized on the sale of loans and revenues received from servicing such loans for others, and ultimately reduce our net income. New regulations, increased regulatory reviews, changes in the structure of the secondary mortgage markets that we utilize to sell mortgage loans or other rule changes that could affect the multi-family resale market may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business or sell multi-family loans.

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Federal Home Loan Bank of Pittsburgh may not pay dividends or repurchase capital stock in the future.

On December 23, 2008, the Federal Home Loan Bank of Pittsburgh announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB announced at that time that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, OTTI charges and constrained access to debt markets at attractive rates. While the FHLB resumed payment of dividends and capital stock repurchases in 2012, capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB, and there is no guarantee that such dividends and capital stock repurchases will continue in the future. As of December 31, 2018, the Bank held $67.3 million of FHLB capital stock.

The fair value of our investment securities can fluctuate due to market conditions. Adverse economic performance can lead to adverse security performance and other-than-temporary impairment.

As of December 31, 2018, the fair value of our investment securities portfolio was $665.0 million. We have historically followed a conservative investment strategy, with concentrations in securities that are backed by government-sponsored enterprises. In the future, we may seek to increase yields through more aggressive strategies, which may include a greater percentage of corporate securities, structured credit products or non-agency mortgage-backed securities. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, such as a change in management's intent to hold the securities until recovery in fair value, could cause OTTIs and realized and/or unrealized losses in future periods and declines in OCI, which could have a material adverse effect on us. The process for determining whether impairment of a security is other than temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

During the year ended December 31, 2017, Customers recorded OTTI losses of $12.9 million 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 AOCI with no adjustment for deferred taxes as Customers did not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment. At December 31, 2018, Customers continues to not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. 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 AOCI 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 $1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. At December 31, 2018, the fair value of the Religare equity securities was $1.7 million.

Changes to estimates and assumptions made by management in preparing financial statements could adversely affect our business, operating results, reported assets and liabilities, financial condition and capital levels.

Changes to estimates and assumptions made by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. Changes to management’s assumptions or estimates could materially and adversely affect our business, operating results, reported assets and liabilities, financial condition and capital levels.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance

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retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth. Notably, the FASB recently issued a new framework for estimating the allowance for loan and lease losses that could significantly alter the current estimate as well as other elements of the U.S. banking model.

Downgrades in U.S. Government and federal agency securities could adversely affect us.

The long-term impact of the downgrade of the U.S. Government and federal agencies from an AAA to an AA+ credit rating is still uncertain. However, in addition to causing economic and financial market disruptions, the downgrade, and any future downgrades and/or failures to raise the U.S. debt limit if necessary in the future, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities owned by us, the availability of those securities as collateral for borrowing and our ability to access capital markets on favorable terms, as well as have other material adverse effects on the operation of our business and our financial results and condition. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed-income markets, adversely affecting the cost and availability of funding, which could negatively affect profitability. Also, the adverse consequences as a result of the downgrade could extend to the borrowers of the loans we make and, as a result, could adversely affect our borrowers' ability to repay their loans.

We may not be able to maintain consistent earnings or profitability.

Although we made profit for the years 2011 through 2018, there can be no assurance that we will be able to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent or increase in the future. Our earnings also may be reduced by increased expenses associated with increased assets, such as additional employee compensation expense, and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets. If earnings do not grow proportionately with our assets or equity, our overall profitability may be adversely affected.

Continued or worsening general business and economic conditions could materially and adversely affect us.

Our business and operations are sensitive to general business and economic conditions in the United States. If the U.S. economy experiences worsening conditions such as a recession, we could be materially and adversely affected. Weak economic conditions may be characterized by deflation, instability in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on loans, residential and commercial real estate price declines and lower home sales and commercial activity. Adverse changes in any of these factors could be detrimental to our business. Our business is also significantly affected by monetary and related policies of the U.S. Federal Government, its agencies and government-sponsored entities. Adverse changes in economic factors or U.S. Government policies could have a negative effect on us.

Over the last several years, there have been several instances where there has been uncertainty regarding the ability of Congress and the President collectively to reach agreement on federal budgetary and spending matters. A period of failure to reach agreement on these matters, particularly if accompanied by an actual or threatened government shutdown, may have an adverse impact on the U.S. economy. Additionally, a prolonged government shutdown may inhibit our ability to evaluate borrower creditworthiness and originate and sell certain government-backed loans.

The geographic concentration in the Northeast and Mid-Atlantic regions makes our business susceptible to downturns in the local economies and depressed banking markets, which could materially and adversely affect us.

Our loan and deposit activities are largely based in the Northeast and Mid-Atlantic regions. As a result, our financial performance depends upon economic conditions in these regions. These regions experienced deteriorating local economic conditions in the past economic cycle, and a downturn in the regional real estate market could harm our financial condition and results of operations because of the geographic concentration of loans within these regions, and because a large percentage of the loans are secured by real property. If there is decline in real estate values, the collateral value for our loans will decrease, and our probability of incurring losses will increase as the ability to recover on defaulted loans by selling the underlying real estate will be lessened.

Additionally, we have made a significant investment in commercial real estate loans. Often in a commercial real estate transaction, repayment of the loan is dependent on the property generating sufficient rental income to service the loan. Economic conditions may affect a tenant's ability to make rental payments on a timely basis, and may cause some tenants not to renew their leases, each of which may impact the debtor's ability to make loan payments. Further, if expenses associated with commercial properties increase dramatically, a tenant's ability to repay, and therefore the debtor's ability to make timely

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loan payments, could be adversely affected. All of these factors could increase the amount of NPLs, increase our provision for loan losses and reduce our net income.

Our business is highly susceptible to credit risk.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to the contractual terms and that the collateral securing the payment of their loans (if any) may not be sufficient to assure repayment. The risks inherent in making any loan include risks with respect to the ability of borrowers to repay their loans and, if applicable, the period of time over which the loan is repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. Similarly, we have credit risk embedded in our securities portfolio. Our credit standards, policies and procedures are designed to reduce the risk of credit losses to a low level but may not prevent us from incurring substantial credit losses.

Additionally, we may restructure originated or acquired loans if we believe the borrowers are experiencing problems servicing the debt pursuant to current terms, and we believe the borrower is likely to fully repay their restructured obligations. We may also be subject to legal or regulatory requirements for restructured loans. With respect to restructured loans, we may grant concessions to borrowers experiencing financial difficulties in order to facilitate repayment of the loan by a reduction of the stated interest rate for the remaining life of the loan to lower than the current market rate for new loans with similar risk or an extension of the maturity date.

We depend on our executive officers and key personnel to implement our strategy and could be harmed by the loss of their services.

We believe that the implementation of our strategy will depend in large part on the skills of our executive management team, and our ability to motivate and retain these and other key personnel. Accordingly, the loss of service of one or more of our executive officers or key personnel could reduce our ability to successfully implement our growth strategy and materially and adversely affect us. Leadership changes will occur from time to time, and if significant resignations occur, we may not be able to recruit additional qualified personnel. We believe our executive management team possesses valuable knowledge about the banking industry and that their knowledge and relationships would be very difficult to replicate. Although our CEO and President have entered into employment agreements with us, it is possible that they may not complete the term of their employment agreement or may choose not to renew it upon expiration.

Our customers also rely on us to deliver personalized financial services. Our strategic model is dependent upon relationship managers and private bankers who act as a customer’s single point of contact to us. The loss of the service of these individuals could undermine the confidence of our customers in our ability to provide such personalized services. We need to continue to attract and retain these individuals and to recruit other qualified individuals to ensure continued growth. In addition, competitors may recruit these individuals in light of the value of the individuals’ relationships with their customers and communities, and we may not be able to retain such relationships absent the individuals. In any case, if we are unable to attract and retain our relationship managers and private bankers and recruit individuals with appropriate skills and knowledge to support our business, our growth strategy, business, financial condition and results of operations may be adversely affected.

Our success also depends on the experience of our branch managers and lending officers and on their relationships with the customers and communities they serve. The loss of these key personnel could negatively impact our banking operations. The loss of key senior personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on us.

Potential limitations on incentive compensation contained in proposed federal agency rulemaking may adversely affect our ability to attract and retain our highest performing team members.

In April 2011 and May 2016, the Federal Reserve, other federal banking agencies and the SEC jointly published proposed rules designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at covered financial institutions, which includes a bank or bank holding company with $1 billion or more in assets, such as we. It cannot be determined at this time whether or when a final rule will be adopted, and whether compliance with such a final rule will substantially affect the manner in which we structure compensation for our executives and other team members. Depending on the nature and application of the final rules, we may not be able to successfully compete with certain financial institutions and other companies that are not subject to some or all of the rules to retain and attract executives and other high-performing team members. If this were to occur, relationships that we have established with our clients may be impaired and our business, financial condition and results of operations could be adversely affected, perhaps materially.

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We face significant competition from other financial institutions and financial services providers, which may materially and adversely affect us.

Commercial and consumer banking is highly competitive. Our markets contain a large number of community and regional banks as well as a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, including savings and loan associations, savings banks and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds and several government agencies, as well as major retailers, in providing various types of loans and other financial services. Some of these competitors may have a long history of successful operations in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Competitors may also have greater resources and access to capital and may possess other advantages such as operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed Internet platform. Competitors may also exhibit a greater tolerance for risk and behave more aggressively with respect to pricing in order to increase their market share.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Increased competition among financial services companies due to the recent consolidation of certain competing financial institutions may adversely affect our ability to market our products and services. Technological advances have lowered barriers to entry and made it possible for banks to compete in our market without a retail footprint by offering competitive rates, as well as non-banks to offer products and services traditionally provided by banks. Our ability to compete successfully depends on a number of factors, including, among others:

- the ability to develop, maintain and build upon long-term customer relationships based on high quality, personal service, effective and efficient products and services, high ethical standards and safe and sound assets;
- the scope, relevance and competitive pricing of products and services offered to meet customer needs and demands;
- the ability to provide customers with maximum convenience of access to services and availability of banking representatives;
- the ability to attract and retain highly qualified team members to operate our business;
- the ability to expand our market position;
- customer access to our decision makers and customer satisfaction with our level of service; and
- the ability to operate our business effectively and efficiently.

Failure to perform in any of these areas could significantly weaken our competitive position, which could materially and adversely affect us.

Like other financial services institutions, our asset and liability structures are monetary in nature. Such structures are affected by a variety of factors, including changes in interest rates, which can impact the value of financial instruments held by us.

Like other financial services institutions, we have asset and liability structures that are essentially monetary in nature and are directly affected by many factors, including domestic and international economic and political conditions, broad trends in business and finance, legislation and regulation affecting the national and international business and financial communities, monetary and fiscal policies, inflation, currency values, market conditions, the availability and terms (including cost) of short-term or long-term funding and capital, the credit capacity or perceived creditworthiness of customers and counterparties and the level and volatility of trading markets. Such factors can impact customers and counterparties of a financial services institution and may impact the value of financial instruments held by a financial services institution.

Our earnings and cash flows largely depend upon the level of our net interest income, which is the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Because different types of assets and liabilities may react differently and at different times to market interest-rate changes, changes in interest rates can increase or decrease our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in interest rates would reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, and because the magnitude of repricing of interest-earning assets is often greater than interest-bearing liabilities, falling interest rates would reduce net interest income.

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Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets and liabilities, loan and investment securities portfolios and our overall financial results. Changes in interest rates may also have a significant impact on any future loan origination revenues. Changes in interest rates also have a significant impact on the carrying value of a significant percentage of the assets, both loans and investment securities, on our balance sheet. We may incur debt in the future, and that debt may also be sensitive to interest rates and any increase in interest rates could materially and adversely affect us. Interest rates are highly sensitive to many factors beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve. Adverse changes in the Federal Reserve’s interest-rate policies or other changes in monetary policies and economic conditions could materially and adversely affect us.

Uncertainty about the future of LIBOR may adversely affect our business.

LIBOR and certain other interest rate “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit information to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot be guaranteed after 2021. While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, a group of market participants convened by the Federal Reserve, the Alternative Reference Rate Committee, has selected the Secured Overnight Finance Rate as its recommended alternative to LIBOR. The Federal Reserve Bank of New York started to publish the Secured Overnight Financing Rate in April 2018. The Secured Overnight Financing Rate is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the U.S. Treasury repurchase market. At this time, it is impossible to predict whether the Secured Overnight Financing Rate will become an accepted alternative to LIBOR.

The market transition away from LIBOR to an alternative reference rate, such as the Secured Overnight Financing Rate, is complex and could have a range of adverse effects on our business, financial condition and results of operations. In particular, any such transition could:

- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of Customers' LIBOR-based assets and liabilities, which include certain variable rate securities and loans, cash flow hedges, derivatives not designated as hedging instruments, subordinated debt, Customers' Series C preferred stock, Customers' Series D preferred stock, Customers' Series E preferred stock and Customers' Series F preferred stock;
- adversely affect the interest rates paid or received on, the revenue and expenses associated with or the value of other securities or financial arrangements, given LIBOR’s role in determining market interest rates globally;
- prompt inquiries or other actions from regulators in respect of Customers' preparation and readiness for the replacement of LIBOR with an alternative reference rate; and
- result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based contracts and securities.

The transition away from LIBOR to an alternative reference rate will require the transition to or development of appropriate systems and analytics to effectively transition Customers' risk management and other processes from LIBOR-based products to those based on the applicable alternative reference rate, such as the Secured Overnight Financing Rate. There can be no guarantee that these efforts will successfully mitigate the operational risks associated with the transition away from LIBOR to an alternative reference rate.

The manner and impact of the transition from LIBOR to an alternative reference rate, as well as the effect of these developments on our funding costs, loan and investment and trading securities portfolios, asset-liability management, and business, is uncertain.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have a material adverse effect on us.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

We continue to evaluate and implement upgrades and changes to our information technology systems, some of which are significant. Upgrades involve replacing existing systems with successor systems, making changes to existing systems or cost-effectively acquiring new systems with new functionality. We are aware of inherent risks associated with replacing these systems, including accurately capturing data and system disruptions, and believe we are taking appropriate action to mitigate the risks through testing, training, and staging implementation, as well as ensuring appropriate commercial contracts are in place with third-party vendors supplying or supporting our information technology initiatives. However, there can be no assurances that we will successfully launch these systems as planned or that they will be implemented without disruptions to our operations. Information technology system disruptions, if not anticipated and appropriately mitigated, or failure to successfully implement new or upgraded systems, could have a material adverse effect on our results of operations. Also, we may have to make a significant investment to repair or replace these systems and could suffer loss of critical data and interruptions or delays in our operations.

In addition, we provide our customers with the ability to bank remotely, including online, over the Internet and over the telephone. The secure transmission of confidential information over the Internet and other remote channels is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could materially and adversely affect us.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively and in a cost-efficient manner is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available. Certain competitors may have greater resources to invest in technology and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so could have a material adverse impact on our business and therefore on our financial condition and results of operations.

Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, team members and others. This information is necessary for the conduct of our business activities, including the ongoing maintenance of deposit, loan, investment management and other account relationships for our customers, and receiving instructions and affecting transactions for those customers and other users of our products and services. In addition to confidential information regarding our customers, team members and others, we compile, process, transmit and store proprietary, non-public information concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of our operational or information security systems or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to team member error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss. Mishandling, misuse or loss of this confidential or proprietary information could occur, for example, if the confidential or proprietary information were erroneously provided to parties who were not permitted to have the information, either by fault of the systems or our team members, or the systems or employees of third parties which have collected, compiled, processed, transmitted or stored the information on our behalf, where the information is intercepted or otherwise inappropriately taken by third parties or where there is a failure or breach of the network, communications or information systems which are used to collect, compile, process, transmit or store the information.

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Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, or that if mishandling, misuse or loss of the information did occur, those events would be promptly detected and addressed. Additionally, as information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

Our directors and executive officers can influence the outcome of shareholder votes and, in some cases, shareholders may not have the opportunity to evaluate and affect the investment decision regarding potential investment, acquisition or disposition transactions.

As of December 31, 2018, our directors and executive officers, as a group, owned a total of 2,311,485 shares of common stock and exercisable options to purchase up to an additional 692,535 shares of common stock, which potentially gives them, as a group, the ability to control approximately 9.69% of the outstanding common stock. In addition, a director of Customers Bank who is not a director of Customers Bancorp owns an additional 23,036 shares of common stock, which if combined with the directors and officers of Customers Bancorp, potentially gives them, as a group, the ability to control approximately 9.76% of the outstanding common stock. We believe ownership of stock causes directors and officers to have the same interests as shareholders, but it also gives them the ability to vote as shareholders for matters that are in their personal interest, which may be contrary to the wishes of other shareholders. Shareholders will not necessarily be provided with an opportunity to evaluate the specific merits or risks of one or more potential investment, acquisition or disposition transactions. Any decision regarding a potential investment or acquisition transaction will be made by our board of directors. Except in limited circumstances as required by applicable law, consummation of an acquisition will not require the approval of holders of common stock. Accordingly, shareholders may not have an opportunity to evaluate and affect the board of directors' decision regarding most potential investment or acquisition transactions and/or certain disposition transactions.

In connection with the Disbursement business, we depend on our relationship with higher education institutions and, in turn, student usage of our products and services for future growth of our BankMobile business.

The future growth of our BankMobile business depends, in part, on our ability to enter into agreements with higher education institutions. Our contracts with these clients can generally be terminated at will and, therefore, there can be no assurance that we will be able to maintain these clients. We may also be unable to maintain our agreements with these clients on terms and conditions acceptable to us. In addition, we may not be able to continue to establish new relationships with higher education institution clients. The termination of our current client contracts or our inability to continue to attract new clients could have a material adverse effect on our business, financial condition and results of operations.

Establishing new client relationships and maintaining current ones are also essential components of our strategy for attracting new student customers, deepening the relationships we have with existing customers and maximizing customer usage of our products and services. A reduction in enrollment, a failure to attract and maintain student customers, as well as any future demographic or other trends that reduce the number of higher education students could materially and adversely affect BankMobile's capability for both revenue and cash generation and, as a result, could have a material adverse effect on our business, financial condition and results of operations.

BankMobile's Disbursement business depends on the current government financial aid regime that relies on the outsourcing of financial aid disbursements through higher education institutions.

In general, the U.S. Federal Government distributes financial aid to students through higher education institutions as intermediaries. BankMobile's Disbursement business provides our higher education institution clients an electronic system for improving the administrative efficiency of this refund disbursement process. If the government, through legislation or regulatory action, restructures the existing financial aid regime in such a way that reduces or eliminates the intermediary role played by financial institutions serving higher education institutions or limits or regulates the role played by service providers such as we, our business, results of operations and BankMobile's prospects for future growth could be materially and adversely affected.

A change in the availability of financial aid, as well as U.S. budget constraints, could materially and adversely affect our financial performance by reducing demand for BankMobile's services.

The higher education industry depends heavily upon the ability of students to obtain financial aid. As part of our contracts with our higher education institution clients that use BankMobile's Disbursement business services, students' financial aid and other refunds are sent to us for disbursement. The fees that we charge most of our Disbursement business higher education institution clients are based on the number of financial aid disbursements that we make to students. In addition, our relationships with Disbursement business higher education institution clients provide us with a market for BankMobile. Consequently, a change in the availability or amount of financial aid that restricts client use of our Disbursement business service or otherwise limits our ability to attract new higher education institution clients could materially and adversely affect our financial performance. Also, decreases in the amount of financial aid disbursements from higher education institutions to students could materially and adversely affect our financial performance. Future legislative and executive-branch efforts to reduce the U.S. federal budget deficit or worsening economic conditions may require the government to severely curtail its financial aid spending, which could materially and adversely affect our business, financial condition and results of operations.

Providing disbursement services to higher education institutions is an uncertain business; if the market for BankMobile's products does not continue to develop, we will not be able to grow this portion of our business.

The success of BankMobile's Disbursement business will depend, in part, on our ability to generate revenues by providing financial transaction services to higher education institutions and their students. The market for these services has evolved, and the long-term viability and profitability of this market is unproven. Our business will be materially and adversely affected if we do not develop and market products and services that achieve and maintain market acceptance. Outsourcing disbursement services may not become as widespread in the higher education industry as we anticipate, and our products and services may not achieve continued commercial success. Also, the DOE has proposed issuing prepaid cards directly to students, which may have the effect of reducing the need for outsourcing disbursement services or the volume of activity processed by the disbursement services. In addition, higher education institution clients could discontinue using our services and return to in-house disbursement solutions. If the outsourcing of disbursement services does not become as widespread as we anticipate, if higher education institution clients return to their prior methods of disbursement, or if prepaid card services displace the current disbursement process, our growth prospects, business, financial condition and results of operations could be materially and adversely affected.

Our business and future success may suffer if we are unable to successfully implement our strategy to convert student deposit customers to lifetime BankMobile customers.

A significant component of our growth strategy is dependent on our ability to have students of our higher education institution clients select BankMobile during the refund disbursement selection process and to convert those student BankMobile customers, along with the existing student customers we acquired through the Disbursement business acquisition, into lifetime customers with BankMobile as their primary banking relationship. In particular, our growth strategy depends on our ability to successfully cross-sell our core banking products and services to these student customers after they graduate from college. We may not be successful in implementing this strategy because these student customers and potential student customers may believe our products and services are unnecessary or unattractive. Our failure to sell our products and services to students after they graduate and to attract new student customers could have a material adverse effect on our prospects, business, financial condition and results of operations.

