Customers Bancorp, Inc.
Form 10-K
February 27, 2015
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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, 2014
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
(Registrants telephone number, including area code)
N/A
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange
6.375% Senior Notes due 2018	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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 $450,339,717 as of June 30, 2014, based upon the closing price quoted on the Nasdaq Global Select Market 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 20, 2015, 25,685,524 shares of Voting Common Stock and 1,121,730 shares of Class B Non-Voting Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held April 23, 2015 are incorporated by reference into Part III of this Annual Report.

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FORWARD-LOOKING STATEMENTS

Customers Bancorp, Inc. ("the Bancorp"), may from time to time make written or oral "forward-looking statements," including statements contained in the Bancorp's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits hereto and thereto), in our reports to shareholders and in other communications by the Bancorp, which are made in good faith by the Bancorp pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Bancorp's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risk and uncertainties, and are subject to change based on various factors (some of which are beyond the Bancorp's control). The words "believes," "expects," "may," "will," "should," "plans," "intends," or "anticipates" or the negative thereof or comparable terminology, or discussions of strategy that involve risks and uncertainties, identify forward-looking statements which generally are not historical in nature. These forward-looking statements are only predictions and estimates regarding future events and circumstances and involve known and unknown risks, uncertainties and other factors, including the risks described under "Risk Factors" that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. This information is based on various assumptions that may not prove to be correct.

In addition to the risks described in the "Risk Factors" section of this Annual Report on Form 10-K, important factors to consider and evaluate in such forward-looking statements include:

- Changes in the external competitive market factors that might impact results of operations;
- Changes in laws and regulations, including without limitation changes in capital requirements under Basel III and federal prompt corrective action regulations;
- Changes in business strategy or an inability to execute strategy due to the occurrence of unanticipated events;
- Ability to identify potential candidates for, and consummate, acquisition or investment transactions;
- Timing of acquisition or investment transactions;
- Constraints on our ability to consummate an attractive acquisition or investment transaction because of significant competition for these opportunities;
- Failure to complete any or all of the transactions described herein on the terms currently contemplated;
- Local, regional and national economic conditions and events and the impact they may have on the Bancorp and its customers;
- Ability to attract and retain appropriate levels of deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of the Bank's borrowers;
- 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;
- Changes in capital structure resulting from future capital offerings or acquisitions;
- 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;
- Changes in consumer spending, borrowing and saving habits;
- Technological changes;
- Ability to increase market share and control expenses;
- Continued volatility in the credit and equity markets and its effect on the general economy;
- Effect 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;

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- Ability to integrate contemplated and future acquisition targets may be unsuccessful, or may be 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 an expected time frame; and
- Deposit attrition, customer loss and business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees being greater than expected.

These forward-looking statements are subject to significant uncertainties and contingencies, many of which are beyond the control of the Bancorp. Although the expectations reflected in the forward-looking statements are currently believed to be reasonable, future results, levels of activity, performance or achievements cannot be guaranteed. Accordingly, there can be no assurance that actual results will meet expectations or will not be materially lower than the results contemplated in this document and the attachments hereto. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or, in the case of documents referred to, the dates of those documents. Neither the Bancorp nor Customers Bank undertakes any obligation to release publicly or otherwise provide any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
PART I

Item 1. Business

Unless stated otherwise or the context otherwise requires, references in this Form 10-K to "Customers Bancorp" or the "Bancorp" refer to Customers Bancorp, Inc., a Pennsylvania corporation and its consolidated subsidiaries for all periods on or after September 17, 2011 and Customers Bank for all periods before September 17, 2011. References in this Form 10-K to "Customers Bank" or the "Bank" refer to Customers Bank, a Pennsylvania state-chartered bank and wholly owned subsidiary of Customers Bancorp. All share and per share information has been retrospectively restated to reflect the Reorganization (as defined below), including the one-for-three consideration (i.e., each three shares of Customers Bank was exchanged for one share of Customers Bancorp) used in the reorganization.

Business Summary

Customers Bancorp, through its wholly owned subsidiary Customers Bank, provides financial products and services to small businesses, not-for-profits, and consumers through its branches and offices in Southeastern Pennsylvania (Bucks, Berks, Chester, Delaware and Philadelphia Counties), Rye Brook and New York, New York (Westchester and New York Counties), Hamilton, New Jersey (Mercer County), Providence, Rhode Island (Providence County) and Boston, Massachusetts (Suffolk County). Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its loans to mortgage banking companies. At December 31, 2014, Customers Bancorp had total assets of $6.8 billion, including net loans (including held-for-sale loans) of $5.7 billion, total deposits of $4.5 billion, and shareholders' equity of $0.4 billion.

Customers Bancorp's strategic plan is to become a leading regional bank holding company through organic growth and value-added acquisitions. Customers Bancorp 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, consumers, business customers, and not-for-profit organizations. Customers Bank also focuses on certain low-cost, low-risk specialty lending areas such as multi-family/commercial real estate lending and lending to mortgage banking businesses. The Bank's lending activities are funded by deposits from its branch model, which seeks higher deposit levels per branch than a typical bank, combined with lower branch operating expenses, without sacrificing exceptional customer service. Customers Bancorp 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 Bancorp employs.

The management team of Customers Bancorp consists of experienced banking executives led by its Chairman and Chief Executive Officer, Jay Sidhu, who joined Customers Bank in June 2009. Mr. Sidhu brings 40 years of banking experience, including 20 years as the Chief Executive Officer and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, many of the members of the current management team have experience working together at Sovereign with Mr. Sidhu. Many other team members joining the Customers Bancorp management team have significant experience helping build and lead other banking

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organizations. Combined, the Customers Bancorp 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. Pursuant to the Reorganization, all of the issued and outstanding shares of Voting Common Stock and Class B Non-Voting Common Stock of Customers Bank were exchanged on a one-for-three basis for shares of Voting Common Stock and Class B Non-Voting Common Stock, respectively, of Customers Bancorp. 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, which was chartered as New Century Bank in 1994, are insured by the Federal Deposit Insurance Corporation. Customers Bank's home office is located at 99 Bridge Street, Phoenixville, Pennsylvania 19460. The main telephone number is (610) 933-2000.

Executive Summary

Customers Bancorp's Markets

Market Criteria

Customers Bancorp looks to grow organically as well as through selective acquisitions in its current and prospective markets. Customers Bancorp 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 Bancorp focuses on markets that it believes are characterized by some or all of the following:

- Population density;
- Concentration of business activity;
- Attractive deposit bases;
- Large 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;
- Management experience in the applicable markets.

Current Markets

Customers Bancorp's 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, 2014, the Company had bank branches or limited purpose offices ("LPOs") in the following cities:

Market	Offices	Type
Berks County, PA	4	Branch
Boston, Massachusetts	1	LPO
Mercer County, NJ	1	Branch
New York, NY	1	LPO
Philadelphia-Southeastern PA	8	Branch/LPO
Providence, RI	1	LPO
Westchester County, NY	1	Branch/LPO

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

Prospective Markets

The organic growth strategy of Customers Bancorp focuses on expanding market share in its existing and contiguous markets by generating deposits, loan and fee based services through high-touch personalized service supported by state of the art technology for the Bank’s commercial, consumer, not-for-profit, and specialized lending markets. The acquisition strategy of Customers Bancorp has traditionally focused on undervalued and troubled community banks in Pennsylvania, New Jersey, New York, Maryland, Virginia and New England, where such acquisitions further the Bancorp’s objectives and meet its critical success factors. As Customers Bancorp evaluates potential acquisition and asset purchase opportunities, it believes 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 increasing regulatory burden.

Competitive Strengths

- Experienced and respected management team. An integral element of the business strategy of Customers Bancorp is to capitalize on and leverage the prior experience of its executive management team. The management team is led by Chairman and Chief Executive Officer, Jay Sidhu, who is the former Chief Executive Officer and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, many of the members of the current management team of Customers Bancorp have experience working together at Sovereign with Mr. Sidhu, including Richard Ehst, President and Chief Operating Officer of Customers Bank and Warren Taylor, President of BankMobile and Chief Marketing Officer for Customers Bank. 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, Steve Issa, and George Maroulis head the Pennsylvania, Boston/Providence, and New York commercial lending areas, respectively, with 31, 38, and 23 years of experience, respectively. Ken Keiser leads the commercial real estate and multi-family lending group and brings more than 38 years of experience including oversight of the Mid Atlantic commercial real estate group at Sovereign. In addition, the residential lending group, which includes mortgage loans to individuals and commercial loans (warehouse facilities) to residential mortgage originators, is led by Glenn Hedde, President of Warehouse Lending who brings more than 24 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 Bancorp 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. The Bank 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 refinancing existing loans with conservative underwriting and to keep costs low. Through the multi-family and commercial real estate product, Customers Bank earns interest and fee income and generates commercial deposits. Customers Bank also maintains a specialty lending business, commercial loans to mortgage originators, which is a national business where the Bank provides liquidity to non-depository mortgage companies to fund their mortgage pipelines and meet other business needs. Through the loans to mortgage bankers business, Customers Bank earns interest and fee income and generates core deposits.

- Attractive risk profile. Customers Bancorp has sought to maintain high asset quality and moderate credit risk by using conservative underwriting standards and early identification of potential problem assets. The Bancorp has also formed a special assets department to both manage the covered assets portfolio and to review other classified and non-performing assets. As of December 31, 2014, only $422.3 million, or 7.3%, of the Bank’s loans (by dollar amount) were acquired loans. Additionally, 36.2% of the Bank's non-performing loans and 61.5% of the Bank’s other real estate owned (“OREO”) (each by dollar amount), are covered by a loss sharing arrangement with the FDIC in which the FDIC will reimburse the Bank for 80% of its losses on these assets.

Please refer to the Asset Quality tables regarding legacy and acquired loans appearing in the Management's Discussion and Analysis section.

- Superior Community Banking Model. Customers Bancorp expects to drive organic growth by employing its "concierge banking" strategy, which provides 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 the Bank

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to provide services in a personalized, convenient and expeditious manner. This approach, coupled with superior technology, including remote account opening, remote deposit capture and mobile banking, results in a competitive advantage over larger institutions, which management believes contributes to the profitability of its franchise and allows the Bank to generate core deposits. The "high-tech, high-touch," model of Customers Bancorp requires less staff and smaller branch locations to operate, thereby significantly reducing operating costs.

- Acquisition Expertise. The depth of Customers Bancorp's 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 Bancorp's team, which includes the acquisition and integration of over 35 institutions, as well as numerous asset and branch acquisitions, provides to the Bancorp a substantial advantage in pursuing and consummating future acquisitions. Additionally, management believes the Bancorp's 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 the Bancorp's 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 and with a minimum disruption to customer relationships.

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

Acquisitions

Since July 2010, Customers Bancorp completed three acquisitions, two of which were FDIC-assisted transactions. Customers Bancorp believes it has structured acquisitions that limit its credit risk, which has positioned it for attractive risk-adjusted returns. A summary of these acquisitions appears below.