Breaches of security measures, unauthorized access to or disclosure of data relating to our higher education institution clients or BankMobile and student BankMobile account holders, computer viruses or unauthorized software ("malware"), fraudulent activity and infrastructure failures could materially and adversely affect our reputation or harm our business.

Companies that process and transmit cardholder information have been specifically and increasingly targeted by sophisticated criminal organizations in an effort to obtain the information and utilize it for fraudulent transactions. The encryption software and the other technologies we use to provide security for storage, processing and transmission of confidential customer and other information may not be effective to protect against data-security breaches. The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers.

Unauthorized access to our computer systems or those of our third-party service providers, could result in the theft or publication of the information or the deletion or modification of sensitive records, and could cause interruptions in our operations. Any inability to prevent security breaches could damage our relationships with our higher education institution customers, cause a decrease in transactions by individual cardholders, expose us to liability for unauthorized purchases and subject us to network fines. These claims also could result in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices. Further, a significant data-security breach could lead to additional regulation, which could impose new and costly compliance obligations. Any material increase in our costs resulting from litigation or additional regulatory burdens being imposed upon us or litigation could have a material adverse effect on our operating revenues and profitability.

In addition, our higher education institution clients and student BankMobile account holders disclose to us certain “personally identifiable” information, including student contact information, identification numbers and the amount of credit balances, which they expect we will maintain in confidence. It is possible that hackers, customers or team members acting unlawfully or

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contrary to our policies or other individuals, could improperly access our or our vendors' systems and obtain or disclose data about our customers. Further, because customer data may also be collected, stored or processed by third-party vendors, it is possible that these vendors could intentionally, negligently or otherwise disclose data about our clients or customers.

We rely to a large extent upon sophisticated information technology systems, databases and infrastructure, and take reasonable steps to protect them. However, due to their size, complexity, content and integration with or reliance on third-party systems, they are vulnerable to breakdown, malicious intrusion, natural disaster and random attack, all of which pose a risk of exposure of sensitive data to unauthorized persons or to the public.

A cybersecurity breach of our information systems could lead to fraudulent activity such as identity theft, losses on the part of our banking customers, additional security costs, negative publicity and damage to our reputation and brand. In addition, our customers could be subject to scams that may result in the release of sufficient information concerning themselves or their accounts to allow others unauthorized access to their accounts or our systems (e.g., "phishing" and "smishing"). Claims for compensatory or other damages may be brought against us as a result of a breach of our systems or fraudulent activity. If we are unsuccessful in defending against any resulting claims against us, we may be forced to pay damages, which could materially and adversely affect our financial condition and results of operations.

Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Further, computer viruses or malware could infiltrate our systems, thus disrupting our delivery of services and making our applications unavailable. Although we utilize several preventative and detective security controls in our network, they may be ineffective in preventing computer viruses or malware that could damage our relationships with our merchant customers, cause a decrease in transactions by individual cardholders, or cause us to be in non-compliance with applicable network rules and regulations.

In addition, a significant incident of fraud or an increase in fraud levels generally involving our products could result in reputational damage to us, which could reduce the use of our products and services. Such incidents could also lead to a large financial loss as a result of the protection for unauthorized purchases we provide to BankMobile customers given that we may be liable for any uncollectible account holder overdrafts and any other losses due to fraud or theft. Such incidents of fraud could also lead to regulatory intervention, which could increase our compliance costs. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on our services may increase our costs, which could materially and adversely affect our business, financial condition and results of operations. Accordingly, account data breaches and related fraudulent activity could have a material adverse effect on our future growth prospects, business, financial condition and results of operations.

A disruption to our systems or infrastructure could damage our reputation, expose us to legal liability, cause us to lose customers and revenue, result in the unintentional disclosure of confidential information or require us to expend significant efforts and resources or incur significant expense to eliminate these problems and address related data and security concerns. The harm to our business could be even greater if such an event occurs during a period of disproportionately heavy demand for our products or services or traffic on our systems or networks.

Prior to our acquisition of the Disbursement business, the Federal Reserve Board and FDIC took regulatory enforcement action against Higher One, which subjected us to regulatory inquiry and potential regulatory enforcement action, which may result in liabilities adversely affecting our business, financial conditions and/or results of operations or in reputational harm.

Since August 2013 until the acquisition of the Disbursement business, we provided deposit accounts and services to college students through Higher One, which had relationships with colleges and universities in the United States, using Higher One's technological services. Because Higher One was not a bank, it had to partner with one or more banks to provide the deposit accounts and services to students. Higher One and one of Higher One's former bank partners (the "predecessor bank"), announced in May 2014 that the Federal Reserve Board notified them that certain disclosures and operating processes of these entities may have violated certain laws and regulations and may result in penalties and restitution. In May 2014, the Federal Reserve also informed us, as one of Higher One's bank partners,

that it was recommending a regulatory enforcement action be initiated against us based on the same allegations.
In July 2014, the predecessor bank referenced above, which no longer is a partner with Higher One, entered into a consent order to cease and desist with the Federal Reserve Board pursuant to which it agreed to pay a total of $3.5 million in civil money penalties and an additional amount that it may be required to pay in restitution to students in the event Higher One is

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unable to pay the restitution obligations, if any, imposed on Higher One ("back-up restitution"). We believe that the circumstances of its relationship with Higher One and the student customers are different than the relationship between the predecessor bank and Higher One and the student customers.

In December 2015, Higher One entered into consent orders with both the Federal Reserve Board and the FDIC. Under the consent order with the Federal Reserve Board, Higher One agreed to pay $2.2 million in civil money penalties and $24 million in restitution to students. Under the consent order with the FDIC, Higher One agreed to pay an additional $2.2 million in civil money penalties and $31 million in restitution to students. In addition, a third partner bank, which is regulated by the FDIC, also entered into a consent order to cease and desist with the FDIC pursuant to which it agreed to pay $1.8 million in civil money penalties and an additional amount in restitution to students in the event Higher One is unable to meet its restitution obligation.

We believe that we identified key critical alleged compliance deficiencies within 30 days of first accepting deposits through our relationship with Higher One and caused such deficiencies to be remediated within approximately 120 days. In addition, we understand that the total amount of fees that Higher One collected from students who opened accounts with us during the relevant time period is substantially less than the total fees that Higher One collected from students who opened deposit accounts at the other partner banks during the relevant time period. In addition, as Higher One paid the restitution and deposited such monies to pay the required restitution, we did not expect that backup restitution would be required.

Nonetheless, as previously disclosed, we had been in discussions with the Federal Reserve Board regarding these matters from 2013 and in an effort to move forward, on December 6, 2016, we agreed to the issuance by the Federal Reserve Board of a combined Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Order and agreed to a penalty of $960 thousand. We had previously set aside a reserve for the civil money penalty and made payment in 2016.

We remain subject to the jurisdiction and examination of the Federal Reserve Board, and further action could be taken to the extent we do not comply with the terms of the Order or if the Federal Reserve Board were to identify additional violations of applicable laws and regulations. Any further action could have a material adverse effect on our business, financial conditions and/or results of operations or our reputation.

Termination of, or changes to, the MasterCard association registration could materially and adversely affect our business, financial condition and results of operations.

The student checking account debit cards issued in connection with the Disbursement business are subject to MasterCard association rules that could subject us to a variety of fines or penalties that may be levied by MasterCard for acts or omissions by us or businesses that work with us. The termination of the card association registration held by us or any changes in card association or other network rules or standards, including interpretation and implementation of existing rules or standards, that increase the cost of doing business or limit our ability to provide our products and services could materially and adversely affect our business, financial condition and results of operations.

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 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 and could result in the BankMobile segment operating unprofitably, charging additional fees to students to replace the lost revenue, or the loss of our existing white label partner.

We intend to engage in acquisitions of other businesses from time to time. These acquisitions may not produce revenue or earnings enhancements or cost savings at levels, or within time frames, originally anticipated and may result in unforeseen integration difficulties.

We regularly evaluate opportunities to strengthen our current market position by acquiring and investing in banks and in other complementary businesses, or opening new branches, and when appropriate opportunities arise, subject to regulatory approval, we plan to engage in acquisitions of other businesses and in opening new branches. Such transactions could, individually or in the aggregate, have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to our business. For example, we could issue additional shares of Voting Common Stock in a purchase transaction, which could dilute current shareholders' value or ownership interest. These activities could require us to use a substantial amount of cash or other liquid assets and/or incur debt. In addition, if goodwill recorded in connection with acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

Our acquisition activities could involve a number of additional risks, including the risks of:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating the terms of potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- being potentially exposed to unknown or contingent liabilities of banks and businesses we acquire;
- being required to expend time and expense to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key team members and customers as a result of an acquisition that is poorly received; and
- incurring significant problems relating to the conversion of the financial and customer data of the entity being acquired into our financial and customer product systems.

Additionally, in evaluating potential acquisition opportunities, we may seek to acquire failed banks through FDIC-assisted acquisitions. While the FDIC may, in such acquisitions, provide assistance to mitigate certain risks, such as sharing in exposure to loan losses and providing indemnification against certain liabilities, of the failed institution, we may not be able to accurately estimate our potential exposure to loan losses and other potential liabilities, or the difficulty of integration, in acquiring such institutions.

Depending on the condition of any institutions or assets that are acquired, any acquisition may, at least in the near term, materially adversely affect our capital and earnings and, if not successfully integrated following the acquisition, may continue to have such effects. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect on levels of reported net income, return on equity and return on assets and the ability to achieve our business strategy and maintain market value.

Our acquisitions generally will require regulatory approvals, and failure to obtain them would restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of community banking franchises and other businesses. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us may

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require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve, the OCC and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under CRA;
- the effectiveness of the applicant in combating money laundering activities; and
- the extent to which the acquisition would result in greater or more concentrated risks to the stability of the United States banking or financial system.

Such regulators could deny our application based on the above criteria or other considerations, which could restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of any acquisition.

The success of future transactions will depend on our ability to successfully identify and consummate acquisitions of banking franchises that meet our investment objectives. Because of the intense competition for acquisition opportunities and the limited number of potential targets, we may not be able to successfully consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

Our acquisition history should be viewed in the context of the recent opportunities available to us as a result of the confluence of our access to capital at a time when market dislocations of historical proportions resulted in attractive asset acquisition opportunities. As conditions change, we may prove to be unable to execute our acquisition strategy, which could materially and adversely affect us. The success of future transactions will depend on our ability to successfully identify and consummate transactions with target banking franchises that meet our investment objectives. There are significant risks associated with our ability to identify and successfully consummate these acquisitions. There are a limited number of acquisition opportunities, and we expect to encounter intense competition from other banking organizations competing for acquisitions and also from other investment funds and entities looking to acquire financial institutions. Many of these entities are well established and have extensive experience in identifying and consummating acquisitions directly or through affiliates. Many of these competitors possess ongoing banking operations with greater financial, technical, human and other resources and access to capital than we do, which could limit the acquisition opportunities we pursue. Our competitors may be able to achieve greater cost savings, through consolidating operations or otherwise, than we could. These competitive limitations give others an advantage in pursuing certain acquisitions. In addition, increased competition may drive up the prices for the acquisitions we pursue and make the other acquisition terms more onerous, which would make the identification and successful consummation of those acquisitions less attractive to us. Competitors may be willing to pay more for acquisitions than we believe is justified, which could result in our having to pay more for them than we prefer or to forego the opportunity. As a result of the foregoing, we may be unable to successfully identify and consummate acquisitions on attractive terms, or at all, that are necessary to grow our business.

We will generally establish the pricing of transactions and the capital structure of banking franchises to be acquired by us on the basis of financial projections for such banking franchises. In general, projected operating results will be based on the judgment of our management team. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed, and the projected results may vary significantly from actual results. General economic, political and market conditions can have a material adverse impact on the reliability of such projections. In the event that the projections made in connection with our acquisitions, or future projections with respect to new acquisitions, are not accurate, such inaccuracies could materially and adversely affect us.

Some institutions we could acquire may have distressed assets, and there can be no assurance that we will be able to realize the value predicted from these assets or that we will make sufficient provision for future losses in the value of,

or accurately estimate the future write-downs taken in respect of, these assets.
Loan portfolios and other assets acquired in transactions may experience increases in delinquencies and losses in the loan portfolios, or in amounts that exceed initial forecasts developed during the due diligence investigation prior to acquiring those

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assets. In addition, asset values may be impaired in the future due to factors that cannot currently be predicted, including deterioration in economic conditions and subsequent declines in collateral values and credit quality indicators. Any of these events could adversely affect the financial condition, liquidity, capital position and value of institutions acquired and of our business as a whole. Further, as a registered bank holding company, if we acquire bank subsidiaries, they may become subject to cross-guaranty liability under applicable banking law. If we do so and any of the foregoing adverse events occur with respect to one subsidiary, they may adversely affect other subsidiaries. Asset valuations are estimates of value, and there is no certainty that we will be able to sell assets of target institutions at the estimated value, even if it is determined to be in our best interests to do so. The institutions we may target may have substantial amounts of asset classes for which there is currently limited or no marketability.

As a result of an investment or acquisition transaction, we may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on our financial condition and results of operations.

We conduct due diligence investigations of target institutions we intend to acquire. Due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. Even if extensive due diligence is conducted on a target institution with which we may be combined, this diligence may not reveal all material issues that may affect a particular target institution, and factors outside our control, or the control of the target institution, may later arise. If, during the diligence process, we fail to identify issues specific to a target institution or the environment in which the target institution operates, we may be forced to later write down or write off assets, restructure operations or incur impairment or other charges that could result in reporting losses. These charges may also occur if we are not successful in integrating and managing the operations of the target institution with which we combine. In addition, charges of this nature may cause us to violate net-worth or other covenants to which we may be subject as a result of assuming preexisting debt held by a target institution or by virtue of obtaining debt financing.

Resources could be expended in considering or evaluating potential investment or acquisition transactions that are not consummated, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another business.

We anticipate that the investigation of each specific target institution and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific investment or acquisition transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific target institution, we may fail to consummate the investment or acquisition transaction for any number of reasons, including those beyond our control. Any such event will result in a loss of the related costs incurred and could result in additional costs or expenses, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another institution and our reported earnings.

If we do not open new branches or do not achieve targeted profitability on new branches, earnings may be reduced.

Our ability to open or acquire branches is subject to regulatory approvals. We cannot predict whether the banking regulators will agree with our growth plans or if or when they will provide the necessary branch approvals. Numerous factors contribute to the performance of a new branch, such as a suitable location, competition, our ability to hire and retain qualified personnel, and the effectiveness of our marketing strategy. It takes time for a new branch to generate significant deposits and loan volume to offset expenses, some of which, like salaries and occupancy expense, are relatively fixed costs. Additionally, there can be no assurance that any of these new branches will ever become profitable. During the period of time before a branch can become profitable, operating a branch will negatively impact net income.

To the extent that we are unable to increase loans through organic core loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

In addition to growing our business through strategic acquisitions, we also intend to grow our business through organic core loan growth. While loan growth has been strong, and our loan balances have increased over the last several fiscal years, much of the loan growth came from multi-family and commercial real estate lending. If we are unsuccessful in diversifying our loan originations, or if we do not grow the existing business lines, our results of operations and financial condition could be negatively impacted.

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We may not be able to effectively manage our growth.

Our future operating results and financial condition depend to a large extent on our ability to successfully manage our growth. Our growth has placed, and it may continue to place, significant demands on our operations and management. Whether through additional acquisitions or organic growth, our current plan to expand our business is dependent upon our ability to:

- continue to implement and improve our operational, credit underwriting and administration, financial, accounting, enterprise risk management and other internal and disclosure controls and procedures and our reporting systems and processes in order to manage a growing number of client relationships;
- comply with changes in, and an increasing number of, laws, rules and regulations, including those of any national securities exchange on which any of our securities become listed;
- scale our technology and other systems' platforms;
- maintain and attract appropriate staffing;
- operate profitably or raise capital; and
- support our asset growth with adequate deposits, funding and liquidity while expanding our net interest margin and meeting our customers' and regulators' liquidity requirements.

We may not successfully implement improvements to, or integrate, our management information and control systems, credit underwriting and administration, internal and disclosure controls, and procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our controls and procedures must be able to accommodate an increase in loan volume in various markets and the infrastructure that comes with new banking centers and banks. Our growth strategy may divert management from our existing business and may require us to incur additional expenditures to expand our administrative and operational infrastructure and, if we are unable to effectively manage and grow our banking franchise, including to the satisfaction of our regulators, we could be materially and adversely affected. In addition, if we are unable to manage our current and future expansion in our operations, we may experience compliance, operational and regulatory problems and delays, have to slow our pace of growth or even stop our market and product expansion, or have to incur additional expenditures beyond current projections to support such growth, any one of which could materially and adversely affect us. If we experience difficulties with the development of new business activities or the integration process of acquired businesses, the anticipated benefits of any particular acquisition may not be realized fully, or at all, or may take longer to realize than expected. Additionally, we may be unable to recognize synergies, operating efficiencies and/or expected benefits within expected time frames and cost projections, or at all. We also may not be able to preserve the goodwill of an acquired financial institution. Our growth could lead to increases in our legal, audit, administrative and financial compliance costs, which could materially and adversely affect us.

If our techniques for managing risk are ineffective, we may be exposed to material unanticipated losses.

In order to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to material risks, such as credit, interest rate, operational, legal and reputational risks. Our risk management methods may prove to be ineffective due to their design, implementation or the degree to which we adhere to them, or as a result of the lack of adequate, accurate or timely information or otherwise. If our risk management efforts are ineffective, we could suffer losses that could have a material adverse effect on our business, financial condition or results of operations. In addition, we could be subject to litigation, particularly from our customers, and sanctions or fines from regulators. Our techniques for managing the risks we face may not fully mitigate the risk exposure in all economic or market environments, including exposure to risks that we might fail to identify or anticipate.

We are dependent upon maintaining an effective system of internal controls to provide reasonable assurance that transactions and activities are conducted in accordance with established policies and procedures and are captured and reported in the financial statements. Failure to comply with the system of internal controls may result in events or losses which could adversely affect our operations, net income, financial condition, reputation and compliance with laws and regulations.

Our system of internal controls, including internal controls over financial reporting, is an important element of our risk-management framework. Management regularly reviews and seeks to improve our internal controls, including annual review of key policies and procedures and annual review and testing of key internal controls over financial reporting. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and expectations of employee conduct and can only provide reasonable, not absolute, assurance that the objectives of the internal control structure are met. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and

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procedures, could have a material adverse effect on our operations, net income, financial condition, reputation, compliance with laws and regulations, or may result in untimely or inaccurate financial reporting.

As previously disclosed, in November 2018, Customers determined that its previously issued consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015, the related report of BDO included in the 2017 Form 10-K filed on February 23, 2018, and interim consolidated financial statements as of and for the three months ended March 31, 2018 and 2017 and the three and six months ended June 30, 2018 and 2017 (collectively, the "Affected Periods"), should no longer be relied upon because of misclassifications of cash flow activities associated with Customers' commercial mortgage warehouse lending activities between operating and investing activities on its consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale rather than held for investment on its consolidated balance sheets. These misclassifications had no effect on total cash balances, total loans, the allowance for loan losses, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted EPS, return on average assets, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metric, including non-GAAP performance metrics, that Customers routinely discusses with analysts and investors. Customers filed an amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2017 and amended Quarterly Reports on Form 10-Q/A for the quarterly periods ended March 31, 2018 and June 30, 2018 on November 30, 2018 to present the restated financial statements and related disclosures.

In connection with the restatement, management determined that a material weakness existed in internal control over financial reporting solely with respect to the misclassification of cash flows associated with Customers' commercial mortgage warehouse lending activities between operating and investing activities on its consolidated statements of cash flows because the related loan balances were incorrectly classified as held for sale rather than held for investment.

Customers 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. These efforts have remediated the identified material weakness in internal control over financial reporting as of December 31, 2018.

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 or strengthen internal control over financial reporting. If Customers' remediation efforts do not operate effectively or if it is unsuccessful in implementing or following its remediation efforts, this may result in untimely or inaccurate reporting of Customers' financial results.

We may not be able to meet the cash flow requirements of our loan funding obligations, deposit withdrawals, or other business needs and fund our asset growth unless we maintain sufficient liquidity.

We must maintain sufficient liquidity to fund our balance sheet growth in order to successfully grow our revenues, make loans, and repay deposit and other liabilities as these mature or are drawn. This liquidity can be gathered in both wholesale and non-wholesale funding markets. Our asset growth over the past few years has been funded with various forms of deposits and wholesale funding, including brokered and wholesale time deposits, FHLB advances and Federal funds line borrowings. Total wholesale deposits including brokered and municipal deposits were 28.7% of total deposits at December 31, 2018. Our gross loan to deposit ratio was 119.6% at December 31, 2018, and our loan to deposit ratio excluding the mortgage warehouse portfolio funded in part by short-term FHLB borrowings was 99.96% at December 31, 2018. Wholesale funding can cost more than deposits generated from our traditional branch system and customer relationships and is subject to certain practical limits such as our liquidity policy limits, our available collateral for FHLB borrowings capacity and Federal funds line limits with our lenders. Additionally, regulators consider wholesale funding beyond certain points to be imprudent and might suggest or require that future asset growth be reduced or halted. In the absence of appropriate levels and mix of funding, we might need to reduce interest-earning asset growth through the reduction of current production, sales of loans and/or the sale of participation interests in future and current loans. This might reduce our future growth and net income.

The amount of funds loaned to us is generally dependent on the value of the eligible collateral pledged and our financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate

certain types of collateral and otherwise modify or even terminate their loan programs, if further disruptions in the capital markets occur. Any change to or termination of our borrowings from the FHLB or correspondent banks could have an adverse effect on our profitability and financial condition, including liquidity.
We may not be able to develop and retain a strong core deposit base and other low-cost, stable funding sources.
We depend on checking, savings and money market deposit account balances and other forms of customer deposits as a primary source of funding for our lending activities. We expect that our future loan growth will largely depend on our ability to

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retain and grow a strong, low-cost deposit base. Because 24.3% of our deposit base as of December 31, 2018 was time deposits, it may prove harder to maintain and grow our deposit base than would otherwise be the case, especially since many of these deposits currently pay interest at above-market rates. As of December 31, 2018, $1.5 billion, or 84.2%, of our total time deposits, are scheduled to mature through December 31, 2019. We are working to transition certain of our customers to lower- cost traditional bank deposits as higher-cost funding, such as time deposits, mature. If interest rates increase, whether due to changes in inflation, monetary policy, competition or other factors, we would expect to pay higher interest rates on deposits, which would increase our funding costs and compress our net interest margin. We may not succeed in moving our deposits to lower-yielding savings and transactions products, which could materially and adversely affect us. In addition, with concerns about bank failures over the past several years and the end of the FDIC's non-interest transaction deposit guarantee program on December 31, 2012, customers, particularly those who may maintain deposits in excess of insured limits, have become concerned about the extent to which their deposits are insured by the FDIC. Our customers may withdraw deposits to ensure that their deposits with us are fully insured and may place excess amounts in other institutions or make investments that are perceived as being more secure and/or higher yielding. Further, even if we are able to maintain and grow our deposit base, deposit balances can decrease when customers perceive alternative investments, such as the stock market, will provide a better risk/return tradeoff. If customers move money out of bank deposits, we could lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income. Deposit balances associated with the BankMobile business segment can vary over the course of the year, from a seasonal low of approximately $358 million in June when student enrollment is lower to a high of as much as $732 million in September when student enrollment is high and individual account balances are generally at their peak. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition, including liquidity.

Our "high-touch" personalized service banking model may be replicated by competitors.

We expect to drive organic growth by employing our Concierge Banking® and single-point-of-contact strategies, which provide specific relationship managers or private bankers for all customers. Many of our competitors provide similar services, and others may replicate our model. Our competitors may have greater resources than we do and may be able to provide similar services more quickly, efficiently and extensively. To the extent others replicate our model, we could lose what we view as a competitive advantage, and our financial condition and results of operations may be adversely affected.

Competitors' technology-driven products and services and improvements to such products and services may adversely affect our ability to generate core deposits through mobile banking.

Our organic growth strategy focuses on, among other things, expanding market share through our "high-tech" model, which includes remote account opening, remote deposit capture, mobile and digital banking. These technological advances, such as BankMobile, are intended to allow us to generate additional core deposits at a lower cost than generating deposits through opening and operating branch locations. Some of our competitors may have greater resources to invest in technology and may be better equipped to market new technology-driven products and services. This may result in limiting, reducing or otherwise adversely affecting our growth strategy in this area and our access to deposits through mobile banking. In addition, to the extent we fail to keep pace with technological changes or incur respectively large expenses to implement technological changes, our business, financial condition and results of operations may be adversely affected.

We may suffer losses due to minority investments in other financial institutions or related companies.

From time to time, we may make or consider making minority investments in other financial institutions or technology companies in the financial services business. If we do so, we may not be able to influence the activities of companies in which we invest and may suffer losses due to these activities. Investments in foreign companies could pose additional risks as a result of distance, language barriers and potential lack of information (for example, foreign institutions, including foreign financial institutions, may not be obligated to provide as much information regarding their operations as those in the United States). Our investment in Religare, which is a diversified financial services company in India, represents such an investment. In fourth quarter 2016, we announced our decision to exit our investment in Religare. As a result of that decision, we recorded an impairment loss of $7.3 million in earnings in fourth quarter 2016 and adjusted our cost basis of the Religare securities to their estimated fair value of $15.2 million at December 31, 2016. During the year ended December 31, 2017, Customers recorded OTTI losses of $12.9 million related to its equity holdings in 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 AOCI with no adjustment for deferred taxes as Customers did not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment. At December 31, 2018, Customers continues to not have a tax strategy in place capable

of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. 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 AOCI 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 $1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. As of December 31, 2018, the fair value of the Religare equity securities was $1.7 million. Future declines in the market price per share of the Religare common stock and adverse changes in foreign currency exchange rates, may have an adverse effect on our financial condition and results of operations.
We are required to hold capital for United States bank regulatory purposes to support our investment in Religare securities.
Under the U.S. capital adequacy rules, which became effective as of January 1, 2015, we have to hold risk-based capital based on the amount of Religare common stock we own. Based upon the implementation of the final U.S. capital adequacy rules, these investments are currently subject to risk weighting of 100% of the amount of the investment; however, to the extent future aggregated carrying value of certain equity exposures exceeds 10% of our then total capital, risk weightings of 300% may apply. Any capital that is required to be used to support our Religare investment will not be available to support our United States operations or Customers Bank, if needed.
Risks Relating to the Regulation of Our Industry
Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which we operate.
As a bank holding company, we are subject to federal supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit our operations significantly and control the methods by which we conduct business, just as they limit those of other banking organizations. In addition, compliance with laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance costs. The Dodd-Frank Act, which imposes significant regulatory and compliance changes on financial institutions, is an example of this type of federal regulation. Many of these regulations are intended to protect depositors, customers, the public, the banking system as a whole, or the FDIC insurance funds, not stockholders. Regulatory requirements and discretion affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. There are laws and regulations which restrict transactions between us and our subsidiaries. These requirements may constrain our operations, and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, financial condition, results of operations and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general, including Customers Bank in particular, at a competitive disadvantage compared to their non-banking competitors. We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identities, business and personal financial information, employment and other matters. We require our team members to agree to keep all such information confidential, and we monitor compliance. Failure to comply with confidentiality requirements could result in material liability and adversely affect our business, financial condition, results of operations and future prospects.
Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. Future changes may have a material adverse effect on our business, financial condition and results of operations.
Federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied or interpreted. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations on us. Compliance with current and potential regulation, as well as regulatory scrutiny, may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance and respond to any

regulatory inquiries or investigations. In addition, press coverage and other public statements that assert some form of wrongdoing by financial services companies (including press coverage and public statements that do not involve us) may result in regulatory inquiries or investigations, which, independent of the outcome, may be time-consuming and expensive and may divert time, effort and resources from our business. Evolving regulations and guidance concerning executive compensation may also impose limitations on us that affect our ability to compete successfully for executive and management talent.

In addition, given the current economic and financial environment, regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies in a manner that impacts our ability to implement our strategy and could affect us in substantial and unpredictable ways and could have a material adverse effect on our business, financial condition and results of operations. Furthermore, the regulatory agencies have extremely broad direction in their interpretation of the regulations and laws and their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If any regulatory agency's assessment of the quality of our assets, operations, lending practices, investment practices, capital structure or other assets of our business differs from our assessment, we may be required to take additional charges or undertake or refrain from undertaking actions that would have the effect of materially reducing our earnings, capital ratios and share price.

We operate in a highly regulated environment, and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could materially and adversely affect us.

We are subject to extensive regulation, supervision and legislation that govern almost all aspects of our operations. Intended to protect customers, depositors and the FDIC's DIF and not our shareholders, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business activities, limit the dividends or distributions that we can pay, restrict the ability of our subsidiary bank to engage in transactions with the Bancorp, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs and may make certain products impermissible or uneconomic. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, reputational harm, fines and other penalties, any of which could materially and adversely affect us. Further, any new laws, rules and regulations could make compliance more difficult or expensive and also materially and adversely affect us.

Our use of third-party vendors and our other ongoing third-party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third-party vendors as part of our business and have other ongoing business relationships with other third parties. These types of third-party relationships are subject to increasingly demanding regulatory requirements and attention by federal banking regulators. Regulation requires us to perform enhanced due diligence, perform ongoing monitoring and control our-third party vendors and other ongoing third-party business relationships. In certain cases, we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our-third party vendors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to numerous laws and governmental regulations and to regular examinations by our regulators of our business and compliance with laws and regulations, and our failure to comply with such laws and regulations or to adequately address any matters identified during our examinations could materially and adversely affect us.

Federal banking agencies regularly conduct comprehensive examinations of our business, including our compliance with applicable laws, regulations and policies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, organic and acquisition growth and profitability of our business. Our regulators have extensive discretion in their supervisory and enforcement activities and may impose a variety of remedial actions, conditions or limitations on our business operations if, as a result of an examination, they determined that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or our management were in violation of any law, regulation or policy. Examples of those actions, conditions or limitations include enjoining "unsafe or unsound" practices, requiring affirmative actions to correct any conditions resulting from any asserted violation of law, issuing administrative orders that can be judicially enforced, directing increases in our capital, assessing civil monetary penalties against our officers or directors, removing officers and directors and, if a conclusion was reached that the offending conditions cannot be corrected, or there is an imminent risk of loss to depositors, terminating our deposit insurance. Other actions, formal or informal, that may be imposed could restrict our growth, including regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities or merge with or purchase other financial institutions. The timing of these examinations, including the timing of the resolution of any issues identified by our regulators in the examinations and the final determination by them with respect to the imposition of any remedial actions, conditions or limitations on our business operations, is generally not within our control. We also could suffer reputational harm in the event of any perceived or actual noncompliance with certain laws and regulations. If we become subject to such regulatory actions, we could be materially and adversely affected.

Other litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the latest financial crisis, with regulators and prosecutors focusing on a variety of financial institution practices and requirements. We may, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business. Legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows, depending on, among other factors, the level of our earnings for that period and could have a material adverse effect on our business, financial condition or results of operations.

The FDIC’s restoration plan and the related increased assessment rate could materially and adversely affect us.

The FDIC insures deposits at FDIC-insured depository institutions up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including reducing our profitability or limiting our ability to pursue certain business opportunities.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve, which examines us and our subsidiaries, expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution to serve as a source of strength for the institution. Under this requirement, we could be required to provide financial assistance to Customers Bank or any other subsidiary banks we may own in the future should they experience financial distress.

A capital injection may be required at times when we do not have the resources to provide it, and therefore, we may be required to borrow the funds or raise additional equity capital from third parties. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company’s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its indebtedness. Any financing that must be done by the holding company in order to make the required capital injection may be difficult and expensive and may not be available on attractive terms, or at all, which likely would have a material adverse effect on us.

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The long-term impact of the new regulatory capital standards and the capital rules on U.S. banks is uncertain.
In September 2010, the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. Basel III narrowed the definition of capital, introduced requirements for minimum Tier 1 common capital, increased requirements for minimum Tier 1 capital and total risk-based capital, and changed risk-weighting methodologies. Basel III is being phased in over time until fully phased in by January 1, 2019.
In July 2013, the Federal Reserve adopted a final rule regarding new capital requirements pursuant to Basel III. These rules, which became effective on January 1, 2015, for community banks, increased the required amount of regulatory capital that we must hold, and failure to comply with the capital rules will lead to limitations on the dividend payments to us by Customers Bank and other elective distributions.
In December 2017, the Basel Committee on Banking Supervision published standards that it described as the finalization of the Basel III regulatory framework (commonly referred to as Basel IV). Among other things, these standards revise the Basel Committee's standardized approach for credit risk and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced-approaches institutions and not to us. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.
Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as we, and non-bank financial companies that are supervised by the Federal Reserve. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards for us.
We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.
The federal Bank Secrecy Act, the Uniting and Strengthening America by PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by OFAC. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.
Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.
Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.
Loans that we make through certain federal programs are dependent on the Federal Government's continuation and support of these programs and on our compliance with their requirements.

We participate in various U.S. Government agency guarantee programs, including programs operated by the SBA. We are responsible for following all applicable U.S. Government agency regulations, guidelines and policies whenever we originate loans as part of these guarantee programs. If we fail to follow any applicable regulations, guidelines or policies associated with

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a particular guarantee program, any loans we originate as part of that program may lose the associated guarantee, exposing us to credit risk to which we would not otherwise have been exposed or underwritten as part of our origination process for U.S. Government agency guaranteed loans, or result in our inability to continue originating loans under such programs. The loss of any guarantees for loans we have extended under U.S. Government agency guarantee programs or the loss of our ability to participate in such programs could have a material adverse effect on our business, financial condition or results of operations.

In connection with our acquisition of the Disbursement business, we are subject to further substantial federal and state governmental regulation related to the Disbursement business that could change and thus force us to make modifications to the Disbursement business. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply could have a material adverse effect on our business. Additionally, increased regulatory requirements on the Disbursement business may increase costs, which could materially and adversely affect our business, financial condition and/or operating results.

As a third-party servicer under the Title IV regulations, we are directly or indirectly subject to a variety of federal and state laws and regulations. Our contracts with most of our higher education institution clients require us to comply with applicable laws and regulations, including:

- Title IV of the Higher Education Act of 1965, or Title IV;
- the Family Educational Rights and Privacy Act of 1975;
- the USA PATRIOT Act and related anti-money laundering requirements; and
- certain federal rules regarding safeguarding personal information, including rules implementing the privacy provisions of GLBA.

Higher Education Regulations

Third-Party Servicer. Because of the services we provide to some institutions with regard to the handling of Title IV funds, we are considered a “third-party servicer” under the Title IV regulations. Those regulations require a third-party servicer to submit annually a compliance audit conducted by outside independent auditors that cover the servicer’s Title IV activities. Each year we must submit a “Compliance Attestation Examination of the Title IV Student Financial Assistance Programs” audit to the DOE, which includes a report by an independent audit firm. This yearly compliance audit submission to DOE provides comfort to our higher education institution clients that we are in compliance with the third-party servicer regulations that may apply to us. We also provide this compliance audit report to clients upon request to help them fulfill their compliance audit obligations as Title IV participating institutions.

Under DOE’s regulations, a third-party servicer that contracts with a Title IV institution acts in the nature of a fiduciary in the administration of Title IV programs. Among other requirements, the regulations provide that a third-party servicer is jointly and severally liable with its client institution for any liability to DOE arising out of the servicer’s violation of Title IV or its implementing regulations, which could subject us to material fines related to acts or omissions of entities beyond our control. DOE is also empowered to limit, suspend or terminate the violating servicer’s eligibility to act as a third-party servicer and to impose significant civil penalties on the violating servicer. Additionally, on behalf of our higher education institution clients, we are required to comply with DOE’s cash management regulations regarding payment of financial aid credit balances to students and providing bank accounts to students that may be used for receiving such payments. In the event DOE concluded that we had violated Title IV or its implementing regulations and should be subject to one or more of these sanctions, our business and results of operations could be materially and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

On May 18, 2015, DOE published its NPRM on program integrity and improvement issues. Final rules relating to Title IV cash management were published in the Federal Register on October 30, 2015. The Final Rules included, among others, provisions related to (i) restrictions on the ability of higher education institutions and third-party servicers like us to market financial products to students including sending unsolicited debit cards to students, (ii) prohibitions on the assessment of certain types of account fees on student account holders and (iii) requirements related to ATM access for student account holders that became effective as of July 1, 2016. Although the complete impact of the Final Rules are unknown, there could be a significant negative impact on the Disbursement business and, in turn, our business.

FERPA. Our higher education institution clients are subject to FERPA, which provides, with certain exceptions, that an educational institution that receives any federal funding under a program administered by DOE may not have a policy or practice of disclosing education records or “personally identifiable information” from education records, other than directory information, to third parties without the student’s or parent’s written consent. Our higher education institution clients that use

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the Disbursement business services disclose to us certain non-directory information concerning their students, including contact information, student identification numbers and the amount of students' credit balances. We believe that our higher education institution clients may disclose this information to us without the students' or their parents' consent pursuant to one or more exceptions under FERPA. However, if DOE asserts that we do not fall into one of these exceptions or if future changes to legislation or regulations require student consent before our higher education institution clients can disclose this information to us, a sizable number of students may cease using our products and services, which could materially and adversely affect our business, financial condition and results of operations.
Additionally, as we are indirectly subject to FERPA, we may not permit the transfer of any personally identifiable information to another party other than in a manner in which a higher education institution may disclose it. In the event that we re-disclose student information in violation of this requirement, FERPA requires our clients to suspend our access to any such information for a period of five years. Any such suspension could have a material adverse effect on our business, financial condition and results of operations.
State Laws. We may also be subject to similar state laws and regulations, including those that restrict higher education institutions from disclosing certain personally identifiable information of students. State attorneys general and other enforcement agencies may monitor our compliance with state and federal laws and regulations that affect our business, including those pertaining to higher education and banking, and conduct investigations of our business that are time consuming and expensive and could result in fines and penalties that have a material adverse effect on our business, financial condition and results of operations.
Additionally, individual state legislatures may propose and enact new laws that restrict or otherwise affect our ability to offer our products and services as we currently do, which could have a material adverse effect on our business, financial condition and results of operations.
Reviews performed by the Internal Revenue Service and state taxing authorities for the fiscal years that remain open for investigation may result in a change to income taxes recorded in our consolidated financial statements and adversely affect our results of operations.
We are subject to U.S. federal income tax as well as income tax of various states primarily in the mid-Atlantic region of the United States. Years that remain open for potential review by (i) the IRS are 2015 through 2017 and (ii) state taxing authorities are 2013 through 2017. The results of these reviews could result in increased recognition of income tax expense in our consolidated financial statements as well as possible fines and penalties.
Our financial results may be adversely affected by changes in U.S. and non-U.S. tax and other laws and regulations.
On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act, was signed into law. The Tax Act includes many provisions that effected Customers' income tax expenses, including reducing its corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, Customers was required to re-measure, through income tax expense in the period of enactment, its deferred tax assets and liabilities using the enacted rate at which Customers expected them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $5.5 million recorded in fourth quarter 2017.
Also on December 22, 2017, the SEC released SAB 118 to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Act's enactment date to complete the necessary accounting.
Customers recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where information necessary to complete the accounting was not available, prepared or analyzed as follows: (i) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Act which allowed for full expensing of qualified property purchased and placed in service after September 27, 2017; (ii) the deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that were paid and deducted on the 2017 income tax returns and (iii) the deferred tax liability for temporary differences associated with equity investments in partnerships were awaiting receipt of Schedules K-1 from outside preparers, which was necessary to determine the 2017 tax impact from these investments.

In a fourth area, Customers made no adjustments to deferred tax assets representing future deductions for accrued compensation that were subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the

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annual deduction for certain compensation paid to certain team members to $1 million. There was uncertainty in applying the newly enacted rules to existing contracts, and Customers was seeking further clarifications before completing its analysis.

Customers completed the calculations for the provisional items with the completion of the 2017 tax returns and completed the analysis of the Section 162(m) rules after further guidance was issued. The impact of the completed calculations to the re-measurement of the deferred taxes resulted in an immaterial change and the analysis of the 162(m) rules resulted in no adjustment.

Risks Relating to Our Securities

Risks Relating to Our Voting Common Stock

The trading volume in our common stock may generally be less than that of other larger financial services companies.

Although the shares of our common stock are listed on the NYSE, the trading volume in our common stock may generally be less than that of many other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence will be dependent upon the individual decisions of investors, over which we have no control. Illiquidity of the stock market, or in the trading of our common stock on the NYSE, could have a material adverse effect on the value of your shares, particularly if significant sales of our common stock, or the expectation of significant sales, were to occur.

We do not expect to pay cash dividends on our common stock in the foreseeable future, and our ability to pay dividends is subject to regulatory limitations.

We have not historically declared nor paid cash dividends on our common stock, and we do not expect to do so in the near future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the ability to service any equity or debt obligations senior to the common stock, our planned growth in assets and other factors deemed relevant by the board of directors. We must be current in the payment of dividends to holders of our Series C, Series D, Series E and Series F Preferred Stock before any dividends can be paid on our common stock.

In addition, as a bank holding company, we are subject to general regulatory restrictions on the payment of cash and in-kind dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval. See “Market Price of Common Stock and Dividends – Dividends on Common Stock” below for further detail regarding restrictions on our ability to pay dividends.

We may issue additional shares of our common stock in the future which could adversely affect the value or voting power of our outstanding common stock.

Actual or anticipated issuances or sales of substantial amounts of our common stock in the future could cause the value of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance. Actual issuances of our common stock could also significantly dilute the voting power of the common stock.

We have also made grants of restricted stock units and stock options with respect to shares of our common stock to our directors and certain team members. We may also issue further equity-based awards in the future. As such shares are issued upon vesting and as such options may be exercised and the underlying shares are or become freely tradeable, the value or voting power of our common stock may be adversely affected, and our ability to sell more equity or equity-related securities could also be adversely affected.