2011 Acquisition

Berkshire Bancorp Acquisition

On September 17, 2011, Customers Bancorp acquired Berkshire Bancorp, Inc. and its subsidiary Berkshire Bank. Berkshire Bancorp served Berks County, Pennsylvania through five branches. On the closing date, Berkshire Bancorp had total assets of approximately $132.5 million, including total loans of $98.4 million, and total liabilities of approximately $122.8 million, including total deposits of $121.9 million. Under the terms of the merger agreement, each outstanding share of Berkshire Bancorp common stock was exchanged for 0.1534 shares of Customers Bancorp's Voting Common Stock, resulting in the issuance of 623,686 shares of Customers Bancorp's Voting Common Stock. The total purchase price was approximately $11.3 million, representing a price to tangible book value of Berkshire Bancorp common stock of 1.25%. This transaction was immediately accretive to earnings.

In addition, as part of the transaction, Customers Bancorp exchanged shares of its preferred stock for the preferred stock that was issued by Berkshire Bancorp as part of the U.S. Treasury's Troubled Asset Relief Program. Those shares were subsequently redeemed. In addition, warrants to purchase shares of Berkshire Bancorp common stock were converted into warrants to purchase shares of Customers Bancorp's Voting Common Stock.

Berkshire Bancorp's operating results are included in Customers Bancorp's financial results from the date of acquisition.

2010 Acquisitions

FDIC-Assisted Transaction: USA Bank Acquisition

On July 9, 2010, Customers Bank acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all other liabilities of USA Bank from the FDIC, as receiver. The transaction consisted of assets with a fair value of $221.1 million, including $124.7 million of loans (with a corresponding unpaid principal balance ("UPB"), of $153.6 million), a $22.7 million FDIC loss sharing receivable and $3.4 million of foreclosed assets. Liabilities with a fair value of $202.1 million were also assumed, including $179.3 million of non-brokered deposits. Customers Bank also received cash consideration from the FDIC of $25.6 million. Furthermore, Customers Bank recognized a bargain purchase gain before taxes of $28.2 million, which represented 12.2% of the fair value of the total assets acquired.

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Concurrently with the acquisition of USA Bank, the FDIC agreed to absorb a portion of the future credit losses and workout expenses through loss sharing agreements that cover certain legacy assets, including the entire loan portfolio and other real estate owned. At July 9, 2010, the covered assets consisted of assets with a book value of $126.7 million. The total UPB of the covered assets at July 9, 2010 was $159.2 million. Customers Bank acquired other USA Bank assets that were not covered by the loss sharing agreements with the FDIC including cash and certain investment securities purchased at fair market value. The loss sharing agreements do not apply to subsequently acquired, purchased, or originated assets. Customers Bank entered into this transaction to expand its franchise into a lucrative new market, accrete its book value per share, and add significant capital.

Pursuant to the terms of the loss sharing agreements, the FDIC reimburses Customers Bank for 80% of losses, calculated, in each case, based on UPB plus certain interest and expenses. Customers Bank reimburses the FDIC for its share of recoveries with respect to losses for which the FDIC has paid Customers Bank in reimbursement under the loss sharing agreements. The FDIC’s guarantee for commercial loans expires in July 2015 and for residential mortgage loans in July 2020. As of December 31, 2014, Customers’ remaining covered loans from the USA Bank Acquisition totaled $27.6 million, of which $10.1 million was not paying in accordance with the contractual provisions. Customers Bank has received an aggregate of $26.7 million from the FDIC in reimbursements under the loss sharing agreements for claims filed for losses incurred through December 31, 2014.

FDIC-Assisted Transaction: ISN Bank Acquisition

On September 17, 2010, Customers Bank acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all other liabilities of ISN Bank from the FDIC, as receiver. The transaction consisted of assets with a fair value of $83.9 million, including $51.3 million of loans (with a corresponding UPB of $58.2 million), a $5.6 million FDIC loss sharing receivable and $1.2 million of foreclosed assets. Liabilities with a fair value of $75.8 million were also assumed, including $71.9 million of non-brokered deposits. Customers Bank received cash consideration from the FDIC of $5.9 million. Furthermore, Customers Bank recognized a bargain purchase gain before taxes of $12.1 million, which represented 14.4% of the fair value of the total assets acquired.

Concurrently with the acquisition of ISN Bank, the FDIC agreed to absorb a portion of all future credit losses and workout expenses through loss sharing agreements that cover certain legacy assets, including the entire loan portfolio and other real estate owned. At September 17, 2010, the covered assets consisted of assets with a book value of $52.6 million. The total UPB of the covered assets at September 17, 2010 was $58.2 million. Customers Bank acquired other ISN Bank assets that were not covered by the loss sharing agreements with the FDIC including cash, certain investment securities purchased at fair market value, and other tangible assets. The loss sharing agreements do not apply to subsequently acquired, purchased or originated assets. Customers Bank entered into this transaction to enhance book value per share, add capital, and enter the New Jersey market in a more efficient manner than de novo expansion.

Pursuant to the terms of the loss sharing agreements, the FDIC reimburses Customers Bank for 80% of losses, calculated, in each case, based on UPB plus certain interest and expenses. Customers Bank reimburses the FDIC for its share of recoveries with respect to losses for which the FDIC has paid Customers Bank in reimbursement under the loss sharing agreements. The FDIC’s guarantee for commercial loans expires in September 2015 and for residential mortgage loans in September 2020. As of December 31, 2014, Customers’ remaining covered loans from the ISN Bank Acquisition totaled $14.6 million, of which $1.6 million was not paying in accordance with the contractual provisions. Customers Bank has received an aggregate of $10.5 million from the FDIC in reimbursements under the ISN loss sharing agreements for claims filed for losses incurred through December 31, 2014.

Acquisition of Loan Portfolios

On January 15, 2014, Customers Bank purchased $277.9 million of residential adjustable-rate jumbo mortgage loans (indexed to one-year LIBOR) from Flagstar Bank. The purchase price was 100.75% of loans outstanding.

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

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Acquisition of Manufactured Housing Loans

During the years 2010, 2011, and 2012, Customers Bank purchased manufactured housing loans from Tammac Holding Corporation (“Tammac”). These purchases were opportunistic purchases and may not be indicative of future strategies or purchases.

On August 6, 2010, Customers Bank purchased from Tammac Holding Corporation (“Tammac”) a $105.8 million manufactured housing loan portfolio for a purchase price of $105.8 million. These loans were supported by a cash reserve balance of $10.5 million at the date of purchase that covered all estimated losses and delinquent interest, and is maintained in a demand deposit account at the Bank.

On September 30, 2011, Customers Bank purchased from Tammac $19.3 million of manufactured housing loans and a 1.50% interest- only-strip security with an estimated value of $3 million secured by a pool of $70 million of loans originated by Tammac for a total purchase price of $13 million.

On July 24, 2012, Customers Bank paid $63.2 million to acquire manufactured housing loans from Vanderbilt Mortgage and Finance Inc. at par. These loans were originated by Tammac Holding Corporation, and secure the interest-only-strip security that was purchased in September 2011. The loans carry an 11.3% coupon rate, where Tammac earns a 2.0% servicing fee and also retains the rights to a 2.0% IO Strip in relation to this pool of loans. The full recourse for losses on the July 2012 loan purchase resides with Tammac.

Total Manufactured Housing loans were $126.7 million and $139.5 million as of December 31, 2014 and 2013 respectively.

Segments

Customers Bancorp has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Bank as one segment or unit.

Products

Customers Bancorp offers a broad range of traditional loan and deposit banking products and financial services, and more recently non-traditional products and services through the successful Phase 1 launch of BankMobile in January 2015, to its commercial and consumer customers. Customers Bank offers an array of lending products to cater to its customers’ needs, including small business loans, mortgage warehouse loans, multi-family and commercial real estate loans, residential mortgage loans and other consumer loans. Customers Bank also offers traditional depository products, including commercial and consumer checking accounts, non-interest-bearing demand accounts, money market deposit accounts, savings accounts and time deposit accounts and cash management services. Prior to January 2015, deposits products were available to customers only through branches of Customers Bank. With the successful Phase 1 launch of BankMobile, Customers is able to provide fee free banking to millennials, middle class American families and underserved consumers throughout the United States.

Lending Activities

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

- Commercial Lending – Includes Business Banking (commercial and industrial lending), Small Business Banking, including small business administration (SBA) loans, Multi-family and Commercial Real Estate lending, and commercial loans to mortgage originators; and
- Consumer Lending – Local market mortgage lending and home equity lending.

Commercial Lending

The Bank’s commercial lending is divided into four distinct groups: Business Banking, Small Business Banking, Multi-family and Commercial Real Estate Lending, and mortgage banking lending. 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.

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The Business Banking lending group focuses on companies with annual revenues ranging from $5.0 million to $50.0 million, which typically have credit requirements between $0.5 million and $10.0 million. This division is serviced by very experienced local relationship managers or private bankers who are supported by a centralized credit function.
The Small Business Banking platform originates loans, including SBA loans, through the branch network sales force and a team of dedicated Small Business relationship managers. The support administration of the platform for this lending activity is centralized including risk management, product management, marketing, performance tracking and overall strategic planning. Credit and sales training has been established for the sales force, ensuring that the Bank 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 the Bank's multi-family lending group is to build a portfolio of high-quality multi-family and commercial real estate loans within its covered markets, while cross selling its other products and services. This business line primarily focuses on refinancing existing loans, using conservative underwriting. 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, 2014 and 2013, the Bank originated approximately $1.5 billion and $725.1 million, respectively, of multi-family loans.
The goal of mortgage banking lending is to provide loans 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 loans are insured or guaranteed by the U.S. government through one of their programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. The Bank is currently expanding its product offerings to mortgage banks to meet a wider array of business needs. During the years ended December 31, 2014 and 2013, the Bank funded $18.1 billion and $20.6 billion of mortgage loans, respectively, to mortgage originators and warehouses.
As of December 31, 2014 and 2013, the Bank had $5.3 billion and $2.9 billion, respectively, in commercial loans outstanding, composing approximately 92.5% and 90.2%, respectively, of its total loan portfolio, which includes loans held for sale. During the years ended December 31, 2014 and 2013, the Bank originated $0.8 billion and $0.4 billion, respectively, of commercial loans, exclusive of multi-family loan originations and loans to mortgage originators and warehouses.
Consumer Lending
The Bank 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 the Bank's efforts to grow total relationship revenues for its consumer households. These areas also support Customers Bancorp's commitment to lower and moderate income families in its market area. The Bank plans to expand its product offerings in real estate secured consumer lending.
Beginning in 2013, Customers Bank launched a community outreach program in Philadelphia to encourage a higher percentage of homeownership in urban communities. As part of this program, the Bank 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 at 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 Bank's CRA assessment areas.
As of December 31, 2014 and 2013, the Bank had $432.2 million and $315.7 million, respectively, in consumer loans outstanding, composing 7.5% and 9.8%, respectively, of the Bank's total loan portfolio, which includes loans held for sale. During the years ended December 31, 2014 and 2013, the Bank originated $77.0 million and $41.6 million of consumer loans, respectively. As of December 31, 2014, consumer loans included a balance of $102.9 million of residential loans acquired from Flagstar in January 2014.
Private Banking

Beginning in 2013, Customers Bank introduced a Private Banking model for its commercial clients in the major markets within its geographical footprint. This unique model provides unparalleled service to customers through an in-market team of experienced private bankers. Acting as a single-point-of-contact for all the banking needs of the Bank's commercial clients, these private bankers will 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 will deliver on Customers Bancorp's "high-tech, high-touch" strategy and provide real value to its mid-market commercial clients.

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Customers Bank 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 Bank offers a variety of deposit products to its customers, including checking accounts, savings accounts, money market deposit accounts 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, the Bank has experienced significantly higher above average growth in core deposits in all of its markets. Customers Bank also utilizes wholesale deposit products, money market and certificates of deposit obtained through listing services and borrowings from the FHLB as a source of funding. These funding sources offer attractive funding costs in comparison to traditional sources of funding given the low interest rate environment.

Financial Products and Services

In addition to traditional banking activities, Customers Bank 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, the Bank successfully launched BankMobile, America's first mobile platform based full service consumer bank.

Competition

Customers Bank 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 Bank, and have significantly greater financial resources, personnel and locations from which to conduct business. In addition, Customers Bank 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 Bank’s larger competitors enjoy greater name recognition and greater resources to finance wide ranging advertising campaigns. Customers Bank competes for business principally on the basis of high-quality, personal service to customers, customer access to Customers Bank’s decision makers, and competitive interest and fee structure. Customers Bank 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.

Customers Bank’s 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 Bank’s large competitors utilize expensive, branch-based models to sell products to consumers and small businesses, which requires our 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 Bank’s strategy, Customers Bank utilizes an operating model with fewer and less expensive locations, thereby lowering overhead costs and allowing for greater pricing flexibility.

Employees

As of December 31, 2014, Customers Bancorp had 414 full-time and 12 part-time employees.

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 (“SEC”). Customers Bancorp will also

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furnish a paper copy of such filings free of charge upon request. Investors can also read and copy any materials filed by Customers Bancorp with the SEC at the SEC's Public Reference Room which is located at 100 F Street, NE, Washington, DC 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. 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 Board of Governors of the Federal Reserve System (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, our bank subsidiary is permitted to branch throughout Pennsylvania. Pennsylvania law also provides Pennsylvania state-chartered institutions 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.

On October 24, 2012, Pennsylvania enacted three new laws known as the "Banking Law Modernization Package," all of which became effective on December 24, 2012. The intended goal of the new 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 new law also permits banks to disclose formal enforcement actions initiated by the Pennsylvania Department of Banking and Securities, 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 new 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 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.

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Pennsylvania banking laws authorize banks in Pennsylvania to acquire existing branches or branch de novo in other states, and also permits 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 Bancorp 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 ("Dodd-Frank Act") created a more permissive interstate branching regime by permitting banks to establish branches de novo 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 total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, 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 automatic 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 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

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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. For periods ending prior to January 1, 2015 the first is a minimum ratio of total capital (“Tier 1” and “Tier 2” capital) to risk-weighted assets equal to 8.0%, and the second is a minimum ratio of “Tier 1” capital to risk-weighted assets equal to 4.0%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. 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. The Bank 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 Bancorp'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.

As of December 31, 2014 and 2013, management believed that the Bank and Bancorp met all capital adequacy requirements to which they were subject. For additional information on the Company’s regulatory ratios, refer to “NOTE 18 – REGULATORY MATTERS.”

New Capital Rules. On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bancorp and the 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 new risk-based capital and leverage ratios, which will 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 the Bank under the final rules are:

(i) a new common equity Tier 1 capital ratio of 4.5%;

(ii) a Tier 1 Risk based capital ratio of 6% (increased from 4%);

(iii) a Total Risk based capital ratio of 8% (unchanged from current rules); 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, which must consist entirely of common equity Tier 1 capital.

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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. Considering the capital conservation buffer, to avoid limitations on certain actions or activities, banks will be required to maintain the following ratios beginning in 2019:
(i) a common equity Tier 1 capital ratio of 7.0%;
(ii) a Tier 1 Risk Based capital ratio of 8.5%;
(iii) a Total Risk based capital ratio of 10.5%; and
(iv) a Tier 1 leverage ratio of 6.5% for all institutions.
Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the minimum capital level plus 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 the 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 in 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 accumulated other comprehensive income 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. The opt-out election must be elected on the first Call Report filed for periods ending after January 1, 2015.
The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the 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 new common equity Tier 1 capital ratio of 6.5%;
(ii) a Tier 1 Risk based capital ratio of 8% (increased from 6%);
(iii) a Total Risk based capital ratio of 10% (unchanged from current rules); and
(iv) a Tier 1 leverage ratio of 5% (increased from 4%).
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.

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 Consumer Financial Protection Bureau 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 attorneys general 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 Federal Deposit Insurance Corporation;
- gave the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which may result in increased deposit insurance premiums for us 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 like us;
- 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.

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 will impose requirements or restrictions on Customers Bank in addition to or different from the provisions summarized above.

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.

On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 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 ("CRA"), 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 of bank

shares. Federal banking agencies have recently demonstrated an increased readiness to deny applications based on unsatisfactory CRA performance. The Federal Reserve Board is required to assess our record to determine if we are meeting the credit needs of the community (including low

and moderate neighborhoods) that we serve. 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.

Consumer Protection Laws. the Bancorp 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 Federal Deposit Insurance Corporation Improvement Act of 1991 (“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 the Bancorp.

Bank Holding Company Regulation

As a bank holding company, the 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. 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 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 provide additional credit or service to us, to the Bank or to any other subsidiary or on the condition that the customer not obtain other credit or service from a competitor, the Bank, or any other subsidiary.

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.

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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, 2014, the Bancorp's allowance for loan losses totaled $30.9 million, which represents 0.72% of total loans held for investment. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and loans covered under the Loss Sharing Agreements that did not exhibit evidence of deterioration in credit quality on the acquisition date and the probability of making payment, as well as the value of real estate and other assets serving as collateral for the repayment of many of our loans. Loans covered under the loss sharing agreements totaled $42.2 million at December 31, 2014. The FDIC loss sharing agreements for commercial loans expire in third quarter 2015. The loss sharing agreements for single family loans expire in third quarter 2020.

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 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 on management's review and estimate 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.

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

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mortgage loan, or in the settlement processes. As discussed in Note 21 – "LOSS CONTINGENCY", in March 2013, a suspected fraud was discovered in the Bank's loans held-for-sale portfolio. Additional fraudulent transactions could have a material adverse effect on our financial condition and results of operations.

Our lending to mortgage businesses is a significant part of our assets and earnings. This business is subject to cyclicality 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, 2014 and 2013, the Bank had $5.3 billion and $2.9 billion, respectively, in commercial loans outstanding, composing approximately 92.5% and 90.2%, respectively, of its total loan portfolio, which includes loans held for sale.

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

The Bank currently operates a residential mortgage banking business but plans to expand our origination, sale, and servicing of residential mortgage loans in the future. The Bank also began selling recent multi-family loan originations to third parties in the third quarter of 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, and/or changes in the structure of the secondary mortgage markets which we would 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.

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 ("FHLB") 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, other than temporary impairment 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, 2014, we held $71.6 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, 2014, the fair value of our investment securities portfolio was approximately $416.7 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, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, 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.

Changes to estimates and assumptions made by management in preparing financial statements could adversely affect the Bancorp's 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 the Bancorp's consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of the Bancorp's 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. For example, as of December 31, 2014, the Bancorp reported $2.3 million as a receivable from the FDIC pursuant to certain loss sharing arrangements. This amount was derived using management's

best estimate of expected future cash flows based on recent performance and expectations of future performance of the covered portfolio. To the extent the covered assets perform better than expected, the Bancorp may not be able to collect all, or a portion of, the receivable balance reported as of December 31, 2014. In the event the covered assets perform better than originally estimated at the time of acquisition, the Bancorp could be required to reimburse all, or a portion of, its discounted purchase price to the FDIC. Further information regarding the FDIC loss sharing receivable, and other accounting policies subject to significant judgment and estimates, is included in “Management’s Discussion and Analysis - Critical Accounting Policies.” Changes to management’s assumptions or estimates could materially and adversely affect the Company’s 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 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 is currently considering changes to the framework for estimating the allowance for loan and lease losses which could significantly alter the current estimate as well as other elements of the US banking model.

Downgrades in U.S. Government and federal agency securities could adversely affect Customers Bancorp and the Bank.

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 Customers Bank, 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 the Bank makes and, as a result, could adversely affect its borrowers’ ability to repay their loans.

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

Customers Bank and predecessor entities have had periods in which we experienced operating losses, including in 2009, portions of 2010 and the first quarter of 2011. Although we made a profit for the years of 2011 through 2014, 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 would 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 US government policies could have a negative effect on Customers Bancorp.

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The geographic concentration in the Northeast and Mid-Atlantic region 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 this region. This region has 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 this region 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, Customers has made 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 the 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, the tenant's ability to repay, and therefore the debtor's ability to make timely loan payments, could be adversely affected. All of these factors could increase the amount of non-performing loans, increase our provision for loan losses and reduce our net income to service the loan.

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, procedures and policies 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 serving 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 (1) 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 (2) 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 Chief Executive Officer, President, and Chief Financial Officer 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 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.

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

Consumer and commercial 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,

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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 employees 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.

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 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

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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.

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.

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 the Bancorp's operations, net income or reputation.

The Bancorp regularly collects, processes, transmits and stores significant amounts of confidential information regarding its customers, employees and others. This information is necessary for the conduct of the Bancorp's 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 the Bancorp's products and services. In addition to confidential information regarding its customers, employees and others, the Bancorp compiles, processes, transmits and stores proprietary, non-public information concerning its 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 behalf of the Bancorp.

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 the Bancorp's operational or information security systems, or those of the Bancorp's third-party service providers, as a result of cyber-attacks or information security breaches or due to employee 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 the Bancorp's systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Bancorp.

If this confidential or proprietary information were to be mishandled, misused or lost, the Bancorp 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 are not permitted to have the information, either by fault of the systems or employees of the Bancorp, or the systems or employees of third parties which have collected, compiled, processed, transmitted or stored the

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information on the Bancorp's 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.

Although the Bancorp employs 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, the Bancorp may be required to expend additional resources to continue to enhance its 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 a potential investment or acquisition transaction.