At December 31, 2018, we are not required to issue any additional equity securities to existing holders of our common stock on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities, warrants or options, will generally dilute the holdings of our existing holders of common stock, and such issuances or the perception of such issuances may reduce the market price of our common stock. Our outstanding preferred stock has

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preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to holders of our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital-raising efforts is uncertain. Thus, holders of our common stock bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the value of our common stock.

Future issuances of debt securities, which would rank senior to our common stock upon our liquidation, and future issuances of equity securities, which would dilute the holdings of our existing holders of common stock and may be senior to our common stock for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before holders of our common stock. If we incur debt in the future, our future interest costs could increase and adversely affect our liquidity, cash flows and results of operations.

Provisions in our articles of incorporation and bylaws may inhibit a takeover of us, which could discourage transactions that would otherwise be in the best interests of our shareholders and could entrench management.

Provisions of our articles of incorporation and bylaws and applicable provisions of Pennsylvania law and the federal Change in Bank Control Act may delay, inhibit or prevent someone from gaining control of our business through a tender offer, business combination, proxy contest or some other method even though some of our shareholders might believe a change in control is desirable. They might also increase the costs of completing a transaction in which we acquire another financial services business, merge with another financial institution or sell our business to another financial institution. These increased costs could reduce the value of the shares held by our shareholders upon completion of these types of transactions.

Shareholders may be deemed to be acting in concert or otherwise in control of us and our bank subsidiaries, which could impose prior approval requirements and result in adverse regulatory consequences for such holders.

We are a bank holding company regulated by the Federal Reserve. Any entity (including a “group” composed of natural persons) owning 25% or more of a class of our outstanding shares of voting stock, or a lesser percentage if such holder or group otherwise exercises a “controlling influence” over us, may be subject to regulation as a “bank holding company” in accordance with the BHCA. In addition, (i) any bank holding company or foreign bank with a U.S. presence is required to obtain the approval of the Federal Reserve under the BHCA to acquire or retain 5% or more of a class of our outstanding shares of voting stock and (ii) any person other than a bank holding company may be required to obtain prior regulatory approval under the Change in Bank Control Act to acquire or retain 10% or more of our outstanding shares of voting stock. Any shareholder that is deemed to “control” the company for bank regulatory purposes would become subject to prior approval requirements and ongoing regulation and supervision. Such a holder may be required to divest amounts equal to or exceeding 5% of the voting shares of investments that may be deemed incompatible with bank holding company status, such as an investment in a company engaged in non-financial activities. Regulatory determination of “control” of a depository institution or holding company is based on all of the relevant facts and circumstances. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

Our common stock owned by holders determined by a bank regulatory agency to be acting in concert would be aggregated for purposes of determining whether those holders have control of a bank or bank holding company. Each shareholder obtaining control that is a “company” would be required to register as a bank holding company. “Acting in concert” generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty. Many factors can lead to a finding of acting in concert, including where: (i) the shareholders are commonly controlled or managed; (ii) the shareholders are parties to an oral or written agreement or understanding regarding the acquisition, voting or transfer of control of voting securities of a bank or bank holding company; (iii) the shareholders each own stock in a bank and are also management officials, controlling shareholders, partners or trustees of another company or (iv) both a shareholder and a controlling shareholder, partner, trustee or management official of such shareholder own equity in the bank or bank holding company.

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The FDIC's policy statement imposing restrictions and criteria on private investors in failed bank acquisitions will apply to us and our investors.

In August 2009, the FDIC issued a policy statement imposing restrictions and criteria on private investors in failed bank acquisitions. The policy statement is broad in scope and both complex and potentially ambiguous in its application. In most cases, it would apply to an investor with more than 5% of the total voting power of an acquired depository institution or its holding company; but in certain circumstances, it could apply to investors holding fewer voting shares. The policy statement will be applied to us if we make additional failed bank acquisitions from the FDIC or if the FDIC changes its interpretation of the policy statement or determines at some future date that it should be applied because of our circumstances.

Investors subject to the policy statement could be prohibited from selling or transferring their interests for three years. They also would be required to provide the FDIC with information about the investor and all entities in the investor's ownership chain, including information on the size of the capital fund or funds, its diversification, its return profile, its marketing documents, and its management team and business model. Investors owning 80% or more of two or more banks or savings associations would be required to pledge their proportionate interests in each institution to cross-guarantee the FDIC against losses to the DIF.

Under the policy statement, the FDIC also could prohibit investment through ownership structures involving multiple investment vehicles that are owned or controlled by the same parent company. Investors that directly or indirectly hold 10% or more of the equity of a bank or savings association in receivership also would not be eligible to bid to become investors in the deposit liabilities of that failed institution. In addition, an investor using ownership structures with entities that are domiciled in bank-secrecy jurisdictions would not be eligible to own a direct or indirect interest in an insured depository institution unless the investor's parent company is subject to comprehensive consolidated supervision as recognized by the Federal Reserve, and the investor enters into certain agreements with the U.S. bank regulators regarding access to information, maintenance of records and compliance with U.S. banking laws and regulations. If the policy statement applies, we (including any failed bank we acquire) could be required to maintain a ratio of Tier 1 common equity to total assets of at least 10% for a period of three years and thereafter maintain a capital level sufficient to be well capitalized under regulatory standards during the remaining period of ownership of the investors. Bank subsidiaries also may be prohibited from extending any new credit to investors that own at least 10% of our equity.

Risks Relating to Our Fixed-to-Floating-Rate Non-Cumulative Perpetual Preferred Stock, Series C, Series D, Series E and Series F

The shares of our Series C, Series D, Series E and Series F Preferred Stock are equity securities and are subordinate to our existing and future indebtedness.

The shares of Series C, Series D, Series E and Series F Preferred Stock are equity interests in Customers Bancorp and do not constitute indebtedness of Customers Bancorp or any of our subsidiaries and rank junior to all of our existing and future indebtedness and other non-equity claims with respect to assets available to satisfy claims against us, including claims in the event of our liquidation. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient funds to pay amounts due on any or all of the Series C, Series D, Series E and Series F Preferred Stock then outstanding.

We may not pay dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are payable only if declared by our board of directors or a duly authorized committee of the board. As a bank holding company, we are subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that our bank subsidiary can pay to us as its holding company without regulatory approval.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are non-cumulative.

Dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock are payable only when, as and if authorized and declared by our board of directors or a duly authorized committee of the board. Consequently, if our board of directors or a duly authorized committee of the board does not authorize and declare a dividend for any dividend period, holders of the Series C, Series D, Series E and Series F Preferred Stock will not be entitled to receive any such dividend, and such unpaid dividend will cease to accrue or be payable. If we do not declare and pay dividends on the Series C, Series D, Series E and Series F Preferred Stock, the market prices of the shares of Series C, Series D, Series E and Series F Preferred Stock may decline.

Our ability to pay dividends on the shares of Series C, Series D, Series E and Series F Preferred Stock is dependent on dividends and distributions we receive from our subsidiaries, which are subject to regulatory and other limitations.

Our principal source of cash flow is dividends from Customers Bank. We cannot assure you that Customers Bank will, in any circumstances, pay dividends to us. If Customers Bank fails to make dividend payments or other permitted distributions to us, and sufficient cash is not otherwise available, we may not be able to make dividend payments on the Series C, Series D, Series E and Series F Preferred Stock. Various federal and state statutes, regulations and rules limit, directly or indirectly, the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In particular, dividend and other distributions from Customers Bank to us would require notice to or approval of the applicable regulatory authority. There can be no assurances that we would receive such approval. In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation or otherwise, and, as a result, the ability of a holder of Series C, Series D, Series E and Series F Preferred Stock to benefit indirectly from such distribution, will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, shares of the Series C, Series D, Series E and Series F Preferred Stock are effectively subordinated to all existing and future liabilities and any outstanding preferred equity of our subsidiaries.

Holders of Series C, Series D, Series E and Series F Preferred Stock should not expect us to redeem their shares when they first become redeemable at our option or on any particular date thereafter, and our ability to redeem the shares will be subject to the prior approval of the Federal Reserve.

Our Series C, Series D, Series E and Series F Preferred Stock are perpetual equity securities, meaning that they have no maturity date or mandatory redemption date, and the shares are not redeemable at the option of the holders thereof. Any determination we make at any time to propose a redemption of the Series C, Series D, Series E and Series F Preferred Stock will depend upon a number of factors, including our evaluation of our capital position, the composition of our shareholders' equity and general market conditions at that time. In addition, our right to redeem the Series C, Series D, Series E and Series F Preferred Stock is subject to any limitations established by the Federal Reserve. Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series C, Series D, Series E and Series F Preferred Stock is subject to prior approval of the Federal Reserve. There can be no assurance that the Federal Reserve will approve any such redemption.

We may be able to redeem the Series C, Series D, Series E and Series F Preferred Stock before their initial redemption dates upon a "regulatory capital treatment event."

We may be able to redeem the Series C, Series D, Series E and Series F Preferred Stock before their respective initial redemption dates, in whole but not in part, upon the occurrence of certain events involving the capital treatment of the Series C, Series D, Series E and Series F Preferred Stock, as applicable. In particular, upon our determination in good faith that an event has occurred that would constitute a "regulatory capital treatment event," with respect to a particular series of the preferred stock, we may redeem that particular series of securities in whole, but not in part, upon the prior approval of the Federal Reserve.

Holders of Series C, Series D, Series E and Series F Preferred stock have limited voting rights.

Holders of Series C, Series D, Series E and Series F Preferred Stock have no voting rights with respect to matters that generally require the approval of voting shareholders. However, holders of Series C, Series D, Series E and Series F Preferred Stock will have the right to vote in the event of non-payments of dividends under certain circumstances, with respect to authorizing classes or series of preferred stock senior to the Series C, Series D, Series E and Series F Preferred Stock, as applicable, and with respect to certain fundamental changes in the terms of the Series C, Series D, Series E and Series F Preferred Stock, as applicable, or as otherwise required by law.

General market conditions and unpredictable factors could adversely affect market prices for the Series C, Series D, Series E and Series F Preferred Stock.

There can be no assurance regarding the market prices for the Series C, Series D, Series E and Series F Preferred Stock. A variety of factors, many of which are beyond our control, could influence the market prices, including:

- whether we declare or fail to declare dividends on the series of preferred stock from time to time;

- our operating performance, financial condition and prospects or the operating performance, financial condition and prospects of our competitors;
- real or anticipated changes in the credit ratings (if any) assigned to the Series C, Series D, Series E and Series F Preferred Stock or our other securities;
- our creditworthiness;
- changes in interest rates and expectations regarding changes in rates;
- our issuance of additional preferred equity;
- the market for similar securities;
- developments in the securities, credit and housing markets, and developments with respect to financial institutions generally; and
- economic, financial, corporate, securities market, geopolitical, regulatory or judicial events that affect us, the banking industry or the financial markets generally.

The Series C, Series D, Series E and Series F Preferred Stock may not have an active trading market.

Although the shares of Series C, Series D, Series E and Series F Preferred Stock are listed on the NYSE, an active trading market may not be established or maintained for the shares, and transaction costs could be high. As a result, the difference between bid and ask prices in any secondary market could be substantial.

The Series C, Series D, Series E and Series F Preferred Stock may be junior or equal in rights and preferences to preferred stock we may issue in the future.

Our Series C, Series D, Series E and Series F Preferred Stock rank equally. Although we do not currently have outstanding preferred stock that ranks senior to the Series C, Series D, Series E and Series F Preferred Stock, the Series C, Series D, Series E and Series F Preferred Stock may rank junior to other preferred stock we may issue in the future that by its terms is expressly senior in rights and preferences to the Series C, Series D, Series E and Series F Preferred Stock, although the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of the affected class of preferred stock is required to issue any shares of stock ranking senior in rights and preferences to such class. Any preferred stock that ranks senior to the Series C, Series D, Series E and Series F Preferred Stock in the future would have priority in payment of dividends and the making of distributions in the event of any liquidation, dissolution or winding up of Customers Bancorp. Additional issuances by us of preferred stock ranking equally with Series C, Series D, Series E and Series F Preferred Stock do not generally require the approval of holders of the Series C, Series D, Series E and Series F Preferred Stock.

Risks Relating to Our Debt Securities

Our 4.625% Senior Notes and 3.95% Senior Notes contain limited covenants.

The terms of our 4.625% Senior Notes and 3.95% Senior Notes generally do not prohibit us from incurring additional debt or other liabilities. If we incur additional debt or liabilities, our ability to pay our obligations on the 4.625% Senior Notes and 3.95% Senior Notes could be adversely affected. In addition, the terms of our 4.625% Senior Notes and 3.95% Senior Notes do not require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, do not protect holders of those notes in the event that we experience material adverse changes in our financial condition or results of operations. Holders of the 4.625% Senior Notes and 3.95% Senior Notes also have limited protection in the event of a highly leveraged transaction, reorganization, default under our existing indebtedness, restructuring, merger or similar transaction.

Our ability to make interest and principal payments on the 4.625% Senior Notes and 3.95% Senior Notes is dependent on dividends and distributions we receive from our subsidiaries, which are subject to regulatory and other limitations.

Our principal source of cash flow is dividends from Customers Bank. We cannot assure you that Customers Bank will, in any circumstances, pay dividends to us. If Customers Bank fails to make dividend payments to us, and sufficient cash is not otherwise available, we may not be able to make interest and principal payments on the 4.625% Senior Notes and 3.95% Senior Notes. Various federal and state statutes, regulations and rules limit, directly or indirectly, the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In particular, dividend and other distributions from Customers Bank to us would require notice to or approval of the applicable regulatory authority. There can be no assurances that we would receive such approval.

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In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation or otherwise, and, as a result, the ability of a holder of the 4.625% Senior Notes and 3.95% Senior Notes to benefit indirectly from such distribution will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, the 4.625% Senior Notes and 3.95% Senior Notes are effectively subordinated to all existing and future liabilities and any outstanding preferred equity of our subsidiaries.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the 4.625% Senior Notes and 3.95% Senior Notes.

Our ability to make payments on and to refinance our indebtedness, including the 4.625% Senior Notes and 3.95% Senior Notes will depend on our financial and operating performance, including dividends payable to us from Customers Bank, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources and dividends from Customers Bank are insufficient to fund our debt service obligations, we may be unable to provide new loans, other products or to fund our obligations to existing customers and otherwise implement our business plans. As a result, we may be unable to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations or seek to restructure our indebtedness, including the notes. We may not be able to consummate these transactions, and these proceeds may not be adequate to meet our debt service obligations then due.

The 4.625% Senior Notes and 3.95% Senior Notes are our unsecured obligations. The 4.625% Senior Notes and 3.95% Senior Notes will rank equal in right of payment with all of our secured and unsecured senior indebtedness and will rank senior in right of payment to all of our subordinated indebtedness. Although the 4.625% Senior Notes and 3.95% Senior Notes are "senior notes," they will be effectively subordinate to all liabilities of our subsidiaries, including secured indebtedness.

The 4.625% Senior Notes and 3.95% Senior Notes may not have an active trading market.

The 4.625% Senior Notes and 3.95% Senior Notes are not listed on any securities exchange, and there is no active trading market for these notes. In addition to the other factors described below, the lack of a trading market for the 4.625% Senior Notes and 3.95% Senior Notes may adversely affect the holder's ability to sell the notes and the prices at which the notes may be sold.

The prices realizable from sales of the 4.625% Senior Notes and 3.95% Senior Notes in any secondary market also will be affected by the supply and demand of the notes, the interest rate, the ranking and a number of other factors, including:

- yields on U.S. Treasury obligations and expectations about future interest rates;
- actual or anticipated changes in our financial condition or results, including our levels of indebtedness;
- general economic conditions and expectations regarding the effects of national policies;
- investors' views of securities issued by both holding companies and similar financial service firms; and
- the market for similar securities.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Customers leases its Corporate headquarters located at 1015 Penn Avenue, Wyomissing, PA 19610, and the Bank headquarters at 99 Bridge St., Phoenixville, PA 19460. The table below summarizes all of Customers' locations. Customers operated the following leased branch, limited purpose and administrative office properties, by county and state, as of December 31, 2018.

State/ County	Branches	Limited Purpose and Administrative Offices	State/ County	Branches	Limited Purpose and Administrative Offices
Pennsylvania:			Connecticut:		
Berks	4	3	New Haven[(1)]	—	1
Bucks	3	1			
Chester	2	2	Rhode Island:		
Delaware[(1)]	2	2	Providence	—	1
Lancaster	—	1			
Philadelphia	—	2	New Hampshire:		
			Rockingham	—	1
New York:					
Westchester	1	2	Massachusetts:		
New York[(1)]	—	2	Suffolk	—	1
Suffolk	—	1			
			Illinois:		
New Jersey:			Cook	—	1
Mercer	1	1			
Morris	—	1	California:		
Bergen	—	1	Los Angeles	—	1
District of Columbia:					
Washington DC	—	1			
	13	20		—	6

(1) Includes one BankMobile administrative office.

Customers leases all of the above branches, limited purpose and administrative office properties from third parties. Customers believes that its offices are sufficient for its present operations.

The Bank branch locations, which range in size from approximately 1,400 to 6,100 square feet, have leases which expire between 2019 and 2025.

The total minimum net cash lease payments for our current branches, limited purpose and administrative amount to approximately $465 thousand per month.

Item 3. Legal Proceedings

Halbreiner Matter

On December 16, 2016, Elizabeth Halbreiner and Robert Halbreiner (“Plaintiffs”) filed a Second Amended Complaint captioned Elizabeth Halbreiner and Robert Halbreiner, v. Customers Bank, Robert B.White, Richard A. Ehst, Thomas Jastrem, Timothy D. Romig, Andrew Bowman, Michael Fuoco, Saldutti Law Group f/k/a Saldutti, LLC a/k/a Saldutti Law, LLC, Robert L. Saldutti, LLC, Robert L. Saldutti, Esquire, Brian J. Schaffer, Esquire, Robert Lieber, Jr., Esquire, Jay Sidhu, James Zardecki, Zardecki Associates LLC, No. 01419 in the First Judicial District of Pennsylvania, Court of Common Pleas of Philadelphia, Trial Division. In this Second Amended Complaint, the Plaintiffs generally allege that Customers Bank, and the other named defendants, conspired to misuse the legal system for improper purposes and it also alleges defamation, false light, tortious interference with contractual relations, infliction of emotional distress, negligent infliction of emotional distress and loss of

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consortium. On January 6, 2017, Customers Bank filed Preliminary Objections to the Complaint seeking dismissal of the Plaintiff's claims against Customers Bank and the employees of Customers Bank named as co-defendants. On April 6, 2017, the Court dismissed certain counts and determined to allow certain other counts to proceed. Customers Bank intends to vigorously defend itself against these allegations but is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

Lifestyle Healthcare Group, Inc. Matter

On January 9, 2017, Lifestyle Healthcare Group, Inc., et al ("Plaintiffs") filed a Complaint captioned Lifestyle Healthcare Group, Inc.; Fred Rappaport; Victoria Rappaport; Lifestyle Management Group, LLC Trading as Lifestyle Real Estate I, LP; Lifestyle Real Estate I GP, LLC; Daniel Muck; Lifestyle Management Group, LLC; Lifestyle Management Group, LLC Trading as Lifestyle I, LP D/B/A Lifestyle Medspa, Plaintiffs v. Customers Bank, Robert White; Saldutti Law, LLC a/k/a Saldutti Law Group; Robert L. Saldutti, Esquire; and Michael Fuoco, Civil Action No. 01206, in the First Judicial District of Pennsylvania, Court of Common Pleas of Philadelphia. In this Complaint, which is related to the Halbreiner Matter described above, the Plaintiffs generally allege wrongful use of civil proceedings and abuse of process in connection with a case filed and later dismissed in federal court, titled, Customers Bank v. Fred Rappaport, et al., U.S.D.C.E.D. Pa., No. 15-6145. On January 30, 2017, Customers Bank filed Preliminary Objections to the Complaint seeking dismissal of Plaintiff's claims against Customers Bank and Robert White, named as co-defendants. In response to the Preliminary Objections, Lifestyle filed an Amended Complaint against Customers Bank and Robert White. Customers Bank has filed Preliminary Objections to the Second Amended Complaint seeking dismissal of Plaintiff's claim against Customers Bank and Robert White, named as co-defendants. The Court has dismissed certain counts and determined to allow certain other counts to proceed. Customers Bank intends to vigorously defend itself against these allegations but is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

United States Department of Education Matter

In third quarter 2018, Customers received a FPRD letter dated September 5, 2018 from 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 of $6.5 million, 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. The matter is in its early stages. 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. Customers does not believe that this matter will have a material effect on the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Trading Market for Common Stock

Our common stock is traded on the NYSE under the symbol “CUBI.”

As of February 22, 2019, there were approximately 397 registered shareholders of Customers Bancorp's common stock. Certain shares are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Dividends on Common Stock

Customers Bancorp historically has not paid any cash dividends on its shares of common stock and does not expect to do so in the foreseeable future.

Any future determination relating to our dividend policy will be made at the discretion of Customers Bancorp’s board of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, ability to service any equity or debt obligations senior to our common stock, including obligations to pay dividends to the holders of Customers Bancorp's issued and outstanding shares of preferred stock and other factors deemed relevant by the Board of Directors.

In addition, as a bank holding company, Customers Bancorp is subject to general regulatory restrictions on the payment of cash dividends. Federal bank regulatory agencies have the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business, which, depending on the financial condition and liquidity of the holding company at the time, could include the payment of dividends. Further, various federal and state statutory provisions limit the amount of dividends that bank subsidiaries can pay to their parent holding company without regulatory approval. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels, and limits exist on paying dividends in excess of net income for specified periods.

Beginning January 1, 2015, the ability to pay dividends and the amounts that can be paid will be limited to the extent the Bank's capital ratios do not exceed the minimum required levels plus 250 basis points, as these requirements are phased in through January 1, 2019. See "Item 1, Business - Federal Banking Laws" for more information relating to restrictions on the Bank's ability to pay dividends to the Bancorp and the Bancorp's payment of dividends.

Issuer Purchases of Equity Securities

On November 26, 2013, the Bancorp’s board of directors authorized a stock repurchase plan in which the Bancorp could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. On December 11, 2018, the Bancorp's board of directors amended the terms of the 2013 stock repurchase plan to adjust the repurchase terms and book value measurement date such that Customers is authorized to purchase shares of common stock at prices not to exceed the book value per share of Customers' common stock measured as of September 30, 2018. 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. As of December 31, 2018, the remaining authorized shares for stock repurchases under this program is 31,351 shares.

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Common stock repurchase activity during the fourth quarter 2018 was as follow:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1 - October 31, 2018	—	$ —	—	750,551
November 1 - November 30, 2018	—	—	—	750,551
December 1 - December 31, 2018	719,200	18.04	719,200	31,351
Total	719,200	$ 18.04	719,200	

EQUITY COMPENSATION PLANS

The following table provides certain summary information as of December 31, 2018, concerning our compensation plans (including individual compensation arrangements) under which shares of our common stock may be issued.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options and Rights (#)	Weighted-Average Exercise Price of Outstanding Options ($) (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) (#)
Equity Compensation Plans Approved by Security Holders (1)	3,405,185	$ 22.13	1,311,743 (3)
Equity Compensation Plans Not Approved by Security Holders	N/A	N/A	N/A

(1) Includes shares of common stock that may be issued upon the exercise of awards granted or rights accrued under the Amended and Restated Customers Bancorp, Inc. 2004 Incentive Equity and Deferred Compensation Plan, Customers Bancorp, Inc. 2010 Plan, the BRRP and Customers Bancorp, Inc. Amended and Restated 2014 ESPP.

(2) Does not include restricted stock units and stock awards for which, by definition, there exists no exercise price.

(3) Does not include securities available for future issuance under the BRRP as there is no specific number of shares reserved under this plan. By its terms, the plan links the award of restricted stock units to the annual performance awards identified with the participants in the BRRP.

Common Stock Performance Graph

The following graph compares the performance of our common stock over the period from December 31, 2013, to December 31, 2018, to that of the total return index for the SNL Mid-Atlantic U.S. Bank Index, SNL U.S. Bank NASDAQ Index and SNL U.S. Bank NYSE Index, assuming an investment of $100 on December 31, 2013. The SNL U.S. Bank NYSE Index was added to the performance graph because the Bancorp changed the listing of its common stock to the NYSE from NASDAQ in December 2014. In calculating total annual shareholder return, reinvestment of dividends, if any, is assumed. Customers Bancorp obtained the information contained in the performance graph from SNL Financial.

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The graph below is furnished under this Part II, Item 5. of this Annual Report on Form 10-K and shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.
Total Return Performance

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Item 6. Selected Financial Data

Customers Bancorp, Inc. and Subsidiaries

The following table presents Customers Bancorp’s summary consolidated financial data. Customers Bancorp derived the balance sheet data as of December 31, 2018, 2017, 2016, 2015 and 2014 and the income statement data for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, from its audited financial statements. The summary consolidated financial data should be read in conjunction with, and is qualified in their entirety by, Customers Bancorp’s financial statements and the accompanying notes and the other information included elsewhere in this Annual Report on Form 10-K.

	2018	2017	2016	2015	2014
(dollars in thousands, except per share information)					
For the Years Ended December 31,					
Interest income	$417,951	$372,850	$322,539	$249,850	$190,427
Interest expense	160,074	105,507	73,042	53,560	38,504
Net interest income	257,877	267,343	249,497	196,290	151,923
Provision for loan losses	5,642	6,768	3,041	20,566	14,747
Total non-interest income	58,998	78,910	56,370	27,717	25,126
Total non-interest expense	220,179	215,606	178,231	114,946	98,914
Income before income tax expense	91,054	123,879	124,595	88,495	63,388
Income tax expense	19,359	45,042	45,893	29,912	20,174
Net income	71,695	78,837	78,702	58,583	43,214
Preferred stock dividends	14,459	14,459	9,515	2,493	—
Net income attributable to common shareholders	$57,236	$64,378	$69,187	$56,090	$43,214
Earnings per common share:					
Basic earnings per common share	$1.81	$2.10	$2.51	$2.09	$1.62
Diluted earnings per common share	$1.78	$1.97	$2.31	$1.96	$1.55
At Period End					
Total assets	$9,833,425	$9,839,555	$9,382,736	$8,398,205	$6,821,500
Cash and cash equivalents	62,135	146,323	264,709	264,593	371,023
Investment securities	665,012	471,371	493,474	560,253	416,685
Loans held for sale	1,507	146,077	695	42,114	103,440
Loans receivable, mortgage warehouse, at fair value	1,405,420	1,793,408	2,116,815	1,754,950	1,332,019
Loans receivable	7,138,074	6,768,258	6,154,637	5,453,479	4,312,173
Allowance for loan losses	39,972	38,015	37,315	35,647	30,932
FDIC loss sharing receivable (1)	—	—	—	—	2,320
Deposits	7,142,236	6,800,142	7,303,775	5,909,501	4,532,538
Borrowings (2)	1,667,918	2,062,237	1,147,706	1,890,442	1,812,380
Shareholders’ equity	956,816	920,964	855,872	553,902	443,145
Tangible common equity (3)	722,846	687,198	620,780	494,682	439,481
Selected Ratios and Share Data					
Return on average assets	0.69 %	0.77 %	0.86 %	0.81 %	0.78 %
Return on average common equity	7.90 %	9.38 %	12.41 %	11.82 %	10.39 %
Common book value per share	$23.85	$22.42	$21.08	$18.52	$16.57
Tangible book value per common share (3)	$23.32	$21.90	$20.49	$18.39	$16.43
Common shares outstanding	31,003,028	31,382,503	30,289,917	26,901,801	26,745,529
Net interest margin, tax equivalent (3)	2.58 %	2.73 %	2.84 %	2.81 %	2.86 %
Equity to assets	9.73 %	9.36 %	9.12 %	6.60 %	6.50 %

Tangible common equity to tangible assets (3)	7.36	%	7.00	%	6.63	%	5.89	%	6.45	%
Common equity Tier 1 capital to risk-weighted assets – Customers Bancorp, Inc.	8.96	%	8.81	%	8.49	%	7.61	%	N/A	

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Common equity Tier 1 capital to risk-weighted assets – Customers Bank	12.82	%	13.08	%	11.63	%	8.62	%	N/A	
Tier 1 risk-based capital ratio – Customers Bancorp, Inc.	11.58	%	11.58	%	11.41	%	8.46	%	8.39	%
Tier 1 risk-based capital ratio – Customers Bank	12.82	%	13.08	%	11.63	%	8.62	%	9.27	%
Total risk-based capital ratio – Customers Bancorp, Inc.	13.01	%	13.05	%	13.05	%	10.62	%	11.09	%
Total risk-based capital ratio – Customers Bank	14.62	%	14.96	%	13.61	%	10.85	%	11.98	%
Tier 1 leverage ratio – Customers Bancorp, Inc.	9.67	%	8.94	%	9.07	%	7.16	%	6.69	%
Tier 1 leverage ratio – Customers Bank	10.70	%	10.09	%	9.23	%	7.30	%	7.39	%
Asset Quality										
Non-performing loans	$27,494		$26,415		$17,792		$10,771		$11,733	
Non-performing loans to loans receivable (4)	0.39	%	0.39	%	0.29	%	0.20	%	0.27	%
Non-performing loans to total loans	0.32	%	0.30	%	0.22	%	0.15	%	0.20	%
Other real estate owned	$816		$1,726		$3,108		$5,057		$15,371	
Non-performing assets	28,310		28,141		20,900		15,828		27,104	
Non-performing assets to total assets	0.29	%	0.29	%	0.22	%	0.19	%	0.40	%
Allowance for loan losses to loans receivable (4)	0.56	%	0.56	%	0.61	%	0.65	%	0.72	%
Allowance for loan losses to non-performing loans	145.38	%	143.91	%	209.73	%	330.95	%	263.63	%
Net charge-offs	$3,685		$6,068		$1,662		$11,979		$3,124	
Net charge-offs to average loans receivable (4)	0.05	%	0.09	%	0.03	%	0.26	%	0.09	%

(1) The FDIC loss sharing receivable, net of the clawback liability, was included in "Accrued interest payable and other liabilities" as of December 31, 2015. The FDIC loss sharing arrangements were terminated during 2016.

(2) Borrowings includes FHLB advances, Federal funds purchased, Subordinated debt and other borrowings.

(3) Customers' selected financial data contains non-GAAP financial measures calculated using non-GAAP amounts. These measures include net interest margin tax equivalent, tangible common equity and tangible book value per common share and tangible common equity to tangible assets. Management uses these non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing the Bancorp's financial results and use of equity. 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. Customers Bancorp calculates tangible common equity by excluding intangible assets from total shareholders' equity. Tangible book value per common share equals tangible common equity divided by common shares outstanding. The non-GAAP tax-equivalent basis uses a marginal tax rate of 26% for the year ended December 31, 2018 and a marginal tax rate of 35% for the years ended December 31, 2017, 2016, 2015 and 2014 to approximate interest income as a taxable asset.

(4) Excludes loans receivable, mortgage warehouse, at fair value which are not evaluated for impairment and do not have an allowance for loan loss.

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A reconciliation of shareholders’ equity to tangible common equity and other related amounts is set forth below.

	2018	2017	2016	2015	2014
(in thousands, except per share data)					
Total shareholders’ equity (GAAP)	$956,816	$920,964	$855,872	$553,902	$443,145
Less: goodwill and other intangibles	(16,499)	(16,295)	(17,621)	(3,651)	(3,664)
Less: preferred stock	(217,471)	(217,471)	(217,471)	(55,569)	—
Tangible common equity (Non-GAAP)	$722,846	$687,198	$620,780	$494,682	$439,481
Shares outstanding	31,003	31,383	30,290	26,902	26,746
Common book value per share (GAAP)	$23.85	$22.42	$21.08	$18.52	$16.57
Less: effect of excluding intangible assets	(0.53)	(0.52)	(0.59)	(0.13)	(0.14)
Common tangible book value per share (Non-GAAP)	$23.32	$21.90	$20.49	$18.39	$16.43
Total assets (GAAP)	$9,833,425	$9,839,555	$9,382,736	$8,398,205	$6,821,500
Less: goodwill and other intangibles	(16,499)	(16,295)	(17,621)	(3,651)	(3,664)
Total tangible assets (Non-GAAP)	$9,816,926	$9,823,260	$9,365,115	$8,394,554	$6,817,836
Equity to assets (GAAP)	9.73 %	9.36 %	9.12 %	6.60 %	6.50 %
Tangible common equity to tangible assets (Non-GAAP)	7.36 %	7.00 %	6.63 %	5.89 %	6.45 %

A reconciliation of net interest income to net interest income tax equivalent and other related amounts is set forth below.

	2018	2017	2016	2015	2014
(dollars in thousands)					
Net interest income (GAAP)	$257,877	$267,343	$249,497	$196,290	$151,923
Tax-equivalent adjustment	685	645	390	449	405
Net interest income tax equivalent (Non-GAAP)	$258,562	$267,988	$249,887	$196,739	$152,328
Average total interest earning assets	$10,011,799	$9,820,762	$8,791,304	$6,996,595	$5,314,713
Net interest margin (GAAP)	2.58 %	2.72 %	2.84 %	2.81 %	2.86 %
Net interest margin, tax equivalent (Non-GAAP)	2.58 %	2.73 %	2.84 %	2.81 %	2.87 %

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis should be read in conjunction with "Business - Executive Summary" and the Bancorp’s consolidated financial statements and related notes for the year ended December 31, 2018.

Critical Accounting Policies

Customers has adopted various accounting policies that govern the application of U.S. GAAP and that are consistent with general practices within the banking industry in the preparation of its consolidated financial statements. Customers' significant accounting policies are described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements.

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 judgments 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 results of operations.

The critical accounting policies that are both important to the portrayal of Customers' financial condition and results of operations and require complex, subjective judgments are the accounting policies for the following: Allowance for Loan

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Losses, PCI Loans, Deferred Income Taxes, Unrealized Gains and Losses on Available-for-Sale Securities and OTTI Analysis, Fair Values of Financial Instruments, Share-Based Compensation and Goodwill and Other Intangible Assets. These critical accounting policies and material estimates, along with the related disclosures, are reviewed by Customers' Audit Committee of the Board of Directors.

Allowance for Loan Losses

Customers maintains an allowance for loan losses at a level management believes is sufficient to absorb estimated credit losses incurred as of the report date. Management's determination of the adequacy of the allowance for loan losses is based on periodic evaluations of the loan portfolio and other relevant factors. However, these evaluations are inherently subjective as they require significant estimates by management. Consideration is given to a variety of factors in establishing these estimates including historical losses, peer and industry data, current economic conditions, size and composition of the loan portfolio, existence and level of loan concentrations, delinquency statistics, criticized and classified assets and impaired loans, results of internal loan reviews, borrowers' perceived financial and management strengths, adequacy of underlying collateral, dependence on collateral, present value of expected future cash flows and other relevant factors. These factors may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required which may adversely affect Customers' results of operations in the future.

Subsequent to the acquisition of PCI loans, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities and other factors that are reflective of current market conditions. Subsequent decreases in expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows will generally result in a reversal of the provision for loan losses to the extent of prior charges. Please see below for additional discussions related to the accounting for PCI loans.

Purchased Credit-Impaired Loans

For certain acquired loans that have experienced a deterioration of credit quality, Customers follows the accounting guidance in ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. PCI loans are loans that were acquired in business combinations or asset purchases with evidence of credit deterioration since origination to the date acquired, and for which it is probable that all contractually required payments will not be collected. Evidence of credit-quality deterioration as of the purchase date may include information such as past-due and non-accrual status, borrower credit scores and recent loan-to-value percentages.

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

PCI loans acquired may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. On a quarterly basis, Customers re-estimates the total cash flows (both principal and interest) expected to be collected over the remaining life of each pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions. If the timing and/or amounts of expected cash flows on PCI loans are determined not to be reasonably estimable, no interest is accreted, and the loans are reported as non-accrual loans; however, when the timing and amounts of expected cash flows for PCI loans are reasonably estimable, interest is accreted, and the loans are reported as performing loans. Charge-offs are not recorded on PCI loans until actual losses exceed the estimated losses that were recorded as purchase-accounting adjustments at acquisition date.

Deferred Income Taxes

Customers provides for deferred income taxes using the liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities in the financial statements and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

On December 22, 2017, the Tax Act was enacted into law. The Tax Act contained several key tax provisions including the reduction in the corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result, Customers was required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted rate at which it expected them to be recovered or settled. In December 2017, the SEC issued SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which allowed companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. At December 31, 2017, Customers recorded provisional amounts of deferred income taxes using reasonable estimates in areas where information necessary to complete the accounting was not available, prepared or analyzed. In 2018, Customers completed the calculations for the provisional items with the completion of the 2017 tax returns. The impact of the completed calculations to the re-measurement of the deferred taxes resulted in an immaterial change. See NOTE 14 - INCOME TAXES to Customers' audited financial statements for additional information.

Unrealized Gains and Losses on Investment Securities Available for Sale and Other-Than-Temporary Impairment Analysis

Customers obtains estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Debt securities available for sale consist primarily of mortgage-backed securities issued by U.S. government-sponsored agencies. Customers uses various indicators in determining whether a security is other-than-temporarily impaired including, for debt securities, when it is probable that the contractual interest and principal will not be collected. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer.

Customers considers the issuer’s financial condition, capital strength and near-term prospects to determine whether an impairment is temporary or other than temporary. Customers also considers the volatility of a security’s price in comparison to the market as a whole and any recoveries or declines in fair value subsequent to the balance sheet date. If management determines that the impairment is other than temporary, the entire amount of the impairment as of the balance sheet date is recognized in earnings even if the decision to sell the security has not been made. The fair value of the security becomes the new amortized cost basis of the investment and is not adjusted for subsequent recoveries in fair value.

At December 31, 2018, management evaluated its available-for-sale debt securities for OTTI. The unrealized losses associated with the available-for-sale debt securities were not considered to be other than temporary at December 31, 2018, because the losses were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or issuer. 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.

Beginning January 1, 2018, equity securities are carried at their current fair value, with changes in fair value reported in earnings in the period in which they occur. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. Previously, changes in the fair vale of equity securities designated as available for sale were deferred in AOCI. The adoption of the new accounting standard resulted in an $1.0 million increase to beginning retained earnings and a $1.0 million decrease to beginning AOCI at January 1, 2018.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (also referred to as an exit price), other than in a forced or liquidation sale as of the measurement date. Management estimates the fair values of financial instruments using a variety of valuation methods. When financial instruments are actively traded and have quoted market prices, the quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, Customers estimates fair value using unobservable data. The valuation methods and inputs consider factors such as types of underlying assets or liabilities, rates of estimated credit losses, interest rates or discount rates and collateral. The best estimate of fair value involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor refinancing. U.S. GAAP requires the use of fair values in determining the carrying values of certain assets and liabilities, as well as for specific disclosures. The most significant uses of fair values include commercial loans to mortgage banking businesses, residential mortgage loans originated with an intent to sell, available-for-sale investment securities, derivative assets and liabilities, impaired loans and foreclosed property and the net assets acquired in business combinations. For additional information, see NOTE 18 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS to Customers' audited financial statements.

Share-Based Compensation

Customers recognizes compensation expense for share-based awards in accordance with ASC 718, Compensation – Stock Compensation. The expense recognized for awards of stock options and restricted stock units is based on the fair value of the awards on the date of grant, with compensation expense recognized over the service period, which is usually the vesting period. For performance-based awards, compensation cost is recognized over the vesting period as long as it remains probable that the performance conditions will be met. If the service or performance conditions are not met, Customers reverses previously recorded compensation expense upon forfeiture. Customers generally utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price of the option, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the current risk-free interest rate for the expected life of the option. Customers' estimate of the fair value of a stock option is based on expectations derived from its limited historical experience and may not necessarily equate to market value when fully vested. The fair value of the restricted stock units is generally determined based on the closing market price of Customers' common stock on the date of grant.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired through business combinations accounted for under the acquisition method. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer and university relationship intangibles and non-compete agreements, are amortized over their estimated useful lives and subject to periodic impairment testing. Goodwill and other intangible assets are reviewed for impairment annually as of October 31 and between annual tests when events and circumstances indicate that impairment may have occurred. If there is a goodwill impairment charge, it will be the amount by which the reporting unit's carrying amount exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The same one-step impairment test is applied to goodwill at all reporting units. Customers applies a qualitative assessment for its reporting units to determine if the one-step quantitative impairment test is necessary.

Intangible assets subject to amortization are reviewed for impairment under ASC 360, Property, Plant, and Equipment, which requires that a long-lived asset or asset group be tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

Overview

Like most financial institutions, Customers derives the majority of its income from interest it receives on its interest-earning assets, such as loans and investments. Customers' primary source of funds for making these loans and investments is its deposits and borrowings, on which it pays interest. Consequently, one of the key measures of Customers' success is the amount of its net interest income, or the difference between the income on its interest-earning assets and the expense on its interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield earned on these interest-earning assets and the rate paid on these interest-bearing liabilities, which is referred to as net interest margin.

There is credit risk inherent in all loans, so Customers maintains an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. Customers maintains this allowance by charging a provision for loan losses against its operating earnings. Customers has included a detailed discussion of this process, as well as several tables describing its allowance for loan losses, in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION and NOTE 7 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES to Customers' audited financial statements.

BankMobile, a division of Customers Bank, derives a majority of its revenue from interchange and card revenue and deposit fees. As previously disclosed, Customers intends to retain and operate BankMobile for the next 2 - 3 years.

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2019 Economic Outlook

Building off of another strong year in 2018, the growth of the U.S. economy is expected to slow in 2019. Real GDP is projected in the 2.00% to 2.50% range in 2019, which will be driven, in part, by a healthy labor market and continued consumer spending. Additionally, while inflation remains just under the Federal Reserves' target of 2.0% on a year-over-year basis, it is expected to remain around that level over the medium term. With respect to interest rates, the Federal Reserve is expected to stabilize the overnight rate, with no additional rate increases expected throughout 2019.