As of December 31, 2014, the directors and executive officers of Customers Bancorp as a group owned a total of 1,682,185 shares of Voting Common Stock and exercisable warrants to purchase up to an additional 350,858 shares of Voting Common Stock, which potentially gives them, as a group, the ability to control approximately 7.8% of the issued and outstanding Voting Common Stock. In addition, directors of Customers Bank who are not directors of Customers Bancorp own an additional 47,583 shares of Voting Common Stock and exercisable warrants to purchase up to an additional 8,233 shares of Voting Common Stock, which if combined with the directors and officers of Customers Bancorp, potentially gives them, as a group, the ability to control approximately 8.04% of the issued and outstanding Voting 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 target institutions. 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 Voting Common Stock. Accordingly, the shareholder may not have an opportunity to evaluate and affect the investment decision regarding potential investment or acquisition transactions.

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 timeframes, 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, 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 employees and customers as a result of an acquisition that is poorly received; and

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- 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.

We are subject to certain risks related to FDIC-assisted acquisitions.

The success of past FDIC-assisted acquisitions, and any FDIC-assisted acquisitions in which we may participate in the future, will depend on a number of factors, including our ability to:

- fully integrate, and to integrate successfully, the branches acquired into bank operations;
- limit the outflow of deposits held by new customers in the acquired branches and to successfully retain and manage interest-earning assets (loans) acquired in FDIC-assisted acquisitions;
- retain existing deposits and to generate new interest-earning assets in the geographic areas previously served by the acquired banks;
- effectively compete in new markets in which we did not previously have a presence;
- successfully deploy the cash received in the FDIC-assisted acquisitions into assets bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;
- control the incremental non-interest expense from the acquired branches in a manner that enables us to maintain a favorable overall efficiency ratio;
- retain and attract the appropriate personnel to staff the acquired branches; and
- earn acceptable levels of interest and non-interest income, including fee income, from the acquired bank.

As with any acquisition involving a financial institution, particularly one involving the transfer of a large number of bank branches (as is often the case with FDIC-assisted acquisitions), there may be higher than average levels of service disruptions that would cause inconveniences or potentially increase the effectiveness of competing financial institutions in attracting our customers. Integrating the acquired branches could present unique challenges and opportunities because of the nature of the transactions. Integration efforts will also likely divert our management's attention and resources. It is not known whether we will be able to integrate acquired branches successfully, and the integration process could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the FDIC-assisted acquisitions. We may also encounter unexpected difficulties or costs during integration that could materially adversely affect our earnings and financial condition. Additionally, we may be unable to compete effectively in the market areas previously served by the acquired branches or to manage any growth resulting from FDIC-assisted acquisitions effectively.

Our willingness and ability to grow acquired branches following FDIC-assisted acquisitions depend on several factors, most importantly the ability to retain certain key personnel that we hire or transfer in connection with FDIC-assisted acquisitions. Our failure to retain these employees could adversely affect the success of FDIC-assisted acquisitions and our future growth.

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Our ability to continue to receive benefits of our Loss Sharing Agreements with the FDIC is conditioned upon compliance with certain requirements under the Purchase and Assumption Agreements.
Pursuant to the Purchase and Assumption Agreements we signed in connection with our FDIC-assisted acquisitions of USA Bank and ISN Bank ("Purchase and Assumption Agreements"), we are the beneficiary of loss sharing arrangements with the FDIC (the "Loss Sharing Agreements") that call for the FDIC to fund a portion of its losses on a majority of the assets acquired in connection with the transactions. Our ability to recover a portion of losses and retain the loss sharing protection is subject to compliance with certain requirements imposed on us in the Purchase and Assumption Agreements. The requirements of the Loss Sharing Agreements relate primarily to loan servicing standards concerning the assets covered by the Loss Sharing Agreements (the "Covered Assets"), as well as obtaining the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss sharing benefits. For example, FDIC approval will be required for any merger we undertake that would result in the pre-merger shareholders of such entity owning less than sixty-six and two/thirds percent (66.66%) of the equity of the surviving entity.
As the loan servicing standards evolve, we may experience difficulties in complying with the requirements of the Loss Sharing Agreements, which could result in Covered Assets losing some or all of their loss sharing coverage. In accordance with the terms of the Loss Sharing Agreements, we are subject to audits by the FDIC through its designated agent. The required terms of the Loss Sharing Agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets losing their loss sharing coverage.
In such instances in which the consent of the FDIC is required under the Purchase and Assumption Agreements, the FDIC may withhold its consent to such transactions or may condition its consent on terms that we do not find acceptable. There can be no assurance that the FDIC will grant its consent or condition its consent on terms that we find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, this may cause us not to engage in a corporate transaction that might otherwise benefit shareholders or to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of the Loss Sharing Agreements with the FDIC.
FDIC-assisted acquisition opportunities may not become available and increased competition may make it more difficult for us to bid on failed bank transactions on terms considered to be acceptable.
Our near-term business strategy includes consideration of potential acquisitions of failing banks that the FDIC plans to place in receivership. The FDIC may not place banks that meet our strategic objectives into receivership. Failed bank transactions are attractive opportunities in part because of loss sharing arrangements with the FDIC that limit the acquirer's downside risk on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the non-deposit liabilities that we assume. In addition, assets purchased from the FDIC are marked to their fair value and in many cases there is little or no addition to goodwill arising from an FDIC-assisted acquisition. The bidding process for failing banks could become very competitive, and the increased competition may make it more difficult for us to bid on terms we consider to be acceptable. Further, all FDIC-assisted acquisitions would require us to obtain applicable regulatory approval.
If we do not open new branches as planned, or do not achieve targeted profitability on new branches, earnings may be reduced.
We plan to open approximately four to six new branches annually for the next several years in and around our target markets of southeastern Pennsylvania, New Jersey, New York, Maryland, Connecticut, Virginia and Delaware. These plans may change. The opening of new 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 the ability to select 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. The initial cost, including capital asset purchases, for each new branch to open would be in a range of approximately $200,000 to $250,000. 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 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 loan growth. While loan growth has been strong and our loan balances have increased over the past two fiscal years, much of the 2013 and 2014 loan growth came from multi-family and commercial real estate lending. If the bank is unsuccessful with

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diversifying its loan originations or if we do not grow the existing business lines, our results of operations and financial condition could be negatively impacted.

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 processes and our reporting systems and procedures 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 profitable or raise capital
- support our asset growth with adequate deposits, funding and liquidity while maintaining 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 timeframes 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.

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.

Customers Bank must maintain sufficient liquidity to fund its balance sheet growth in order to be able to successfully grow our revenues, make loans and to 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 deposits were 35.3% and 10.6% of total deposits as of December 31, 2014 and 2013, respectively. Our gross loan to deposit ratio was 126.8% at December 31, 2014 and 108.5% at December 31, 2013 and our loan to deposit ratios excluding the mortgage warehouse portfolio funded by short term FHLB borrowings were 97.4% and 83.5% as of December 31, 2014 and 2013, respectively. 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 that future asset

growth be reduced or halted. In the absence of appropriate levels and mix of funding, we might need to reduce 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.

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The amount 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 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.

Customers Bank depends 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 retain and grow a strong, low-cost deposit base. Because 37.8% of our deposit base as of December 31, 2014 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, 2014, $976.1 million (57.0%) of our total time deposits are scheduled to mature through December 31, 2015. 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 noninterest 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. 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. 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 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 will 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 the Community Reinvestment Act (“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 would 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.

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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 would 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 are justified, which could result in us 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.

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 Enterprises Limited (or Religare), which is a diversified financial services company and is applying for a banking license in India, represents such an investment. There is no assurance of the timing or Religare’s ability to obtain a banking license in India, which is important to our anticipated investment and cross-referral strategy, and the results of this strategy and the levels of new business derived from such referrals, cannot be predicted. These and other factors may result in lower-than-expected returns, or a loss, on our investment in Religare. We do not expect to receive any dividends on our investment in Religare securities. In addition, our investment in Religare may not have the market liquidity needed to realize a gain or avoid losses on our investment and any dispositions of our Religare common stock may be limited or delayed by market conditions or the need for regulatory or other approvals in India, and the value of our investment will be subject to fluctuations in the currency exchange rates between the Indian rupee and the United States dollar. On December 31, 2013, we announced that our investment in Religare would be capped at $23.0 million (4.1 million common shares). We had the ability to purchase warrants to acquire up to an additional $28.0 million of Religare stock but decided not

to acquire the warrants or otherwise increase our holdings of Religare stock. Our current holdings represent 2.8% of current outstanding Religare shares.

We will be required to hold capital for United States bank regulatory purposes to support our investment in Religare securities.

Under the newly adopted 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. The impact of the final capital adequacy rules is still being evaluated. Based upon the implementation of the final U.S. capital adequacy rules, these investments are potentially subject to risk weighting of 300% of the amount of the investment; however, to the extent future aggregated carrying value of certain

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equity exposures exceed 10% of the Bancorp's 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.

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 institutions. 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.

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Risks Relating to the Regulation of Our Industry

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may have a material adverse effect on our business.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (which we refer to as the "Dodd-Frank Act"), which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

- changes to regulatory capital requirements;
- exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from tier 1 capital;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which will oversee systemic risk, and the Consumer Financial Protection Bureau, which will develop and enforce rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge; and
- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, still require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until implementation. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us. Any changes in the laws or regulations or their interpretations could be materially adverse to investors in our Voting Common Stock. For a more detailed description of the Dodd-Frank Act, see "Supervision and Regulation – Changes in Laws, Regulations or Policies and the Dodd-Frank Act."

New regulations could adversely impact our earnings due to, among other things, increased compliance costs or costs due to noncompliance.

The Consumer Financial Protection Bureau has issued a rule, effective as of January 14, 2014, designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that satisfy this "qualified mortgage" safe-harbor will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a "qualified mortgage" loan must not contain certain specified features, including but not limited to: (i) excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans); (ii) interest-only payments; (iii) negative-amortization; and (iv) terms longer than 30 years. Also, to qualify as a "qualified mortgage," a borrower's total monthly debt service-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact our growth or profitability.

Additionally, on December 10, 2013, five financial regulatory agencies, including our primary federal regulator, the Federal Reserve, adopted final rules (the "Final Rules") implementing the so-called Volcker Rule embodied in Section 13 of the Bank

Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The Final Rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). The Final Rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The Final Rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Community banks, such as Customers Bancorp, have been afforded some relief under the Final Rules. If such banks are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The Final Rules were effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2016, and the Federal Reserve has announced its intention to further extend the conformance period until July 21, 2017. Management is currently evaluating the Final Rules, which are lengthy and detailed.

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 Deposit Insurance Fund (the "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 Company, 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 GAAP. 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 2013 Community Reinvestment Act rating could have a negative effect on the Federal Reserve's review of certain banking applications.

In early 2013, our primary federal regulator, the Federal Reserve, conducted a regularly scheduled examination covering 2011 and 2012 to determine the Bank's compliance with the CRA. CRA and related regulations require banks, such as Customers Bank, to help meet the credit needs of their communities, including low and moderate income neighborhoods. During the fourth quarter of 2013, the Federal Reserve issued the Bank's CRA Performance Evaluation. The Bank received a rating of "needs to improve" (which is lower than the "satisfactory" rating received in the 2010 examination) principally as a result of alleged fair lending issues associated with our limited mortgage origination activities during 2011 and 2012. The Federal Reserve considers, among other factors, a bank's compliance with the CRA in reviewing corporate applications, such as applications to establish branches or conduct mergers and acquisitions, and a rating below "satisfactory" can result in the denial of such applications. The failure to receive a rating of "satisfactory" or better can also result in other restrictions on activities. Such restrictions may last until such time as the Bank receives a rating of "satisfactory" or better with respect to CRA, and a new review of the Bank's compliance may not occur for several months. The Federal Reserve recently completed an examination of the Bank's compliance with CRA, and the Bank's CRA performance evaluation rating is anticipated to be received during the first quarter of 2015.

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 applicable to the Bancorp and the Bank. 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 the Company or its

management was 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.

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. Market developments have significantly depleted the DIF of the FDIC and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit insurance premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. 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 by reducing our profitability or limiting our ability to pursue certain business opportunities.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

Federal banking agencies periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, we could be materially and adversely affected.

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

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 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

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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.

The short-term and long-term impact of the new regulatory capital standards and the forthcoming new capital rules on U.S. banks is uncertain.

On September 12, 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 narrows the definition of capital, introduces requirements for minimum Tier 1 common capital, increases requirements for minimum Tier 1 capital and total risk-based capital, and changes risk-weighting methodologies. Basel III is scheduled to be phased in over time until fully phased in by January 1, 2019.

On July 2, 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, could increase the required amount of regulatory capital that we must hold and lead to limitations on the dividend payments to us by Customers Bank.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as Customers Bancorp, 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. While the Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards, we are evaluating the new rules and their effect on us and our bank subsidiaries.

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 Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "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 Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control (the "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.

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.

The Bancorp and its subsidiaries 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 (1) the Internal Revenue Service are

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2011 through 2013, and (2) state taxing authorities are 2010 through 2013. 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.

The U.S. Congress and the Administration have indicated an interest in reforming the U.S. corporate income tax code. Possible approaches include lowering the 35 percent corporate tax rate, modifying the taxation of income earned outside the U.S. and limiting or eliminating various other deductions, tax credits and/or other tax preferences. Also, the Governor of New York has issued a proposal to reform the New York state corporate income tax. It is not possible at this time to quantify either the one-time impacts from the remeasurement of deferred tax assets and liabilities that might result upon tax reform enactment or the ongoing impacts reform proposals might have on income tax expense.

Regulatory action that may be taken by the Federal Reserve against one of our business partners may adversely affect our results of operations.

Customers Bank provides deposit accounts and services to college students, utilizing the technological services and relationships of Higher One, Inc. ("Higher One") with colleges and universities in the United States. Higher One and a predecessor bank that Customers Bank replaced in August 2013 have announced that the Federal Reserve believes that certain disclosures and operating processes of these entities may have violated certain laws and regulations, and may result in fines and restitution. The predecessor bank has consented to a cease and desist order pursuant to which it must discontinue certain practices and has agreed to pay a total of $4.1 million in fines to federal and state authorities and an additional amount that it may be required to pay in restitution to students in the event Higher One is unable to pay the restitution obligations imposed on Higher One, if any. The Federal Reserve has notified Customers Bank that it is reviewing the relationship between Customers Bank and Higher One to determine whether there have been violations of certain laws and regulations. Customers Bank believes that the circumstances of its relationship with Higher One are different than the relationship between the predecessor bank and Higher One, with Customers Bank having identified the alleged deficiencies within 30 days of forming a relationship with Higher One, and causing such deficiencies to be remediated within 120 days of initiating its relationship with Higher One. However, it is possible that the Federal Reserve may determine that Customers Bank may have violated certain laws and regulations, and Customers Bank may be subjected to a cease and desist order and may be fined by the Federal Reserve and the Commonwealth of Pennsylvania and may be required to pay restitution to students who opened accounts between the time Customers Bank formed its relationship with Higher One and the deficiencies were remediated. While Customers Bancorp is presently unable to reasonably estimate whether, or the amount of, fines or penalties that might be imposed by the Federal Reserve or other regulatory agencies, Customers Bancorp does not presently believe that any such fines or penalties for which it may ultimately be responsible would have a material impact on Customers Bancorp's consolidated results of operations.

Risks Relating to Our Voting Common Stock

Customers Bancorp stock, listed on the New York Stock Exchange, is thinly traded and market liquidity may decrease in the event of adverse performance or changing market conditions.

Customers Bancorp, Inc. shares are traded on the New York Stock Exchange. Adverse news or a market event could affect the liquidity for Customers stock. Accordingly, shareholders may not be able to sell their shares of our Voting Common Stock at the volume, price and time desired. 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 Voting 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 Customers Bancorp's stock traded on the New York Stock Exchange, could have a material adverse effect on the value of our Voting Common Stock.

We do not expect to pay cash dividends on our Voting 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 Voting Common Stock and we do not expect to do so in the near future. Any future determination relating to 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, ability to service any equity or debt obligations senior to the Voting Common Stock, and other factors deemed relevant by the board of directors.

In addition, 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

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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 subsidiaries can pay to us as its holding company without regulatory approval. See “Market Price of Common Stock and Dividends – Dividends on Voting 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 the Voting Common Stock.

Actual or anticipated issuances or sales of substantial amounts of our common stock in the future could cause the value of our Voting 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 Voting Common Stock could also significantly dilute the voting power of the Voting Common Stock. In 2013, we issued 6,791,514 shares of Voting Common Stock in a public offering, as adjusted for a 2014 10% stock dividend.

We have also made grants of restricted stock units and stock options with respect to shares of Voting Common Stock and Class B Non-Voting Common Stock to our directors and certain employees. 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 Voting Common Stock may be adversely affected and our ability to sell more equity or equity-related securities could also be adversely affected.

Except for 635,274 warrants held by certain investors at December 31, 2014, we are not required to issue any additional equity securities to existing holders of our Voting 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 Voting Common Stock and such issuances or the perception of such issuances may reduce the market price of our Voting Common Stock. Our preferred stock, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to holders of our Voting 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 Voting 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 Voting Common Stock.

Future issuances of debt securities, which would rank senior to our Voting Common Stock upon our liquidation, and future issuances of equity securities, which would dilute the holdings of our existing holders of Voting Common Stock and may be senior to our Voting Common Stock for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our Voting 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 Voting 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 Bank Holding Company Act of 1956, as amended (the "BHCA"). In addition, (1) 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 (2) 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.

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

On August 26, 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 Deposit Insurance Fund.

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 3 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.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The table below summarizes our leased branch and administrative office properties, by county and state, as of December 31, 2014. We do not currently own any real property.

Bank Branches

County	State	Leased
Berks (1)	PA	4
Bucks	PA	3
Chester (2)	PA	3
Delaware	PA	2
Westchester	NY	1
Mercer	NJ	1
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Administrative Offices

County	State	Leased
Berks (3)	PA	3
Bucks (6)	PA	1
Chester (2)	PA	2
Delaware (7)	PA	1
Philadelphia (8)	PA	1
Fairfax (9)	VA	1
Mercer (4)	NJ	1
New York (10)	NY	1
Westchester (5)	NY	2
Suffolk (13)	NY	1
Providence (11)	RI	1
Suffolk (12)	MA	1
		16

(1) Includes the full service branch at 1001 Penn Avenue, Wyomissing, PA as well as three branches acquired through the Berkshire Bancorp, Inc. acquisition. The lease on this location expires in 2020.

(2) Includes the corporate headquarters of Customers Bank and a full service branch located in a freestanding building at 99 Bridge St., Phoenixville, PA 19460, wherein we lease approximately 31,054 square feet on 4 floors. The lease on this location expires in 2022. Also includes the lease of 5,523 square feet of property at 513 Kimberton Road in Phoenixville, Pennsylvania where we maintain a full service commercial bank branch and corporate offices. The lease on this location expires in 2018.

(3) Includes the corporate headquarters of Customers Bancorp and a full service branch located at 1015 Penn Avenue, Wyomissing, PA. The leased space covers a total of 17,407 square feet. This lease expires in 2020. Also, includes the administrative offices for the corporate lending group which is housed within the Exeter branch location and two other administrative offices for Company personnel.

(4) We lease 7,327 square feet of space in Hamilton, New Jersey from which we conduct our mortgage warehouse and retail lending activities. The lease on this location expires in 2019.

(5) Represents administrative offices for Company personnel. The lease on this location expires in 2022.

(6) Represents administrative office for Company personnel. The lease on this location expires in 2017.

(7) Represents administrative office for Company personnel. The lease on this location expires in 2018.

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(8) Represents loan office for Company personnel. The lease on this location expires in 2023.
(9) Represents administrative offices. The space is currently sublet to a third party. The lease on this location expires in 2018.
(10) Represents loan office for Company personnel. The lease on this location expires in 2020.
(11) Represents administrative office for Company personnel. The lease on this location expires in 2021.
(12) Represents administrative office for Company personnel. The lease on this location expires in 2019.
(13) Represents office space currently unoccupied. The lease on this location expires in 2024.

The Bank branch locations, which range in size from approximately 1,800 to 3,900 square feet, have leases on these locations which expire between 2018 and 2023.

The total minimum cash lease payments for our current branches, administrative offices and mortgage warehouse lending locations amount to approximately $320,000 per month.

Item 3. Legal Proceedings

On August 7, 2013, the Bancorp received a letter from the Federal Reserve Bank of Philadelphia (“Reserve Bank”) of its determination, in connection with its consumer compliance and Community Reinvestment Act examinations of the Bank for the period of 2011 and 2012, to make a referral to the Department of Justice. The Reserve Bank informed us that it made the referral based on its belief that Customers Bank has not complied with certain provisions of the Equal Credit Opportunity Act (“ECOA”), Fair Housing Act (“FHA”) and Regulation B with regard to the City of Philadelphia. Customers Bank received notification as of September 24, 2013 that the Department of Justice has initiated an investigation of the Bancorp under the ECOA and FHA.

On August 22, 2014, the Department of Justice informed the Bancorp that it had completed its review and that the circumstances of this matter did not require enforcement action by the Department of Justice at this time. The matter has been referred back to the Federal Reserve. The Bancorp is not able to determine whether further action will be taken at this point with respect to the ultimate resolution of this matter.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Trading Market for Voting Common Stock

Since December 30, 2014, the common stock of Customers Bancorp has been listed for quotation on the New York Stock Exchange under the symbol “CUBI.” The common stock of Customers Bancorp was listed for quotation on the Nasdaq Global Select Market under the symbol “CUBI” from May 16, 2013 through December 29, 2014. Prior to May 16, 2013, bid quotations for the common stock of Customers Bancorp were listed on the OTC Pink Sheets under the symbol “CUUU.”