While the economic outlook in the U.S. remains optimistic in the short run (aside from any potential impact of the recent U.S. government shutdown), keeping the economy on a sustainable path over the longer term will most likely become more challenging. Potential concerns for the longer term economic outlook include the continued flattening of the yield curve and an increasingly inverted yield curve (which may or may not signal a future recession), the risk of economic overheating in the near future, and concerns surrounding the long term fiscal position of the U.S. (e.g., the federal deficit, rising debt service costs, increasing entitlement spending as the Baby Boomers retire). Overall, the Bancorp's management is optimistic that 2019 will generally show a slight decrease in economic growth experienced in 2018, with continued moderate growth in the Bank's market area and unemployment remaining at current levels during the year.

Results of Operations

The following discussion of Customers Bancorp’s consolidated results of operations should be read in conjunction with its consolidated financial statements, including the accompanying notes. Please refer to Critical Accounting Policies in this Management's Discussion and Analysis and NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements for information concerning certain significant accounting policies and estimates applied in determining reported results of operations.

The following table sets forth the condensed statements of income for the years ended December 31, 2018 and 2017:

	For the Years Ended December 31,			
(dollars in thousands)	2018	2017	Change	Percentage Change
Net interest income	$257,877	$267,343	$(9,466)	(3.5)%
Provision for loan losses	5,642	6,768	(1,126)	(16.6)%
Total non-interest income	58,998	78,910	(19,912)	(25.2)%
Total non-interest expense	220,179	215,606	4,573	2.1 %
Income before income taxes	91,054	123,879	(32,825)	(26.5)%
Income tax expense	19,359	45,042	(25,683)	(57.0)%
Net income	71,695	78,837	(7,142)	(9.1)%
Preferred stock dividends	14,459	14,459	—	— %
Net income available to common shareholders	$57,236	$64,378	$(7,142)	(11.1)%

Customers reported net income available to common shareholders of $57.2 million for the year ended December 31, 2018, compared to $64.4 million for the year ended December 31, 2017. Factors contributing to the change in net income available to common shareholders for the year ended December 31, 2018 compared to the year ended December 31, 2017 were as follows:

Net interest income

The $9.5 million decrease in net interest income for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from the narrowing of net interest margin, tax equivalent, by 15 basis points, to 2.58%, for the year ended December 31, 2018, from 2.73% for the year ended December 31, 2017. The margin compression is driven by higher funding costs as the cost of interest-bearing liabilities increased by 64 basis points for the year ended December 31, 2018 compared to the year ended December 31, 2017. The impact of higher funding costs was offset in part by higher yields on interest earning assets, which increased 37 basis points for the year ended

December 31, 2018 compared to the year ended December 31, 2017. The average balance of interest earning assets increased $0.2 billion to $10.0 billion for the year ended December 31, 2018 when compared to $9.8 billion for the year ended December 31, 2017.

Provision for loan losses

The $1.1 million decrease in the provision for loan losses for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from a year over year decline in the provision for impaired loans of $2.4 million and a

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year over year increase in the release of the allowance estimate resulting from improved asset quality and lower incurred losses on purchased credit-impaired loans than previously estimated of $0.4 million. These year over year decreases in the provision were offset in part by a provision increase from loan growth of $1.7 million, primarily in the commercial and industrial and consumer loan portfolios, for the year ended December 31, 2018 compared to the year ended December 31, 2017. There were no significant changes in Customers' methodology for estimating the allowance for loan losses or policies regarding charge-offs in 2018.

Non-interest income

The $19.9 million decrease in non-interest income for the year ended December 31, 2018 compared to the year ended December 31, 2017 resulted primarily from losses realized from the sale of lower-yielding investment securities of $18.7 million in 2018, compared to gains of $8.8 million realized from the sale of investment securities in 2017, decreases in interchange and card revenue of $10.8 million, deposit fees of $2.2 million and a reduction in mortgage warehouse transaction fees of $2.2 million. These decreases were offset in part by increases in commercial lease income of $4.7 million and other non-interest income of $5.9 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, and an impairment loss of $12.9 million recognized on investment securities in 2017.

Non-interest expense

The $4.6 million increase in non-interest expense for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from increases in salaries and employee benefits of $9.3 million, occupancy of $0.6 million, FDIC assessments, non-income taxes, and regulatory fees of $0.7 million, merger and acquisition related expenses of $4.0 million, commercial lease depreciation of $3.9 million, and advertising and promotion of $1.0 million. These increases were offset in part by decreases in technology, communications and bank operations of $1.4 million, professional services of $7.8 million, provision for operating losses of $0.8 million and other non-interest expense of $4.6 million for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Income tax expense

The $25.7 million decrease in income tax expense for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from the lowering of the corporate tax rate from 35% to 21% under the Tax Act, which became effective January 1, 2018 and a decrease in pre-tax income $32.8 million between the years.

Preferred stock dividends

Preferred stock dividends were $14.5 million for the years ended December 31, 2018 and 2017. There were no changes to the amount of preferred stock outstanding or the dividends paid during 2018 and 2017.

The following table sets forth the condensed statements of income for the years ended December 31, 2017 and 2016:

	For the Years Ended December 31,			
(dollars in thousands)	2017	2016	Change	Percentage Change
Net interest income	$267,343	$249,497	$17,846	7.2 %
Provision for loan losses	6,768	3,041	3,727	122.6 %
Total non-interest income	78,910	56,370	22,540	40.0 %
Total non-interest expense	215,606	178,231	37,375	21.0 %
Income before income taxes	123,879	124,595	(716)	(0.6)%
Income tax expense	45,042	45,893	(851)	(1.9)%
Net income	78,837	78,702	135	0.2 %
Preferred stock dividends	14,459	9,515	4,944	52.0 %
Net income available to common shareholders	$64,378	$69,187	$(4,809)	(7.0)%

Customers reported net income available to common shareholders of $64.4 million for the year ended December 31, 2017, compared to $69.2 million for the year ended December 31, 2016. Factors contributing to the change in net income available to common shareholders for the year ended December 31, 2017 compared to the year ended

December 31, 2016 were as follows:

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Net interest income

The $17.8 million increase in net interest income for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from an increase in the average balance of interest-earning assets of $1.0 billion, offset in part by a narrowing of net interest margin, tax equivalent of 11 basis points to 2.73% for the year ended December 31, 2017 from 2.84% for the year ended December 31, 2016.

Provision for loan losses

The $3.7 million increase in the provision for loan losses for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from an increase in net charge-offs to $6.1 million for the year ended December 31, 2017 compared to $1.7 million for the year ended December 31, 2016.

Non-interest income

The $22.5 million increase in non-interest income for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from increases in interchange and card revenue of $16.8 million, deposit fees of $2.0 million, gains on sales of investment securities of $8.8 million, bank-owned life insurance of $2.5 million, gains on sale of SBA and other loans of $0.5 million and commercial lease income of $0.6 million. These increases were offset in part by decreases in mortgage warehouse transactional fees of $2.2 million, impairment losses on investment securities of $5.7 million and other non-interest income of $0.7 million for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Non-interest expense

The $37.4 million increase in non-interest expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from increases in salaries and employee benefits of $14.9 million, technology, communication and bank operations of $19.0 million, professional services of $7.4 million, occupancy of $0.8 million, provision for operating losses of $2.9 million and commercial lease depreciation of $0.5 million. There increases were offset in part by decreases in FDIC assessments, non-income taxes, and regulatory fees of $5.2 million, merger and acquisition related expenses of $0.8 million, other real estate owned of $1.4 million and other non-interest expense of $1.1 million for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Income tax expense

The $0.9 million decrease in income tax expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a $10.7 million income tax benefit from the exercise of employee stock options and vesting of restricted stock units for the year ended December 31, 2017, offset in part by a fourth quarter 2017 deferred tax asset re-measurement charge of $5.5 million as a result of the enactment of the Tax Act and basis difference adjustment of $4.5 million related to OTTI charges recorded during 2017 on equity securities.

Preferred stock dividends

The $4.9 million increase in preferred stock dividends for the year ended December 31, 2017 compared to the year ended December 31, 2016 resulted from a full year of dividends paid on the Series E and Series F Preferred Stock issued in April 2016 and September 2016, respectively.

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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 years ended December 31, 2018, 2017 and 2016.

	For the Years Ended December 31,								
	2018			2017			2016		
(amounts in thousands)	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost
Assets									
Interest-earning deposits	$217,168	$4,115	1.90 %	$296,305	$3,132	1.06 %	$225,409	$1,218	0.54 %
Investment securities (1)	1,005,688	33,209	3.30 %	870,979	25,153	2.89 %	540,532	14,293	2.64 %
Loans:									
Commercial loans to mortgage companies	1,610,168	79,152	4.92 %	1,748,575	73,513	4.20 %	1,985,495	70,308	3.54 %
Multi-family loans	3,549,511	135,526	3.82 %	3,551,683	132,263	3.72 %	3,223,122	122,316	3.79 %
Commercial and industrial (2)	1,743,696	82,348	4.72 %	1,452,805	60,595	4.17 %	1,172,655	46,257	3.94 %
Non-owner occupied commercial real estate	1,257,545	50,663	4.03 %	1,293,173	51,212	3.96 %	1,188,631	45,441	3.82 %
All other loans	517,800	25,545	4.93 %	503,532	22,353	4.44 %	370,663	18,496	4.99 %
Total loans (3)	8,678,720	373,234	4.30 %	8,549,768	339,936	3.98 %	7,940,566	302,818	3.81 %
Other interest-earning assets	110,223	7,393	6.71 %	103,710	4,629	4.46 %	84,797	4,210	4.96 %
Total interest-earning assets	10,011,799	417,951	4.17 %	9,820,762	372,850	3.80 %	8,791,304	322,539	3.67 %
Non-interest-earning assets	406,303			376,948			310,813		
Total assets	$10,418,102			$10,197,710			$9,102,117		
Liabilities									
Interest checking accounts	$630,335	9,397	1.49 %	$386,819	3,157	0.82 %	$190,279	1,069	0.56 %
Money market deposit accounts	3,417,779	60,578	1.77 %	3,339,053	34,488	1.03 %	3,085,140	19,233	0.62 %
Other savings accounts	135,994	2,272	1.67 %	40,791	112	0.27 %	39,122	95	0.24 %
Certificates of deposit	2,066,896	38,561	1.87 %	2,392,095	29,825	1.25 %	2,633,425	27,871	1.06 %
Total interest-bearing deposits	6,251,004	110,808	1.77 %	6,158,758	67,582	1.10 %	5,947,966	48,268	0.81 %
Borrowings	1,951,921	49,266	2.52 %	1,875,431	37,925	2.02 %	1,498,899	24,774	1.65 %
Total interest-bearing liabilities	8,202,925	160,074	1.95 %	8,034,189	105,507	1.31 %	7,446,865	73,042	0.98 %

Non-interest-bearing deposits	1,189,638			1,187,324			873,599		
Total deposits and borrowings	9,392,563		1.70 %	9,221,513		1.14 %	8,320,464		0.88 %
Other non-interest-bearing liabilities	83,563			72,714			84,752		
Total liabilities	9,476,126			9,294,227			8,405,216		
Shareholders’ equity	941,976			903,483			696,901		
Total liabilities and shareholders’ equity	$10,418,102			$10,197,710			$9,102,117		
Net interest earnings		257,877			267,343			249,497	
Tax-equivalent adjustment (4)		685			645			390	
Net interest earnings		$258,562			$267,988			$249,887	
Interest spread			2.47 %			2.66 %			2.79 %
Net interest margin			2.58 %			2.72 %			2.84 %
Net interest margin tax equivalent (4)			2.58 %			2.73 %			2.84 %

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

(4) Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017, and 2016, presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the 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.

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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.

	2018 vs. 2017 Increase (decrease) due to change in			2017 vs. 2016 Increase (decrease) due to change in		
	Rate	Volume	Total	Rate	Volume	Total
(amounts in thousands)						
Interest income:						
Interest-earning deposits	$1,987	$(1,004)	$983	$1,440	$474	$1,914
Investment securities	3,876	4,180	8,056	1,422	9,438	10,860
Loans:						
Commercial loans to mortgage companies	11,772	(6,133)	5,639	12,206	(9,001)	3,205
Multi-family loans	3,344	(81)	3,263	(2,325)	12,272	9,947
Commercial and industrial	8,654	13,099	21,753	2,776	11,562	14,338
Non-owner occupied commercial real estate	877	(1,426)	(549)	1,673	4,098	5,771
All other loans	2,544	648	3,192	(2,214)	6,071	3,857
Total loans	27,191	6,107	33,298	12,116	25,002	37,118
Other interest-earning assets	2,457	307	2,764	(454)	873	419
Total interest income	35,511	9,590	45,101	14,524	35,787	50,311
Interest expense:						
Interest checking accounts	3,543	2,697	6,240	636	1,452	2,088
Money market deposit accounts	25,258	832	26,090	13,556	1,699	15,255
Other savings accounts	1,481	679	2,160	13	4	17
Certificates of deposit	13,223	(4,487)	8,736	4,663	(2,709)	1,954
Total interest-bearing deposits	43,505	(279)	43,226	18,868	446	19,314
Borrowings	9,740	1,601	11,341	6,192	6,959	13,151
Total interest expense	53,245	1,322	54,567	25,060	7,405	32,465
Net interest income	$(17,734)	$8,268	$(9,466)	$(10,536)	$28,382	$17,846

For the years ended December 31, 2018 and 2017

Net interest income was $257.9 million for the year ended December 31, 2018, a decrease of $9.5 million, or 3.5%, when compared to net interest income for the year ended December 31, 2017, of $267.3 million. The decrease in net interest income in 2018 was primarily attributable to the narrowing of Customers' net interest margin (tax equivalent) by 15 basis points, to 2.58% for the year ended December 31, 2018, from 2.73% for the year ended December 31, 2017. This margin compression was driven by higher funding costs, as rising interest rates increased the cost of interest-bearing liabilities by 64 basis points compared to the prior year. Most notably, the cost of certificates of deposits and money market accounts increased by 62 and 74 basis points, respectively, and the cost of borrowings, primarily short-term FHLB advances, increased by 50 basis points. The impact of higher funding costs was offset in part by higher yields on interest earning assets, which increased 37 basis points, primarily driven by higher yields on commercial loans to mortgage companies, commercial and industrial loans, and investment securities of 72, 55, and 41 basis points, respectively. The increased yield on investment securities partially reflects the third quarter 2018 sale of $495 million of lower-yielding investment securities. The average balance of interest-earning assets also increased $0.2 billion, or 1.9%, to $10.0 billion for the year ended December 31, 2018, when compared to $9.8 billion for the year ended December 31, 2017, primarily driven by growth in commercial and industrial loans and investment securities and offset in part by decreases in the average balances in commercial loans to mortgage companies. The average balance of multi-family loans of $3.5 billion and $3.6 billion remained relatively flat between the years ended December 31, 2018 and 2017, respectively, reflecting management's efforts to re-mix the balance sheet to focus on higher-yielding assets.

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For the years ended December 31, 2017 and 2016

Net interest income was $267.3 million for the year ended December 31, 2017, an increase of $17.8 million, or 7.2%, when compared to net interest income for the year ended December 31, 2016, of $249.5 million. The increase in net interest income in 2017 was primarily attributable to an increase in the average balance of interest-earning assets of $1.0 billion, or 11.7%, to $9.8 billion for the year ended December 31, 2017,when compared to $8.8 billion for the year ended December 31, 2016, offset in part by the narrowing of Customers' net interest margin (tax equivalent) by 11 basis points to 2.73% for the year ended December 31, 2017 from 2.84% for the year ended December 31, 2016.

PROVISION FOR LOAN LOSSES

For more information about the provision and Customers' allowance for loan losses methodology and loss experience, see Critical Accounting Policies, FINANCIAL CONDITION - LOANS, CREDIT RISK and ASSET QUALITY herein and NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements.

Customers maintains an allowance for loan losses to cover estimated probable losses incurred as of the balance sheet date on loans held for investment that are not reported at their fair value on a recurring basis. The allowance for loan losses is increased through periodic provisions for loan losses that are charged as an expense on the consolidated statements of income and is reduced by charge-offs, net of recoveries. The loan portfolio is reviewed quarterly to evaluate the performance of the portfolio and the adequacy of the allowance for loan losses. The allowance for loan losses is estimated as of the end of each quarter and compared to the balance recorded in the general ledger, net of charge-offs and recoveries. The allowance is adjusted to the estimated allowance for loan losses balance with a corresponding charge (or debit) to the provision for loan losses.

For the years ended December 31, 2018 and 2017

During 2018, the provision for loan losses was $5.6 million, a decrease of $1.1 million from provision expense of $6.8 million in 2017. The 2018 provision expense included $4.0 million for loan growth and $3.2 million for impaired loans, offset in part by a $1.5 million release of the allowance estimate resulting from improved asset quality and lower incurred losses on purchased credit-impaired loans than previously estimated. Of the $5.6 million provision for loan losses recorded in 2018, $4.2 million related to the other consumer loan portfolio, $2.5 million related to the commercial and industrial loan portfolio and $1.1 million related to the residential real estate loan portfolio, reflecting Customers' efforts to re-mix the balance sheet to focus on these higher-yielding portfolios. These provision expenses were offset in part by benefits (or negative provisions) of $0.7 million and $1.3 million recognized on the multi-family and non-owner occupied commercial real estate portfolios, respectively, largely resulting from run-off in these portfolios. The 2017 provision expense included $2.3 million for loan portfolio growth and $5.6 million for impaired loans, offset in part by a $1.1 million release of the allowance estimate resulting from improved asset quality and lower incurred losses on purchased credit-impaired loans than previously estimated. Of the $6.8 million provision for loan losses recorded in 2017, $5.1 million related to the commercial and industrial loan portfolio, including owner occupied commercial real estate, and $0.6 million related to the multi-family loan portfolio. Net charge-offs in 2018 totaled $3.7 million compared to net charge-offs of $6.1 million in 2017. There were no significant changes in Customers' methodology for estimating its allowance for loan losses, or policies regarding charge-offs, in 2018.

For the years ended December 31, 2017 and 2016

During 2017, the provision for loan losses was $6.8 million, an increase of $3.7 million from a provision of $3.0 million in 2016. Net charge-offs in 2017 totaled $6.1 million compared to net charge-offs of $1.7 million in 2016. The 2016 provision included a benefit of $0.3 million attributable to FDIC loss sharing arrangements. There were no significant changes in Customers' methodology for estimating its allowance for loan losses, or policies regarding charge-offs, in 2017.

For more information about the provision and the allowance for loan losses, see NOTE 7 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES to Customers' audited financial statements.

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NON-INTEREST INCOME

The tables below present the various components of non-interest income for the years ended December 31, 2018, 2017 and 2016.

For the years ended December 31, 2018 and 2017

	For the Years Ended December 31,		Change	Percentage Change
	2018	2017		
(amounts in thousands)				
Interchange and card revenue	$30,695	$41,509	$(10,814)	(26.1)%
Deposit fees	7,824	10,039	(2,215)	(22.1)%
Bank-owned life insurance	7,620	7,219	401	5.6 %
Mortgage warehouse transactional fees	7,158	9,345	(2,187)	(23.4)%
Commercial lease income	5,354	647	4,707	727.5 %
Gains on sale of SBA and other loans	3,294	4,223	(929)	(22.0)%
Mortgage banking income	606	875	(269)	(30.7)%
Impairment loss on investment securities	—	(12,934)	12,934	(100.0)%
(Loss) gain on sale of investment securities	(18,659)	8,800	(27,459)	(312.0)%
Other	15,106	9,187	5,919	64.4 %
Total non-interest income	$58,998	$78,910	$(19,912)	(25.2)%

Interchange and card revenue

The $10.8 million decrease in interchange and card revenue for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from reduced transaction volumes at the BankMobile business segment of $5.3 million and $5.5 million of debit card interchange expense recorded as a reduction in non-interest income beginning on January 1, 2018, following the adoption of ASC 606 as described in NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION. Amounts reported for interchange and card revenue for periods prior to the adoption of this standard are still presented gross, and the corresponding interchange expenses are reported as a component of non-interest expense.

Deposit fees

The $2.2 million decrease in deposit fees for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from reduced transaction volumes at the BankMobile business segment.

Mortgage warehouse and transactional fees

The $2.2 million decrease in mortgage warehouse transactional fees for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from lower transaction volumes and reduced per transaction fees in Customers' mortgage warehouse business, as higher interest rates are driving an overall decline in demand for new and refinanced mortgage loans industry-wide.

Commercial lease income

Commercial lease income represents income earned on commercial operating leases generated by Customers' Equipment Finance Group. The $4.7 million increase in income from commercial leases for the year ended December 31, 2018 compared to the year ended December 31, 2017 resulted from a full year of operating lease arrangements being offered by Customers' Equipment Finance Group during 2018.

Gains on sale of SBA and other loans

The $0.9 million decrease in gains on sale of SBA and other loans for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily the result of a $1.2 million loss realized from the sale of $54.6 million lower-yielding multi-family loans during 2018 as part of Customers' efforts to remix its balance sheet.

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Impairment loss on investment securities

There were no OTTI losses on investment securities for the year ended December 31, 2018. Customers recorded OTTI losses on investment securities of $12.9 million for the full amount of the decline in the fair values of equity securities below their cost basis during 2017.

(Loss) gain on sale of investment securities

For the year ended December 31, 2018, Customers realized a loss of $18.7 million from the sale of $495 million of lower-yielding investment securities, compared to gains of $8.8 million for the year ended December 31, 2017.