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Market Price of Voting Common Stock

The chart below displays the high and low closing sale prices of the common stock of the Bancorp as reported on the Nasdaq Global Select Market and New York Stock Exchange (effective December 30, 2014) between May 16, 2013 and February 20, 2015. From January 1, 2013 until May 15, 2013, the chart displays the high and low sale prices of the common stock of Customers Bancorp known by management to have occurred or bid quotations on the OTC Pink Sheets. Prices have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

	High	Low
2015		
First quarter (through February 20, 2015)	$22.43	$17.96
2014		
Fourth quarter	$20.16	$17.10
Third quarter	20.66	17.71
Second quarter	21.25	18.25
First quarter	20.03	17.27
2013		
Fourth quarter	$21.04	$14.39
Third quarter	16.35	14.12
Second quarter	16.36	13.77
First quarter	16.82	12.27

As of February 20, 2015, there were: (1) approximately 504 shareholders of record of our Voting Common Stock and one shareholder of record of our Class B Non-Voting Common Stock; and (2) 25,685,524 outstanding shares of our Voting Common Stock and 1,121,730 outstanding shares of our Class B Non-Voting Common Stock.

Dividends on Voting Common Stock

Neither Customers Bancorp nor Customers Bank (prior to the reorganization into a Bank Holding Company structure), historically has paid any cash dividends on its shares of common stock. Customers Bancorp does not expect to do so in the forseeable future and Customers Bank may begin payment of dividends to the parent in 2015. Any future determination relating to 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 the Voting Common 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 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 Company and the Company's payment of dividends.

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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. 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. There were no common stock repurchases during 2014.

EQUITY COMPENSATION PLANS

The following table provides certain summary information as of December 31, 2014 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, Warrants, and Rights (#)	Weighted-Average Exercise Price of Outstanding Options ($) (2)	Number of Securities Remaining Available for Future Issuance Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) (#)
Equity Compensation Plans Approved by Security Holders (1)	3,957,038	12.61	3,605,394 (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, the Customers Bancorp, Inc. 2010 Stock Option Plan, the Bonus Recognition and Retention Program ("BRRP"), and the Customers Banorp, Inc. Amended and Restated 2014 Employee Stock Purchase Plan.

(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 limits the award of restricted stock units to the amount of the cash bonuses paid to 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, 2012 to December 31, 2014, to that of the total return index for the SNL Mid-Atlantic Bank Index, SNL U.S. Bank NASDAQ Index and SNL U.S. Bank NYSE Index, assuming an investment of $100 on December 31, 2012. The SNL U.S. Bank NYSE Index was added to the performance graph because the Bancorp changed the listing of its Voting 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 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 and income statement data for the years ended December 31, 2014, 2013, 2012, 2011, and 2010 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. Certain amounts reported in this table have been reclassified to conform to the 2014 presentation. These reclassifications did not significantly impact the Bancorp's financial position or results of operations.

	2014	2013	2012	2011 (1)	2010 (2)
	(dollars in thousands, except per share information)				
For the Year ended December 31,					
Interest income	$190,427	$128,156	$93,814	$61,245	$30,907
Interest expense	38,504	24,301	21,761	22,464	11,546
Net interest income	151,923	103,855	72,053	38,781	19,361
Provision for loan losses	14,747	2,236	14,270	7,495	10,397
Bargain purchase gains on acquisitions	—	—	—	—	40,254
Total non-interest income, excluding bargain purchase gains	25,126	22,703	28,958	11,469	5,416
Total non-interest expense	98,914	74,024	50,651	36,886	26,168
Income before taxes	63,388	50,298	36,090	5,869	28,466
Income tax expense	20,174	17,604	12,272	1,835	4,731
Net income	43,214	32,694	23,818	4,034	23,735
Net income attributable to common shareholders	43,214	32,694	23,818	3,990	23,735
Basic earnings per common share (3) (9)	1.62	1.34	1.61	0.36	3.44
Diluted earnings per common share (3) (9)	1.55	1.30	1.57	0.35	3.35
At Period End					
Total assets	$6,825,370	$4,153,173	$3,201,234	$2,077,532	$1,374,407
Cash and cash equivalents	371,023	233,068	186,016	73,570	238,724
Investment securities (4)	416,685	497,573	129,093	398,684	205,828
Loans held for sale (6)	1,435,459	747,593	1,439,889	174,999	199,970
Loans receivable not covered by Loss Sharing Agreements with the FDIC (5)	4,269,480	2,399,265	1,216,941	1,215,117	514,087
Allowance for loan losses	30,932	23,998	25,837	15,032	15,129
Loans receivable covered by Loss Sharing Agreements with the FDIC (5)	42,181	66,725	107,526	126,276	164,885
FDIC loss sharing receivable (5)	2,320	10,046	12,343	13,077	16,702
Deposits	4,532,538	2,959,922	2,440,818	1,583,189	1,245,690
Borrowings	1,816,250	771,750	471,000	331,000	11,000
Shareholders' equity	443,145	386,623	269,475	147,748	105,140
Tangible common equity (8)	439,481	382,947	265,786	144,043	105,140
Selected Ratios and Share Data					

Return on average assets	0.78	%	0.95	%	1.02	%	0.24	%	3.40	%
Return on average equity	10.39	%	9.49	%	12.69	%	3.06	%	41.29	%
Book value per share (3) (9)	$16.57		$14.51		$13.27		$11.84		$11.38	
Tangible book value per common share (3) (8) (9)	$16.43		$14.37		$13.09		$11.54		$11.38	
Common shares outstanding (3) (9)	26,745,529		26,646,566		20,305,452		12,482,451		9,237,815	

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Net interest margin	2.86	%	3.13	%	3.21	%	2.47	%	2.76	%
Equity to assets	6.49	%	9.31	%	8.42	%	7.11	%	7.65	%
Tangible common equity to tangible assets (8) (9)	6.44	%	9.23	%	8.31	%	6.95	%	7.65	%
Tier 1 leverage ratio – Customers Bank	7.39	%	10.81	%	7.74	%	7.11	%	8.67	%
Tier 1 leverage ratio – Customers Bancorp	6.69	%	10.11	%	9.30	%	7.37	%	n/a	
Tier 1 risk-based capital ratio – Customers Bank	9.27	%	13.33	%	8.50	%	9.66	%	19.65	%
Tier 1 risk-based capital ratio – Customers Bancorp	8.39	%	12.44	%	10.23	%	10.01	%	n/a	
Total risk-based capital ratio – Customers Bank	11.98	%	14.11	%	9.53	%	10.78	%	21.14	%
Total risk-based capital ratio – Customers Bancorp	11.09	%	13.21	%	11.26	%	11.13	%	n/a	
Asset Quality – Non-covered Assets (5)										
Non-performing loans	$7,487		$13,513		$22,347		$29,633		$22,242	
Non-performing loans to total non-covered loans	0.18	%	0.56	%	1.84	%	2.44	%	4.33	%
Other real estate owned	$5,926		$5,312		$4,005		$7,316		$1,906	
Non-performing assets	13,413		18,825		26,352		36,949		24,148	
Non-performing non-covered assets to total non-covered assets	0.31	%	0.78	%	2.16	%	3.02	%	4.68	%
Allowance for loan losses to total non-covered loans (7)	0.67	%	0.62	%	1.20	%	1.24	%	2.94	%
Allowance for loan losses to non-performing non-covered loans (7)	382.80	%	109.16	%	65.26	%	50.73	%	68.02	%
Net charge-offs	$3,124		$6,894		$5,466		$9,547		$5,250	
Net charge-offs to average non-covered loans	0.09	%	0.38	%	0.45	%	1.10	%	1.41	%
Asset Quality – Covered Assets (5)										
Non-performing loans	$4,246		$5,650		$10,504		$6,993		$8,084	
Non-performing loans to total covered loans	10.07	%	8.47	%	22.69	%	16.72	%	9.18	%
Other real estate owned	$9,445		$6,953		$4,109		$6,166		$5,342	
Non-performing assets	13,691		12,603		14,613		13,159		13,426	
Non-performing assets to total covered assets	26.52	%	17.11	%	13.09	%	9.94	%	7.89	%

(1) On September 17, 2011, Customers Bancorp completed its acquisition of Berkshire Bancorp, Inc. using the purchase accounting method in accounting for the acquisition. The purchase method provides that all transactions after the acquisition date are reflected in the acquirers' financial accounting records.

(2) During the third quarter of 2010, Customers Bancorp acquired two banks in FDIC assisted transactions using the purchase accounting method.

(3) Effective September 17, 2011, Customers Bank reorganized into the holding company structure pursuant to which all of the issued and outstanding common stock of the Bank was exchanged on a one-for-three basis for common stock of Customers Bancorp. All share and per share information for periods prior to the reorganization has been restated retrospectively to reflect the reorganization.

(4) Includes available-for-sale and held-to-maturity investment securities.

(5) Certain loans and other real estate owned (described as “covered”) acquired in the two FDIC assisted transactions in 2010 are subject to loss sharing agreements between Customers Bank and the FDIC. If certain provisions within the loss sharing agreements are maintained, the FDIC will reimburse Customers Bank for 80% of the unpaid principal balances and certain expenses. A loss sharing receivable was recorded based upon the credit evaluation of the acquired loan portfolio and the estimated periods for repayments. Loans receivable and assets that are not subject to the loss sharing agreement are described as “non-covered”.

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(6) In 2014 and 2013, loans held for sale included $1,332,019 and $740,694 of mortgage warehouse loans at fair value, respectively.

(7) Allowance for loan losses used for this calculation excludes the portion related to purchased-credit-impaired ("PCI") loans of $7.0 million in 2014 and $9.2 million in 2013.

(8) Customers Bancorp's selected financial data contains non-GAAP financial measures calculated using non-GAAP amounts. These measures include 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.

(9) Per share amounts have been adjusted to reflect the 10% stock divdend declared on May 15, 2014 and issued on June 30, 2014.

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

	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Shareholders' equity	$443,145	$386,623	$269,475	$147,748	$105,140
Less: intangible assets	(3,664)	(3,676)	(3,689)	(3,705)	—
Tangible common equity	$439,481	$382,947	$265,786	$144,043	$105,140
Shares outstanding	26,746	26,647	20,305	12,482	9,238
Book value per share	$16.57	$14.51	$13.27	$11.84	$11.38
Less: effect of excluding intangible assets	(0.14)	(0.14)	(0.18)	(0.30)	—
Tangible book value per share	$16.43	$14.37	$13.09	$11.54	$11.38
Total assets	$6,825,370	$4,153,173	$3,201,234	$2,077,532	$1,374,407
Less: intangible assets	(3,664)	(3,676)	(3,689)	(3,705)	—
Total tangible assets	$6,821,706	$4,149,497	$3,197,545	$2,073,827	$1,374,407
Equity to assets	6.49%	9.31%	8.42%	7.11%	7.65%
Less: effect of excluding intangible assets	(0.05)	(0.08)	(0.11)	(0.16)	—
Tangible common equity to tangible assets	6.44%	9.23%	8.31%	6.95%	7.65%

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

You should read this Management's Discussion and Analysis in conjunction with "Business – Executive Summary" and the Bancorp's consolidated financial statements and related notes for the year ended December 31, 2014. Certain amounts reported in the 2013 and 2012 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications did not significantly impact the Bancorp's financial position or results of operations.

Critical Accounting Policies

Customers Bancorp has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America (US GAAP) and that are consistent with general practices within the banking industry in the preparation of its financial statements. The Bancorp's significant accounting policies are described in "NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION" to its audited financial statements.

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

The following is a summary of the policies Customers Bancorp recognizes as involving critical accounting estimates: Allowance for Loan Losses, Stock-Based Compensation, Unrealized Gains and Losses on Available for Sale Securities, Fair Value Accounting, Accounting for Purchased-Credit-Impaired (PCI) Loans, FDIC Receivable for Loss Share Agreements, and Deferred Income Taxes.

Allowance for Loan Losses. Customers Bancorp 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 is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by management. Consideration is given to a variety of factors in establishing these estimates including historical losses, current and anticipated economic conditions, the size and composition of the loan portfolio, delinquency statistics, criticized and classified assets and impaired loans, results of internal loan reviews, borrowers' perceived financial and management strengths, the adequacy of underlying collateral, the dependence on collateral, or the strength of the present value of future cash flows and other relevant factors. These factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required which may adversely affect the Bancorp's results of operations in the future.

Estimates of cash flows expected to be collected for purchased-credit-impaired loans are updated each reporting period. If the Bank has probable decreases in expected cash flows to be collected after acquisition, the Bank charges the provision for loan losses and establishes an allowance for loan losses.

Stock-Based Compensation. Customers Bancorp recognizes compensation expense for share-based awards in accordance with ASC 718 Compensation – Stock Compensation. Expense related to stock option awards is based on the fair value of the option at the grant date, with compensation expense recognized over the service period, which is usually the vesting period. Customers Bancorp 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 our stock, and the current risk-free interest rate for the expected life of the option. The Bancorp's 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.

Unrealized Gains and Losses on Securities Available for Sale. Customers Bancorp receives 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 are mostly comprised of mortgage backed securities and U.S.

government agency securities. Customers Bancorp 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, or for equity securities, whether the market value is below its cost for an extended period of time with low expectation of recovery. 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. The unrealized losses associated with securities that management does not intend to

sell, and more likely than not will not be required to sell prior to maturity or market price recovery, were not considered to be other-than-temporarily impaired as of December 31, 2014 and December 31, 2013, because the unrealized losses were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or issuer. The unrealized losses associated with the equity investments that management does not intend to sell, and more likely than not will not be required to sell, were not considered other-than-temporarily impaired as of December 31, 2014 or 2013 because the decrease in market price or foreign currency exchange rates was estimated to be temporary.
Fair Value. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management estimates the fair value of a financial instrument using a variety of valuation methods. Where 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 Bancorp 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 rate or discount rate 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. US 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 residential mortgage loans acquired subject to an agreement to resell, residential mortgage loans originated with an intent to sell, impaired loans and foreclosed property and the net assets acquired in business combinations. For additional information, refer to "NOTE 19 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS."
Purchased Credit-Impaired Loans
For certain acquired loans that have experienced a deterioration of credit quality, Customers Bancorp follows the guidance contained in ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired ("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 are considered to be credit impaired. Evidence of credit quality deterioration as of purchase dates 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 decreases in the estimated cash flows of the loan will generally result in a provision for loan losses. 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 increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on accretion of interest income in future periods. Further, any excess of cash flows expected at 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.
Purchased-credit-impaired loans acquired in the same fiscal quarter may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. On a quarterly basis, the Bank re-estimates the total cash flows (both principal and interest) expected to be collected over the remaining life of each pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions. If the timing and/or amounts of expected cash flows on

purchased-credit-impaired loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as non-accrual loans; however, when the timing and amounts of expected cash flows for purchased-credit-impaired loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans. Charge-offs are not recorded on purchased-credit-impaired loans until actual losses exceed the estimated losses that were recorded as purchase accounting adjustments at acquisition date.

FDIC Receivable for Loss Share Agreements. The majority of the loans and other real estate assets acquired in an FDIC-assisted acquisition is covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse the Bank for 80% of all losses incurred in connection with those assets. Management estimated the amount that the Bank will receive from the FDIC under the loss share agreements that will result from losses incurred as the Bank disposes of covered loans and other real estate assets and records the estimate as a receivable from the FDIC.

The FDIC loss sharing receivable is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if the assets are sold. Management estimated the fair value of the FDIC loss sharing receivable using the present value of cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages. Management reviews and updates the fair value of the FDIC receivable prospectively as loss estimates related to covered loans and other real estate owned change. The ultimate realization of the FDIC loss sharing receivable depends on the performance of the underlying covered assets, the passage of time, and claims paid by the FDIC. Changes in estimated cash flows of the covered assets likewise result in changes in the estimated cash flows to be received pursuant to the reimbursement agreement between the Bank and the FDIC. An increase in a cash flow estimate for a covered loan will result in a decrease in the indemnification asset, and a decrease in a cash flow estimate for a covered loan will result in an increase in the indemnification asset. Increases to the indemnification asset are recorded as a reduction to the provision for loan losses and decreases to the indemnification asset are recorded either as an increase to the provision for loan losses (to the extent an increase in the FDIC receivable balance was previously recorded as a reduction to the provision for loan losses) or recognized over the life of the loss share agreements.

Deferred Income Taxes. The Bancorp provides for deferred income taxes on the liability method whereby 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.

Accounting Changes

The Fair Value Option

The Bank elected the fair value option for mortgage warehouse lending transactions documented under a master repurchase agreement originated after July 1, 2012 in order to more accurately represent the short-term nature of the transaction and its inherent credit risk. The Bank also elected the fair value option for mortgage loans originated with the intent to sell effective October 1, 2013. These adoptions are in accordance with the parameters established by ASC 825-10-25, Financial Instruments-Overall-Recognition: The Fair Value Option. The interest income from the warehouse lending transactions and mortgage loans originated with the intent to sell are classified in “Interest Income – Loans held for sale” on the income statement. The unrealized fair value changes related to these loans are classified in “Mortgage loan and banking income” on the consolidated statements of income. An allowance for loan losses is not recorded for loans measured at fair value under ASC 825 as the exit price (the repurchase price or sales price) used as the fair value measurement considers estimated credit losses.

Change in Accounting Estimates

Estimates of cash flows from purchased-credit-impaired loans were revised during the third quarter of 2012 due to a conversion to a more sophisticated and precise loan valuation system. In accordance with the guidance in ASC 310-30, interest income is based on an acquired loan’s expected cash flows. Complex models are needed to calculate loan-level and/or pool level expected cash flows in accordance with ASC 310-30. The loan data analysis provided by the loan valuation system was determined to be a more precise quantification of future cash flows than the analysis that was previously calculated manually. Upon conversion to the new software, acquisition date loan values were loaded into the system, and the software calculated their fair values using a complex valuation model. Conversion to the new system was completed in September 2012. To adjust the acquisition date loan balances recorded on Customers Bank’s books to the amounts calculated by the new software, approximately $4.5 million was recognized as a reduction to the provision for loan losses in the third quarter of 2012. The revised valuation for the purchased-credit-impaired acquisition date loan balances due to the conversion to the new software was accounted for prospectively as a change in accounting estimate.

When converting to the new software system, the Bank was required to calculate the estimated cash flows from the various acquisition dates of the purchased-credit-impaired loans through the date the software was implemented as it was impracticable to perform these calculations on a monthly or quarterly basis. In the third quarter of 2012, approximately $4.5 million was recognized in interest income related to this change. The impact of the revised

valuation of cash flows for the purchased-credit-impaired loan activity due to the conversion to the new software was accounted for prospectively as a change in accounting estimate.

Also during the third quarter of 2012, the Bank re-estimated the cash flows for the purchased-credit-impaired loans using current data. The re-estimated expected cash flows decreased from prior estimated cash flows. Consistent with ASC 310-10's fundamental premise that a decrease in expected cash flows results in accrual of a loss contingency and should not result in a

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change in yield, the Bank evaluated the adequacy of the allowance for loan losses for purchased-credit-impaired loans and determined that an additional provision for loan losses of $7.5 million was appropriate. As a result of the changes in estimates, net income for the year ended December 31, 2012 increased by $900,000, net of tax, and basic and diluted earnings increased by $0.06 per share, as adjusted for 2014 stock dividend.

Overview

Like most financial institutions, the Bancorp derives the majority of its income from interest it receives on its interest-earning assets, such as loans and investments. The Bancorp's primary source of funds for making these loans and investments is its deposits, on which it pays interest. Consequently, one of the key measures of the Bancorp's success is its amount of 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 spread.

There is credit risk inherent in all loans, so Customers Bancorp maintains an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. The Bancorp maintains this allowance by charging a provision for loan losses against its operating earnings. Customers Bancorp has included a detailed discussion of this process, as well as several tables describing its allowance for loan losses.

2015 Economic Outlook

U.S. real GDP is forecasted to grow 2.5% to 3.0% in each of the next two years, marking the strongest two-year period since the middle of the 2001-2007 economic expansion. Growth in the U.S. is expected to be broad-based with much of the improvement coming from a stronger labor market. It is expected that employers will continue to add an average of 210,000 employees per month and that the unemployment rate will remain below 6.0% in 2015. At the same time, inflation is expected to drift closer to the Fed's explicit target of 2.0%.

Consumer Spending is expected to benefit the most from a stronger labor market. Consumption will be supported by better household balance sheets, stronger income growth and lower gasoline prices. GDP should also be boosted by larger fixed investments by business. In recent quarters, businesses have begun to shift away from share buybacks, dividends and mergers and acquisitions and replaced those outlays with fixed investments. A potential risk to business fixed investments is the recent decline in oil prices. A sustained decline in the price of oil could have a material impact to business outlays. Slower economic growth for many of America's trading partners and a strong dollar mean that trade will likely detract from U.S. real GDP for a second straight year.

Against this favorable backdrop, it is expected that the Federal Reserve will begin raising its short-term rate around the middle of 2015. Some economists believe that the upper end of the Fed Funds Target Rate will be at 1.0% by the end of 2015 and 2.75% by the end of 2016.