Other non-interest income

The $5.9 million increase in other non-interest income for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from $4.8 million of gains realized in 2018 from the terminations of three interest rate swaps previously designated as cash flow hedges.

For the years ended December 31, 2017 and 2016

	For the Years Ended December 31,		Change	Percentage Change
(amounts in thousands)	2017	2016		
Interchange and card revenue	$41,509	$24,681	$16,828	68.2 %
Deposit fees	10,039	8,067	1,972	24.4 %
Mortgage warehouse transactional fees	9,345	11,547	(2,202)	(19.1)%
Gain on sale of investment securities	8,800	25	8,775	35,100.0 %
Bank-owned life insurance	7,219	4,736	2,483	52.4 %
Gains on sale of SBA and other loans	4,223	3,685	538	14.6 %
Mortgage banking income	875	969	(94)	(9.7)%
Commercial lease income	647	—	647	100.0 %
Impairment loss on investment securities	(12,934)	(7,262)	(5,672)	78.1 %
Other	9,187	9,922	(735)	(7.4)%
Total non-interest income	$78,910	$56,370	$22,540	40.0 %

Interchange and card revenue

The $16.8 million increase in interchange and card revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a full year of BankMobile Disbursement operations, which was acquired in June 2016.

Deposit fees

The $2.0 million increase in deposit fees for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a full year of BankMobile Disbursement operations, which was acquired in June 2016.

Mortgage warehouse transactional fees

The $2.2 million decrease in mortgage warehouse transactional fees for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a reduction in the volume of warehouse transactions.

Gain on sale of investment securities

The $8.8 million increase in gain on sales of investment securities resulted from increased sale activity for the year ended December 31, 2017 compared to the year ended December 31, 2016. During the year ended December 31, 2017, proceeds from the sales of investment securities available for sale were $0.8 billion compared to only $2.9 million for the year ended December 31, 2016.

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Bank-owned life insurance

The $2.5 million increase in BOLI income for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from the increased investment in BOLI policies during 2017.

Impairment loss on investment securities

The $5.7 million increase in impairment losses for the year ended December 31, 2017 compared to the year ended December 31, 2016 resulted from further declines in the fair value of other than temporarily impaired equity securities.

NON-INTEREST EXPENSE

The tables below present the various components of non-interest expense for the years ended December 31, 2018, 2017 and 2016.

For the years ended December 31, 2018 and 2017

	For the Years Ended December 31,		Change	Percentage Change
	2018	2017		
(amounts in thousands)				
Salaries and employee benefits	$104,841	$95,518	$9,323	9.8 %
Technology, communication and bank operations	44,454	45,885	(1,431)	(3.1)%
Professional services	20,237	28,051	(7,814)	(27.9)%
Occupancy	11,809	11,161	648	5.8 %
FDIC assessments, non-income taxes, and regulatory fees	8,642	7,906	736	9.3 %
Provision for operating losses	5,616	6,435	(819)	(12.7)%
Merger and acquisition related expenses	4,391	410	3,981	971.0 %
Commercial lease depreciation	4,388	522	3,866	740.6 %
Advertising and promotion	2,446	1,470	976	66.4 %
Loan workout	2,183	2,366	(183)	(7.7)%
Other real estate owned	449	570	(121)	(21.2)%
Other	10,723	15,312	(4,589)	(30.0)%
Total non-interest expense	$220,179	$215,606	$4,573	2.1 %

Salaries and employee benefits

The $9.3 million increase in salaries and employee benefits for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from salary increases for existing team members and increased headcount as Customers hired new team members in the existing and new markets its serves, including new locations in Philadelphia, Chicago and Washington D.C. Included in salaries and employee benefits for the year ended December 31, 2018 was $1.9 million of executive severance expense.

Technology, communications, and bank operations

Technology, communications, and bank operations expenses decreased $1.4 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. Technology, communications and bank operations for the year ended December 31, 2018 excludes $5.5 million of debit and prepaid card interchange expense as a result of new revenue recognition guidance on January 1, 2018 following the adoption of ASC 606 as described in NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION. For the year ended December 31, 2017, debit and prepaid card interchange expense was $5.9 million. When presented on a consistent basis, technology, communication and bank operations expense increased $4.5 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, as a result of the continued investment in the BankMobile segment infrastructure and Customers' 2018 system conversion.

Professional services

The $7.8 million decrease in professional services for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from a reduction in expenses for consulting, legal, outside services, and other professional fees as management continues its efforts to monitor and control expenses.

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Occupancy

The $0.6 million increase in occupancy for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted Customers' expanded geographical presence, including new locations in Philadelphia, Chicago and Washington D.C. during 2018.

FDIC assessments, non-income taxes, and regulatory fees

The $0.7 million increase in FDIC assessments, non-income taxes, and regulatory fees for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from expanded operations during the 2018 year, including additional state franchise tax filings and growth in Customers' shareholders equity impacting the Pennsylvania Bank Shares Tax.

Provision for operating losses

The provision for operating losses decreased $0.8 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. The provision for operating losses primarily consists of Customers' estimated liability for losses resulting from fraud or theft-based transactions that have generally been disputed by deposits account holders, mainly from its BankMobile Disbursement business, but where such disputes have not been resulted as of the end of the reporting period. The reserve is based on historical rates of loss on such transactions. The decrease is primarily attributable to the timing of the fraud or theft-based transactions along with the level of overall deposit balances at the BankMobile Disbursement business.

Merger and acquisition related expenses

The $4.0 million increase in merger and acquisition related expenses for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily related to the planned spin-off and merger of BankMobile. Upon termination of the spin-off and merger agreement between Customers and Flagship Community Bank on October 18, 2018, Customers recognized expenses of $2.7 million for amounts that, under the terms of the agreement, would have been reimbursed by Flagship Community Bank only upon completion of the spin off and merger.

Commercial lease depreciation

The $3.9 million increase in depreciation expense on commercial lease depreciation for the year ended December 31, 2018 compared to the year ended December 31, 2017 resulted from a full year of operating lease arrangements being offered by Customers' Equipment Finance Group.

Advertising and promotion

The $1.0 million increase in advertising and promotion expenses for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from Customers' expanded geographical locations and product line offerings in 2018.

Other non-interest expenses

The $4.6 million decrease in other non-interest expenses for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily was generated by expense reimbursements from a white label collaboration and numerous specific cost saves, which reflects management’s continued efforts to monitor and control expenses.

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For the years ended December 31, 2017 and 2016

(amounts in thousands)	For the Years Ended December 31, 2017	2016	Change	Percentage Change
Salaries and employee benefits	$95,518	$80,641	$14,877	18.4 %
Technology, communication and bank operations	45,885	26,839	19,046	71.0 %
Professional services	28,051	20,684	7,367	35.6 %
Occupancy	11,161	10,327	834	8.1 %
FDIC assessments, non-income taxes, and regulatory fees	7,906	13,097	(5,191)	(39.6)%
Provision for operating losses	6,435	3,517	2,918	83.0 %
Loan workout	2,366	2,063	303	14.7 %
Advertising and promotion	1,470	1,549	(79)	(5.1)%
Merger and acquisition related expenses	410	1,195	(785)	(65.7)%
Commercial lease depreciation	522	—	522	100.0 %
Other real estate owned	570	1,953	(1,383)	(70.8)%
Other	15,312	16,366	(1,054)	(6.4)%
Total non-interest expense	$215,606	$178,231	$37,375	21.0 %

Salaries and employee benefits

The $14.9 million increase in salaries and employee benefits for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from salary increases as well as a higher average number of full-time equivalent employees, primarily resulting from a full year of BankMobile Disbursement operations.

Technology, communication and bank operations

The $19.0 million increase in technology, communication and bank operations for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from increases in the core processing system and conversion-related expenses of $10.6 million. There were also increases in interchange expenses of $5.5 million, reflecting a full year of BankMobile Disbursement operations and non-capitalizable software development costs of $4.9 million resulting from the continued development and support of the BankMobile technology platform. These increases were offset in part by a $3.9 million one-time expense for technology-related expenses in 2016.

Professional Services

The $7.4 million increase in professional services expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from increased customer service-related expenses of $4.8 million resulting from a full year of BankMobile Disbursement operations, increased legal expenses of $1.0 million associated with the planned divestment of BankMobile and increased consulting and other professional services to support the ongoing operations of the Bank and BankMobile.

Occupancy

The $0.8 million increase in occupancy expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a full year of operations of the BankMobile Disbursement business, as well as increased business activity in existing and new markets, requiring additional team members and facilities.

FDIC assessments, non-income taxes, and regulatory fees

The $5.2 million decrease in FDIC assessments, non-income taxes, and regulatory fees for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a lower insurance assessment charged by the FDIC as the FDIC's DIF reached a targeted ratio.

Provision for operating losses

The $2.9 million increase in the provision for operating losses for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from the accrual for the estimated liability for a full year of operations of the BankMobile Disbursement business in 2017. The reserve is based on historical rates of loss on such transactions. The provision for operating losses primarily consists of Customers' estimated liability for losses resulting from fraud or theft-based

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transactions that have generally been disputed by deposit account holders, mainly from its BankMobile Disbursement business, but where such disputes have not been resolved as of the end of the reporting period.

Merger and acquisition related expenses

Merger and acquisition related expenses decreased $0.8 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The merger and acquisition related expenses for 2016 included Customers' acquisition of the BankMobile Disbursement business in June 2016.

Other real estate owned

The $1.4 million decrease in OREO expenses for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily resulted from a $1.2 million reduction in valuation adjustments on the OREO properties year over year.

Other non-interest expenses

The $1.1 decrease in other non-interest expenses for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily was generated by numerous specific cost saves in 2017.

INCOME TAXES

The table below presents income tax expense and the effective tax rate for the years ended December 31, 2018, 2017 and 2016.

	For the Years Ended December 31,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	Change	Percentage change	Change	Percentage change
(dollars in thousands)							
Income before income tax expense	$91,054	$123,879	$124,595	$(32,825)	(26.5)%	$(716)	(0.6)%
Income tax expense	19,359	45,042	45,893	(25,683)	(57.0)%	(851)	(1.9)%
Effective tax rate	21.3 %	36.4 %	36.8 %				

For the years ended December 31, 2018 and 2017

The income tax expense and effective tax rate include both federal and state income taxes. The $25.7 million decrease in income tax expense for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily attributable to the lowering of the federal corporate tax rate from 35% to 21% due to the Tax Act becoming effective on January 1, 2018, and a decrease in pre-tax income of $32.8 million. State income taxes, net of the federal benefit, resulted in a 4.47% increase to the federal tax rate for the year ended December 31, 2018. This increase was offset in part by BOLI income, which generated a 1.70% effective tax rate decrease and the income tax benefit from the vesting of restricted stock units and exercise of employee stock options which generated a 0.60% effective tax rate decrease. In fourth quarter 2017, Customers recorded a deferred tax asset re-measurement charge to its income tax expense of $5.5 million as a result of the enactment of the Tax Act. This one-time tax effect was offset by a $10.7 million benefit from exercise of employee stock options, principally by Customers' CEO, and vesting of restricted stock units. For additional information, see NOTE 14 - INCOME TAXES to Customers' audited financial statements.

For the years ended December 31, 2017 and 2016

There was a $0.9 million decrease in income tax expense for the year ended December 31, 2017 compared to the year ended December 31, 2016. In fourth quarter 2017, Customers recorded a deferred tax asset re-measurement charge to its income tax expense of $5.5 million, or a 4.44% effective tax rate increase, as a result of the enactment of the Tax Act in December 2017. In 2017, Customers also had unrecorded basis difference in foreign subsidiaries of $4.5 million, or a 3.65% effective tax rate increase, related to the OTTI charges recorded during 2017 on equity securities held by these foreign subsidiaries. These adjustments were offset in their entirety by a $10.7 million benefit, or 8.67% effective tax rate reduction, from exercises of employee stock options, principally by Customers' CEO, and vesting of restricted stock units.

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FINANCIAL CONDITION

GENERAL

At December 31, 2018 and 2017, total assets were $9.8 billion. Customers continues to focus on optimizing balance sheet mix, enhancing liquidity, improving capital, expanding net interest margin, and maximizing the return on average assets. Efforts improved loan mix year over year, as commercial and industrial loans, excluding commercial loans to mortgage companies, increased $312 million and mortgages and other consumer loans increased $392 million. Customers decreased lower yielding multi-family loans and commercial non-owner occupied real estate loans by $361 million and $93.6 million, respectively. Commercial mortgage warehouse loans were $1.5 billion at December 31, 2018, down $0.3 billion from $1.8 billion at December 31, 2017, primarily due to the general slowdown of mortgage originations and refinancing across the United States.

Total liabilities were $8.9 billion at December 31, 2018. This represented a $42.0 million, or 0.5%, decrease from total liabilities of $8.9 billion at December 31, 2017. Consistent with management's focus on improving margin, Customers grew lower cost deposits by $342.1 million to replace higher cost FHLB advances during 2018.

The following table sets forth certain key condensed balance sheet data:

	December 31,			
	2018	2017	Change	Percentage Change
(amounts in thousands)				
Cash and cash equivalents	$62,135	$146,323	$(84,188)	(57.5)%
Investment securities available for sale, at fair value	665,012	471,371	193,641	41.1 %
Loans held for sale (includes $1,507 and $1,886, respectively, at fair value)	1,507	146,077	(144,570)	(99.0)%
Loans receivable, mortgage warehouse, at fair value	1,405,420	1,793,408	(387,988)	(21.6)%
Loans receivable	7,138,074	6,768,258	369,816	5.5 %
Total loans receivable, net of allowance for loan losses	8,503,522	8,523,651	(20,129)	(0.2)%
Total assets	9,833,425	9,839,555	(6,130)	(0.1)%
Total deposits	7,142,236	6,800,142	342,094	5.0 %
Federal funds purchased	187,000	155,000	32,000	20.6 %
FHLB advances	1,248,070	1,611,860	(363,790)	(22.6)%
Other borrowings	123,871	186,497	(62,626)	(33.6)%
Subordinated debt	108,977	108,880	97	0.1 %
Total liabilities	8,876,609	8,918,591	(41,982)	(0.5)%
Total shareholders’ equity	956,816	920,964	35,852	3.9 %
Total liabilities and shareholders’ equity	9,833,425	9,839,555	(6,130)	(0.1)%

CASH AND CASH EQIVALENTS

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. Cash and due from banks were $17.7 million and $20.4 million at December 31, 2018 and 2017, respectively. The cash and cash due from banks balances vary from day to day, primarily due to fluctuations in customers’ deposits with the Bank.

Interest-earning deposits consist mainly of cash deposits at the FRB. Interest-earning deposits were $44.4 million and $125.9 million at December 31, 2018 and 2017, respectively. 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.

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 securities, and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, provide

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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.

At December 31, 2018, investment securities totaled $665.0 million compared to $471.4 million at December 31, 2017. The increase was primarily the result of purchases of agency-guaranteed mortgage-backed securities and corporate securities totaling of $763.2 million, largely during first quarter 2018. The increase was offset in part by the sale of $494.8 million of lower-yielding securities, and maturities, calls and principal repayments totaling $44.3 million for the year ended December 31, 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 OCI 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 AOCI. Amounts previously recorded to AOCI were reclassified to retained earnings on January 1, 2018. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities.

The following table sets forth the amortized cost of the investment securities at December 31, 2018 and 2017.

	December 31,	
	2018	2017
(amounts in thousands)		
Available for sale securities		
Agency-guaranteed residential mortgage-backed securities	$311,267	$186,221
Agency-guaranteed commercial real estate mortgage-backed securities	—	238,809
Corporate notes	381,407	44,959
Equity securities [(1)]	—	2,311
	$692,674	$472,300

(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).

The following table sets forth information about the maturities and weighted-average yield of the securities portfolio. Yields are not reported on a tax-equivalent basis.

	December 31, 2018						
	Amortized Cost						Fair Value
	< 1yr	1 -5 years	5 -10 years	After 10 years	No specific maturity	Total	Total
(amounts in thousands)							
Available for sale securities							
Residential mortgage-backed securities	$—	$ —	$—	$—	$311,267	$311,267	$305,374
Yield	—	—	—	—	3.50 %	3.50 %	—
Corporate notes	—	—	329,096	52,311	—	381,407	357,920
Yield	—	—	4.02 %	3.86 %	—	4.00 %	—
Equity securities	—	—	—	—	—	—	1,718
Total	$—	$ —	$329,096	$52,311	$311,267	$692,674	$665,012
Weighted-Average Yield	—%	—%	4.02 %	3.86 %	3.50 %	3.78 %	

The mortgage-backed securities in the portfolio were issued by Fannie Mae, Freddie Mac, and Ginnie Mae and contain guarantees for the collection of principal and interest on the underlying mortgages.

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

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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 SBA 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.

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 underlying residential loans are taken as collateral for Customers' commercial loans to the mortgage companies. As of December 31, 2018 and 2017, commercial loans to mortgage banking businesses totaled $1.4 billion and $1.8 billion, respectively, and are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheet.

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 December 31, 2018, Customers had multi-family loans of $3.3 billion outstanding, comprising approximately 38.4% 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 December 31, 2018 and 2017, Customers had $172.9 million and $152.5 million, respectively, of equipment finance loans outstanding. As of December 31, 2018 and 2017, Customers had $54.5 million and $26.6 million of equipment finance leases, respectively. As of December 31, 2018 and 2017, Customers had $54.5 million and $21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of $4.8 million and $0.5 million, respectively.

As of December 31, 2018, Customers had $7.8 billion in commercial loans outstanding, totaling approximately 91.6% 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 total 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 December 31, 2018, Customers had $721.8 million in consumer loans outstanding, or 8.4% of the total loan portfolio,

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compared to $329.8 million, or 3.8% of the total loan portfolio, as of December 31, 2017. During the year ended December 31, 2018, Customers purchased $398.5 million of residential mortgages 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, including the non-QM residential mortgage market and unsecured consumer lending.

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.

Loans Held for Sale

The composition of loans held for sale was as follows:

	December 31,				
	2018	2017	2016	2015	2014
(amounts in thousands)					
Commercial loans:					
Multi-family loans at lower of cost or fair value	$—	$144,191	$—	$39,257	$99,791
Total commercial loans held for sale	—	144,191	—	39,257	99,791
Consumer loans:					
Residential mortgage loans, at fair value	1,507	1,886	695	2,857	3,649
Loans held for sale	$1,507	$146,077	$695	$42,114	$103,440

At December 31, 2018, loans held for sale totaled $1.5 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.

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Total Loans Receivable
The composition of total loans receivable (excluding loans held for sale) was as follows:

	December 31,				
	2018	2017	2016	2015	2014
(amounts in thousands)					
Loans receivable, mortgage warehouse, at fair value	$1,405,420	$1,793,408	$2,116,815	$1,754,950	$1,332,019
Loans receivable:					
Commercial:					
Multi-family	3,285,297	3,502,381	3,214,999	2,909,439	2,208,405
Commercial and industrial (including owner occupied commercial real estate)	1,951,277	1,633,818	1,382,343	1,111,400	785,669
Commercial real estate non-owner occupied	1,125,106	1,218,719	1,193,715	956,255	839,310
Construction	56,491	85,393	64,789	87,240	49,718
Total commercial loans receivable	6,418,171	6,440,311	5,855,846	5,064,334	3,883,102
Consumer:					
Residential real estate	566,561	234,090	193,502	271,613	297,395
Manufactured housing	79,731	90,227	101,730	113,490	126,731
Other	74,035	3,547	3,483	3,708	4,433
Total consumer loans receivable	720,327	327,864	298,715	388,811	428,559
Loans receivable	7,138,498	6,768,175	6,154,561	5,453,145	4,311,661
Deferred (fees) costs and unamortized (discounts) premiums, net	(424)	83	76	334	512
Allowance for loan losses	(39,972)	(38,015)	(37,315)	(35,647)	(30,932)
Total loans receivable, net of allowance for loan losses	$8,503,522	$8,523,651	$8,234,137	$7,172,782	$5,613,260

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

Loans receivable, mortgage warehouse, at fair value

The mortgage warehouse product line provides financing to mortgage companies nationwide from the time of origination of the underlying mortgage loans until the mortgage loans are sold into the secondary market. As a mortgage warehouse lender, Customers provides a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short-term basis under a master repurchase agreement. These loans are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheets. 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 loss related disclosures. At December 31, 2018, all of Customers' commercial mortgage warehouse loans were current in terms of payment.

Customers is subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the mortgage banker or of the underlying residential borrower, any of which could result in credit losses. Customers' mortgage warehouse lending team members monitor these mortgage originators by obtaining financial and other relevant information to reduce these risks during the lending period. Loans receivable, mortgage warehouse, at fair value totaled $1.4 billion and $1.8 billion at December 31, 2018 and 2017, respectively. The $0.4 billion decrease was attributable to the general slowdown of mortgage originations across the United States.

Loans receivable

Loans receivable (excluding loans receivable, mortgage warehouse, at fair value), net of the allowance for loan losses, increased by $0.4 billion to $7.1 billion at December 31, 2018, from $6.7 billion at December 31, 2017. The increase in loans receivable, net of the allowance for loan losses, was attributable to higher balances in the residential real estate and commercial and industrial (including owner occupied commercial real estate) loan portfolios, with each portfolio increasing by $0.3 billion from December 31, 2017, partially offset by the multi-family portfolio, which decreased by $0.2 billion from December 31,

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2017. The fluctuations were the result of Customers' strategic efforts to reduce the lower-yielding loans in the multi-family portfolio and replace them with higher yielding commercial and industrial and consumer loans.

The following table presents Customers' commercial loans receivable (excluding loans receivable, mortgage warehouse, at fair value) as of December 31, 2018 based on the remaining term to contractual maturity, and presents the amount of those loans with predetermined fixed rates and floating or adjustable rates:

(amounts in thousands)	Within one year	After one but within five years	After five years	Total
Commercial loans:				
Multi-family	$225,046	$1,125,296	$1,934,955	$3,285,297
Commercial and industrial (including owner occupied commercial real estate)	246,338	1,036,381	668,558	1,951,277
Commercial real estate non-owner occupied	149,615	602,604	372,887	1,125,106
Construction	4,991	20,728	30,772	56,491
Total commercial loans	$625,990	$2,785,009	$3,007,172	$6,418,171
Amount of such loans with:				
Predetermined rates	$390,296	$1,833,987	$450,867	$2,675,150
Floating or adjustable rates	235,694	951,022	2,556,305	3,743,021
Total commercial loans	$625,990	$2,785,009	$3,007,172	$6,418,171

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.

The provision for loan losses was $5.6 million, $6.8 million, and $3.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. The allowance for loan losses maintained for loans receivable (excluding loans held for sale and loans receivable, mortgage warehouse, at fair value) was $40.0 million, or 0.56% of loans receivable, at December 31, 2018, and $38.0 million, or 0.56% of loans receivable, at December 31, 2017. Net charge-offs were $3.7 million for the year ended December 31, 2018, a decrease of $2.4 million compared to $6.1 million for the year ending December 31, 2017. The decrease in net charge-offs year over year was mainly driven by lower net charge-offs in the commercial and industrial loan portfolio.

Customers had no loans that were covered under loss sharing arrangements with the FDIC as of December 31, 2018 and 2017. On July 11, 2016, Customers entered into an agreement to terminate all existing rights and obligations pursuant to the loss sharing agreements with the FDIC. In connection with the termination agreement, Customers paid the FDIC $1.4 million as final payment under these agreements. The negotiated settlement amount was based on net losses incurred on the covered assets through September 30, 2015, adjusted for cash payments to and receipts from the FDIC as part of the December 31, 2015 and March 31, 2016 certifications. Consequently, loans and OREO previously reported as covered assets pursuant to the loss sharing agreements were no longer presented as covered assets as of June 30, 2016. Customers considered the covered loans in estimating the allowance for loan losses and considered recovery of estimated credit losses from the FDIC in the FDIC indemnification asset.

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The table below presents Customers' allowance for loan losses, excluding the effects of the FDIC receivable for the periods prior to the termination of the FDIC loss sharing agreement, for the periods indicated.

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
(amounts in thousands)					
Balance at the beginning of the period	$38,015	$37,315	$35,647	$30,932	$23,998
Loan charge-offs (1)					
Construction	—	—	—	1,064	895
Commercial and industrial (2)	2,469	4,888	2,947	11,709	1,637
Commercial real estate non-owner occupied	—	486	140	327	1,715
Residential real estate	466	415	493	276	667
Other consumer	1,822	1,338	825	36	33
Total Charge-offs	4,757	7,127	4,405	13,412	4,947
Loan recoveries (1)					
Construction	241	164	1,854	204	13
Commercial and industrial (2)	729	685	381	562	736
Commercial real estate non-owner occupied	5	—	130	—	801
Residential real estate	76	72	367	575	265
Other consumer	21	138	11	92	8
Total Recoveries	1,072	1,059	2,743	1,433	1,823
Total net charge-offs	3,685	6,068	1,662	11,979	3,124
Provision for loan losses (3)	5,642	6,768	3,330	16,694	10,058
Balance at the end of the period	$39,972	$38,015	$37,315	$35,647	$30,932
Net charge-offs as a percentage of average loans receivable	0.05 %	0.09 %	0.03 %	0.26 %	0.09 %

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

(2) Includes owner occupied commercial real estate loans.

(3) The provision amounts exclude the benefit/(cost) of the FDIC loss sharing arrangements of $0.3 million, $(3.9) million and $(4.7) million, for the years ended December 31, 2016, 2015 and 2014, respectively.

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 commercial mortgage warehouse loans, which are reported 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 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements for further discussion on management's methodology for estimating the allowance for loan losses.

Approximately 81% 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

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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.

The following table shows the allowance for loan losses by various loan portfolios as of December 31, 2018, 2017, 2016, 2015 and 2014:

	December 31,														
	2018			2017			2016			2015			2014		
	Allowance for loan losses	Percent of loans in each category to loans receivable		Allowance for loan losses	Percent of loans in each category to loans receivable		Allowance for loan losses	Percent of loans in each category to loans receivable		Allowance for loan losses	Percent of loans in each category to loans receivable		Allowance for loan losses	Percent of loans in each category to loans receivable	
(amounts in thousands)															
Multi-family	$11,462	46.0	%	$12,168	51.7	%	$11,602	52.2	%	$12,016	53.4	%	$8,493	51.2	%
Commercial and industrial (1)	15,465	27.3	%	14,150	24.1	%	13,233	22.5	%	10,212	20.4	%	9,120	18.2	%
Commercial real estate non-owner occupied	6,093	15.8	%	7,437	18.0	%	7,894	19.4	%	8,420	17.5	%	9,198	19.5	%
Construction	624	0.8	%	979	1.3	%	840	1.1	%	1,074	1.6	%	1,047	1.2	%
Total Commercial Loans	33,644	89.9	%	34,734	95.2	%	33,569	95.1	%	31,722	92.9	%	27,858	90.1	%
Residential real estate	3,654	7.9	%	2,929	3.5	%	3,342	3.1	%	3,298	5.0	%	2,698	6.9	%
Manufactured housing	145	1.1	%	180	1.3	%	286	1.7	%	494	2.1	%	262	2.9	%
Other consumer	2,529	1.1	%	172	0.1	%	118	0.1	%	133	0.1	%	114	0.1	%
Total Consumer Loans	6,328	10.1	%	3,281	4.8	%	3,746	4.9	%	3,925	7.1	%	3,074	9.9	%
Loans Receivable	$39,972	100.0	%	$38,015	100.0	%	$37,315	100.0	%	$35,647	100.0	%	$30,932	100.0	%

(1) Includes owner occupied commercial real estate loans.

ASSET QUALITY

Customers divides its loan receivable portfolio into two categories to analyze and understand loan activity and performance: loans receivable that were originated and loans receivable that were acquired. Customers further segments the originated and acquired loan receivables 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.

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Asset Quality at December 31, 2018

(dollars in thousands)	Total Loans	Current	30-89 Days	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 (%)
Loan Type									
Originated Loans									
Multi-family	$3,282,903	$3,281,748	$—	$—	$ 1,155	$—	$1,155	0.04%	0.04%
Commercial & Industrial (1)	1,874,779	1,854,740	1,496	—	18,543	621	19,164	0.99%	1.02%
Commercial Real Estate Non-Owner Occupied	1,111,903	1,110,713	1,190	—	—	—	—	— %	— %
Residential	107,070	101,974	3,097	—	1,999	—	1,999	1.87%	1.87%
Construction	56,491	56,491	—	—	—	—	—	— %	— %
Other Consumer	42,596	42,566	30	—	—	—	—	— %	— %
Total Originated Loans (2)	6,475,742	6,448,232	5,813	—	21,697	621	22,318	0.34%	0.34%
Acquired Loans									
Bank Acquisitions	125,718	117,826	3,410	378	4,104	—	4,104	3.26%	3.26%
Loan Purchases	537,038	527,664	4,705	2,976	1,693	195	1,888	0.32%	0.35%
Total Acquired Loans	662,756	645,490	8,115	3,354	5,797	195	5,992	0.87%	0.90%
Deferred (fees) costs and unamortized (discounts) premiums, net	(424)	(424)	—	—	—	—	—		
Loans Receivable	7,138,074	7,093,298	13,928	3,354	27,494	816	28,310	0.39%	0.40%
Loans Receivable, Mortgage Warehouse, at Fair Value	1,405,420	1,405,420	—	—	—	—	—		
Total Loans Held for Sale	1,507	1,507	—	—	—	—	—		
Total Portfolio	$8,545,001	$8,500,225	$13,928	$ 3,354	$ 27,494	$816	$28,310	0.32%	0.33%

(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 December 31, 2018 (continued)

(dollars in thousands)	Total Loans	NPL	ALL	Cash Reserve	Total Credit Reserves	Reserves to Loans (%)	Reserves to NPLs (%)
Loan Type							
Originated Loans							
Multi-family	$3,282,903	$1,155	$11,524	$ —	$ 11,524	0.35 %	997.75%
Commercial & Industrial (1)	1,874,779	18,543	14,866	—	14,866	0.79 %	80.17 %
Commercial Real Estate	1,111,903	—	4,093	—	4,093	0.37 %	— %
Residential	107,070	1,999	2,013	—	2,013	1.88 %	100.70%
Construction	56,491	—	624	—	624	1.10 %	— %
Other Consumer	42,596	—	2,371	—	2,371	5.57 %	— %
Total Originated Loans (2)	6,475,742	21,697	35,491	—	35,491	0.55 %	163.58%
Acquired Loans							

Bank Acquisitions	125,718	4,104	3,224	—	3,224	2.56 %	78.56 %
Loan Purchases	537,038	1,693	1,257	488	1,745	0.32 %	103.07 %
Total Acquired Loans	662,756	5,797	4,481	488	4,969	0.75 %	85.72 %
Deferred (fees) costs and unamortized (discounts) premiums, net	(424)	—	—	—	—		
Loans Receivable	7,138,074	27,494	39,972	488	40,460	0.57 %	147.16 %
Loans Receivable, Mortgage Warehouse, at Fair Value	1,405,420	—	—	—	—		
Total Loans Held for Sale	1,507	—	—	—	—		
Total Portfolio	$8,545,001	$27,494	$39,972	$ 488	$40,460	0.47 %	147.16 %

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.
(2) Does not include loans receivable, mortgage warehouse, at fair value.

Originated Loans

Originated loans (excluding loans held for sale and loans receivable, mortgage warehouse, at fair value) totaled $6.5 billion, or 90.7% of loans receivable, at December 31, 2018, compared to $6.4 billion, or 95.1% of loans receivable, at December 31,

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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 $21.7 million, or 0.34% of originated loans, were non-performing at December 31, 2018, compared to $20.0 million, or 0.31% of originated loans, at December 31, 2017. The originated loans were supported by an allowance for loan losses of $35.5 million (0.55% of originated loans) and $33.3 million (0.52% of originated loans) at December 31, 2018 and 2017, respectively.

Loans Acquired

At December 31, 2018, total acquired loans were $662.8 million, or 9.3% of loans receivable, compared to $328.8 million, or 4.9% of loans receivable, at December 31, 2017. Non-performing acquired loans totaled $5.8 million and $6.4 million at December 31, 2018 and 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, $46.6 million were supported by a $0.5 million cash reserve at December 31, 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 December 31, 2018, $26.5 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 NPLs than originated loans. Management acquired these loans with the expectation that NPL levels would be elevated, and therefore incorporated that expectation into the price paid. Customers has assigned these loans to its SAG, a team that focuses on workouts for these acquired NPAs. Total acquired loans were supported by reserves (allowance for loan losses and cash reserves) of $5.0 million (0.75% of total acquired loans) and $5.4 million (1.64% of total acquired loans) at December 31, 2018 and 2017, respectively.

Customers manages its credit risk through the diversification of the loan portfolio and the application of policies and procedures designed to foster sound credit standards and monitoring practices. While various degrees of credit risk are associated with substantially all investing activities, the lending function carries the greatest degree of potential loss. At December 31, 2018 and 2017, NPLs to total loans was 0.32% and 0.30%, respectively. Total reserves to NPLs was 147.2% and 146.4% at December 31, 2018 and 2017, respectively.

The tables below set forth non-accrual loans, NPAs and asset quality ratios:

	December 31,				
	2018	2017	2016	2015	2014
(amounts in thousands)					
Loans 90+ days delinquent still accruing (1)	$2,188	$2,743	$2,813	$2,805	$4,388
Non-accrual loans	$27,494	$26,415	$17,792	$10,771	$11,733
OREO	816	1,726	3,108	5,057	15,371
Total non-performing assets	$28,310	$28,141	$20,900	$15,828	$27,104

(1) Excludes PCI loans.

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	December 31,				
	2018	2017	2016	2015	2014
Non-accrual loans to loans receivable [1]	0.39 %	0.39 %	0.29 %	0.20 %	0.27 %
Non-accrual loans to total loans	0.32 %	0.30 %	0.22 %	0.15 %	0.20 %
Non-performing assets to total assets	0.29 %	0.29 %	0.22 %	0.19 %	0.40 %
Non-accrual loans and loans 90+ days delinquent to total assets	0.30 %	0.30 %	0.22 %	0.16 %	0.24 %
Allowance for loan losses to:					
Loans receivable [1]	0.56 %	0.56 %	0.61 %	0.65 %	0.72 %
Non-accrual loans	145.38 %	143.91 %	209.73 %	330.95 %	263.63 %

(1) Excludes loans receivable, mortgage warehouse, at fair value.

The table below sets forth loans that were non-performing at December 31, 2018, 2017, 2016, 2015 and 2014.

	December 31,				
	2018	2017	2016	2015	2014
(amounts in thousands)					
Multi-family	$1,155	$—	$—	$—	$—
Commercial and industrial [1]	17,764	17,392	8,443	1,973	2,513
Commercial real estate	1,037	1,453	2,039	2,700	2,514
Commercial real estate non-owner occupied	129	160	2,057	1,307	1,460
Construction	—	—	—	—	2,325
Residential real estate	5,605	5,420	2,959	2,202	1,855
Manufactured housing	1,693	1,959	2,236	2,449	931
Other consumer	111	31	58	140	135
Total non-performing loans	$27,494	$26,415	$17,792	$10,771	$11,733

(1) Includes owner occupied commercial real estate loans.

Customers seeks to manage credit risk through the diversification of the loan portfolio and the application of credit underwriting policies and procedures designed to foster sound credit standards and monitoring practices. While various degrees of credit risk are associated with substantially all investing activities, the lending function carries the greatest degree of potential loss.

Asset quality assurance activities include careful monitoring of borrower payment status and the periodic review of borrower current financial information to ensure ongoing financial strength and borrower cash flow viability. Customers has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization and adjusts policies as appropriate for changes in market conditions and applicable regulations.

Problem Loan Identification and Management

To facilitate the monitoring of credit quality within the commercial and industrial, multi-family, commercial real estate and construction portfolios and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective portfolio segment, Customers utilizes the following categories of risk ratings: pass (there are six risk ratings for pass loans), special mention, substandard, doubtful or loss. The risk-rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated regularly thereafter. Pass 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, generally 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 the loans.

Customers assigns a special mention rating to loans that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan and Customers' financial position. At December 31, 2018 and 2017, special mention loans were $126.2 million and $99.3 million, respectively.

Risk ratings are not established for residential real estate, home equity loans, installment loans and other consumer 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 on aggregate payment history through the monitoring of delinquency levels and trends.

A regular reporting and review process is in place to provide for proper portfolio oversight and control and to monitor those loans identified as problem credits by management. This process is designed to assess Customers' progress in working toward a solution and to assist in determining an appropriate allowance for loan losses. All loan work-out situations involve the active participation of management and are reported regularly to the Board of Directors. When a loan becomes delinquent for 90 days or more, or earlier if considered appropriate, the loan is assigned to Customers' Special Asset Group for workout or other resolution.

Loan charge-offs are determined on a case-by-case basis. Loans are generally charged off when principal is likely to be unrecoverable and after appropriate collection steps have been taken. Loan charge-offs are proposed by the SAG and approved by the Board of Directors.

Loan policies and procedures are reviewed internally for possible revisions and changes on a regular basis. In addition, these policies and procedures, together with the loan portfolio, are reviewed on a periodic basis by various regulatory agencies and by our internal, external and loan review auditors, as part of their examination and audit procedures.

Troubled Debt Restructurings

At December 31, 2018, 2017 and 2016, there were $19.2 million, $20.4 million and $16.4 million, respectively, in loans categorized as a TDR. TDRs are reported as impaired loans in the period 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 the borrower satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, Customers requires sustained performance for nine months before returning a TDR to accrual status.

Modification of PCI loans that are accounted for within loan pools in accordance with the accounting standards for PCI loans does not result in the removal of these loans from the pool even if the modification 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 expectation of cash flows, modifications of loans within such pools are not reported as TDRs.

TDR modifications primarily involve interest-rate concessions, extensions of term, deferrals of principal and other modifications. Other modifications typically reflect other nonstandard terms which Customers would not offer in non-troubled situations. During the years ended December 31, 2018, 2017 and 2016, loans aggregating $1.7 million, $8.1 million and $6.6 million, respectively, were modified in TDRs. TDR modifications of loans within the commercial and industrial category were primarily interest-rate concessions, deferrals of principal and other modifications; modifications of commercial real estate loans were primarily deferrals of principal, extensions of term and other modifications; modifications of residential real estate loans were primarily interest-rate concessions and deferrals of principal; and modifications of manufactured housing loans were primarily interest rate concessions, extensions of term and deferrals of principal. As of December 31, 2018 and 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. There were no commitments to lend additional funds to debtors whose terms were modified in TDRs at December 31, 2016.

As of December 31, 2018, four manufactured housing loans totaling $0.1 million that were modified in TDRs within the past twelve months defaulted on payments. As of December 31, 2017, five manufactured housing loans totaling $0.2 million that were modified in TDRs within the past twelve months defaulted on payments. As of December 31, 2016, eight manufactured housing loans totaling $0.2 million, one commercial real estate non-owner occupied loan of $1.8 million and one residential real estate loan of $0.1 million, that were modified in TDRs within the related past twelve months defaulted on payments.

Loans modified in TDRs are evaluated for impairment. The nature and extent of impairment of TDRs, including those that have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses. For the year ended December 31, 2018, there were no allowances recorded as a result of TDR modifications. For the year ended December 31, 2017, there was one allowance resulting from TDR modifications totaling $1 thousand for one manufactured housing loan. There were no allowances recorded as a result of TDR modifications during 2016.

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ACCRUED INTEREST RECEIVABLE

Accrued interest receivable increased by $5.9 million, or 22.0%, to $33.0 million at December 31, 2018, from $27.0 million at December 31, 2017. This increase was primarily associated with the increase in investment securities and an increase in the yield on interest-earning assets.

BANK PREMISES AND EQUIPMENT AND OTHER ASSETS

Bank premises and equipment, net of accumulated depreciation and amortization, totaled $11.1 million and $12.0 million at December 31, 2018 and 2017, respectively. The decrease in bank premises and equipment, net of accumulated depreciation and amortization, resulted from depreciation and amortization expenses totaling $2.7 million recorded in 2018 offset in part by purchases of bank premises and equipment of $1.8 million. For additional information, see NOTE 8 - BANK PREMISES AND EQUIPMENT to Customers' audited financial statements.

Customers Bank's restricted stock holdings at December 31, 2018 and 2017, were $89.7 million and $105.9 million, respectively. These holdings consist of stock of the Federal Reserve Bank, the FHLB and Atlantic Community Bankers Bank and are required as part of our relationship with these banks.

Other assets at December 31, 2018 and 2017 totaled $185.7 million and $131.5 million, respectively, and consisted primarily of deferred taxes, assets leased under operating leases through Customers' Equipment Finance Group, prepaid expenses, and mark-to-market adjustments for interest-rate swaps. During 2018 and 2017, Customers Bank leased various types of equipment to its Equipment Finance Group customers. The net carrying value of the leased assets was $54.5 million and $21.7 million, which includes accumulated depreciation of $4.8 million and $0.5 million as of December 31, 2018 and 2017, respectively.

The cash surrender value of BOLI increased by $6.8 million to $264.6 million at December 31, 2018, from $257.7 million at December 31, 2017. Presented within bank-owned life insurance on the consolidated balance sheet is the cash surrender value of the SERP balances of $3.1 million and $3.3 million at December 31, 2018 and 2017, respectively. For additional information, see NOTE 12 - EMPLOYEE BENEFIT PLANS to Customers' audited financial statements.

DEPOSITS

The Bank offers a variety of deposit accounts, including checking, savings, 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.

The components of deposits at December 31, 2018, 2017, and 2016, were as follows:

	December 31,			2018 vs. 2017	2018 vs. 2017
	2018	2017	2016	Change	Percentage Change
(amounts in thousands)					
Demand, non-interest bearing	$1,122,171	$1,052,115	$966,058	$70,056	6.7 %
Demand, interest bearing	803,948	523,848	339,398	280,100	53.5 %
Savings, including MMDA	3,481,936	3,318,486	3,166,557	163,450	4.9 %
Time, $100,000 and over	792,370	1,284,855	2,106,905	(492,485)	(38.3)%
Time, other	941,811	620,838	724,857	320,973	51.7 %
Total deposits	$7,142,236	$			