While the outlook in the U.S. remains optimistic, fears of a slowdown in the rest of the world could have a negative impact on the U.S. economy. While the rest of the world continues to take steps to increase growth, the U.S. continues to churn along in a positive direction. In the Bancorp's market area, management sees continued moderate (2.00% to 3.00%) growth in 2015, the housing market continuing to improve and unemployment remaining at current levels or slightly improving during the year. Management is seeing improvement in loan demand in the Bancorp's commercial and industrial, multi-family and commercial real estate loan portfolios and expects to increase lending in the coming year. There continues to be some uncertainty in the political and external environments in 2015, and it is likely that these challenging conditions will continue over the next few years. Overall, the Bancorp's management is optimistic that 2015 will show a continuation of the improving economic environment experienced in 2014.

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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. Also see "CRITICAL ACCOUNTING POLICIES" and "NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION" for information concerning certain significant accounting policies and estimates applied in determining reported results of operations.

For the years ended December 31, 2014 and 2013

Net income available to common shareholders increased $10.5 million (32.2%) to $43.2 million for the year ended December 31, 2014, compared to $32.7 million for the year ended December 31, 2013. The increased net income resulted from increases in net interest income of $48.1 million and non-interest income of $2.4 million, partly offset by increases in provision for loan losses of $12.5 million, non-interest expense of $24.9 million, and tax expense of $2.6 million.

Net interest income increased $48.1 million (46.3%) during 2014 to $151.9 million, compared to $103.9 million during 2013 principally due to an increase in the average balance of interest earnings assets of $2.0 billion (from $3.3 billion in 2013 to $5.3 billion in 2014), offset in part by a decline in the net interest margin (tax equivalent) of 27 basis points (from 3.14% in 2013 to 2.87% in 2014). The growth in average interest earning assets was principally driven by increases in multi-family and other commercial loan products. The decrease in net interest margin results from a combination of changed market conditions, including decreased market interest rates and increased competition on loans, and product mix, as secured multi-family loans yield less than other commercial products and was our primary growth area.

Provision for loan losses increased $12.5 million during 2014 to $14.7 million, compared to $2.2 million during 2013. The increase in the provision for loan losses during 2014 was primarily attributable to significant organic loan growth in the held-for-investment loan portfolio, resulting in approximately $10.1 million of provision expense during 2014, and a reduced benefit expected to be collected from the FDIC as collections on covered loans improved and the loss sharing arrangements for the non-single family loans approach their contractual maturity, resulting in approximately $4.6 million of provision expense during 2014.

Non-interest income increased $2.4 million during 2014 to $25.1 million compared to $22.7 million during 2013. The increase in 2014 was attributed to the $2.3 million increase in gains on sales of loans as the Bank began selling excess multi-family loan originations, $1.9 million increase in gains on sales of investment securities as the Bank shortened the duration of its investment portfolio, a $1.2 million increase in bank owned life insurance income as the number of insured employees increased, and a $0.9 million increase in mortgage loan and banking income as the Bank continues to develop that business, offset primarily by a decrease in the mortgage warehouse transactional fees of $4.7 million.

Non-interest expense increased $24.9 million during 2014 to $98.9 million compared to $74.0 million during 2013. Expenses increased in 2014 principally for salaries and employee benefits as staffing levels grew to support the growing business (up $10.9 million), assessments for FDIC insurance and Pennsylvania shares tax increased as the Bank grew (up $6.2 million), professional services related to loan workout, litigation and other general regulatory matters (up $2.2 million), occupancy expense (up $2.2 million) as our need for space grew, other real estate owned resolution expenses as we work through problem properties (up $2.2 million), and technology, communications and bank operations expense (up $1.5 million) as a result of our growth. The increase was offset in by a provision for loss contingency recorded in 2013 of $2.0 million.

Income tax expense increased $2.6 million during 2014 to $20.2 million compared to $17.6 million during 2013. The increased income tax expense was driven primarily from increased taxable income in 2014 (up $13.1 million to $63.4 million), offset in part by a $1.5 million benefit that resulted from a return to provision and deferred tax analysis performed in third quarter 2014.

For the years ended December 31, 2013 and 2012

Net income available to common shareholders increased $8.9 million (37.3%) to $32.7 million for the year ended December 31, 2013, compared to $23.8 million for the year ended December 31, 2012. The increased net income resulted from a $31.8 million increase in net interest income and a $12.0 million decrease in the provision for loan losses, offset by decreases in non-interest income of $6.3 million, an increase in non-interest expense of $23.4 million

and a $5.3 million increase in income tax expense.
The increased net interest income of $31.8 million (44.1%) for the year ended December 31, 2013 to $103.9 million compared to $72.0 million for the year ended December 31, 2012 resulted principally from an increase in average loan balances (loans held for sale and loans receivable) of $974.0 million to $2.8 billion, offset in part by a 39 basis point decrease in average yields

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on loans to 4.26% net with a 22 basis point decrease in the cost of funding. The growth in average loans was principally in loans to mortgage bankers to fund warehouse lines and multi-family and other commercial real estate loans. The decrease in yield results from a combination of changed market conditions, including increased competition for loans, and product mix, as secured multi-family loans yield less than other commercial products and was our primary growth area.

During 2013, the provision for loan losses was $2.2 million, a decrease of $12.0 million from a provision of $14.3 million during 2012. The decrease in the provision for loan losses in 2013 resulted primarily from (i) $7.5 million increase in the provision recorded in 2012 due to the re-estimation of cash flows related to purchased-credit-impaired loans, (ii) $2.6 million reduction in the provision during 2013 due to better sustained performance of the Bancorp's commercial (including multi-family) and residential mortgage loan portfolios, (iii) $0.3 million net reduction in the provision, including the effect of a write-down of the FDIC receivable balance in 2013 upon final payoff of covered loans which previously had a specific allowance, and (iv) approximately $1.6 million net reduction in the provision due to generally decreased delinquencies and improved asset quality and market conditions partially offset by an increase in the provision for asset growth during 2013.

Non-interest income declined $6.3 million in the year ended December 31, 2013 to $22.7 million compared to $29.0 million for the year ended December 31, 2012. The decrease in 2013 is attributed to the $7.7 million decrease in gains on sales of investment securities, offset in part by the launching of the mortgage banking business (generating $1.1 million of income) and increased investment in bank-owned life insurance (generating an increase in income of $1.1 million).

Non-interest expense increased $23.4 million during the year ended December 31, 2013 to $74.0 million compared to $50.7 million during the year ended December 31, 2012. Expenses increased in 2013 compared to 2012 principally for salaries and employee benefits as staffing levels grew to support the growing business (up $11.6 million), assessment for FDIC insurance and other regulatory fees as the bank grew and other costs were incurred ($2.5 million), professional services for loan workout, litigation, and development of materials to respond to regulatory inquiries increased reflecting growth and more complex issues ($2.1 million), occupancy as the business expansion into new markets and increased activity in existing markets required additional facilities ($2.0 million), and a provision for loss contingency as a result of a fraud perpetrated on a loan to fund a residential mortgage warehouse line of credit ($2.0 million).

Income tax expense increased $5.3 million in 2013 to $17.6 million compared to $12.3 million in 2012. The increased income tax expense was driven primarily from the increase in taxable income in 2013 compared to 2012 (up $14.2 million to $50.3 million) and a 1.0% increase in the effective tax rate to 35.0% from 34.0% due to an increase in pre-tax book income.

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

	For the Year ended December 31,								
	2014			2013			2012		
(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	$228,668	$577	0.25 %	$190,298	$482	0.25 %	$138,475	$352	0.25 %
Investment securities, taxable (A)	451,932	10,386	2.30	260,862	6,314	2.42	224,075	6,663	2.97
Investment securities, non-taxable (A)	—	—	—	—	—	—	1,642	68	4.16
Loans held for sale	911,594	30,801	3.38	992,421	38,140	3.84	423,886	15,950	3.76
Loans receivable	3,656,891	146,388	4.00	1,842,310	82,580	4.48	1,436,805	70,510	4.91
Other interest earning assets	66,669	2,275	3.41	27,095	640	2.36	21,140	271	1.28
Total interest-earning assets	5,315,754	190,427	3.58	3,312,986	128,156	3.87	2,246,023	93,814	4.18
Non-interest-earning assets	227,045			142,350			79,280		
Total assets	$5,542,799			$3,455,336			$2,325,303		
Liabilities									
Interest checking	$62,840	361	0.57	$45,613	191	0.42	36,701	193	0.52
Money market deposit accounts	1,712,896	10,391	0.61	1,106,457	7,619	0.69	853,658	7,404	0.87
Other savings	40,795	172	0.42	31,741	152	0.48	22,947	133	0.58
Certificates of deposit	1,403,774	13,530	0.96	1,251,709	13,058	1.04	935,208	13,346	1.43
Total interest-bearing deposits	3,220,305	24,454	0.76	2,435,520	21,020	0.86	1,848,514	21,076	1.14
Borrowings	1,268,205	14,050	1.11	278,297	3,281	1.18	100,484	685	0.68
Total interest-bearing liabilities	4,488,510	38,504	0.86	2,713,817	24,301	0.90	1,948,998	21,761	1.12
Non-interest-bearing deposits	620,385			385,187			180,722		
Total deposits and borrowings	5,108,895		0.75	3,099,004		0.78	2,129,720		1.02
Other non-interest-bearing liabilities	17,905			11,779			7,948		
Total liabilities	5,126,800			3,110,783			2,137,668		
Shareholders' Equity	415,999			344,553			187,635		

Total liabilities and shareholders' equity	$5,542,799		$3,455,336		$2,325,303	
Net interest earnings	151,923		103,855		72,053	
Tax-equivalent adjustment (C)	405		244		131	
Net interest earnings	$152,328		$104,099		$72,184	
Interest spread		2.83 %		3.09 %		3.16 %
Net interest margin (D)		2.86		3.13		3.21
Net interest margin tax equivalent (C)(D)		2.87		3.14		3.21

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

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

(C) Full tax equivalent basis, using a 35% statutory tax rate to approximate interest income as a taxable asset.

(D) Excluding the adjustment to interest income for the change in accounting estimate on purchased-credit-impaired loans of $4.5 million, net interest margin and net interest margin tax equivalent are 3.05% for the twelve months ended December 31, 2012.

(E) Certain amounts reported in the 2013 and 2012 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications did not significantly impact the Bancorp's financial position or results of operations.

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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.

	2014 vs. 2013 Increase (decrease) due to change in			2013 vs. 2012 Increase (decrease) due to change in		
(amounts in thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest income:						
Interest earning deposits	$(2)	$97	$95	$(2)	$131	$129
Investment securities, taxable	(335)	4,407	4,072	(1,347)	998	(349)
Investment securities, non-taxable	—	—	—	(34)	(34)	(68)
Loans held for sale	(4,384)	(2,955)	(7,339)	348	21,843	22,191
Loans receivable	(9,683)	73,491	63,808	(6,511)	18,581	12,070
Other interest earning assets	382	1,253	1,635	277	92	369
Total interest income	(14,022)	76,293	62,271	(7,269)	41,611	34,342
Interest expense:						
Interest checking	84	86	170	(43)	42	(1)
Money market deposit accounts	(996)	3,768	2,772	(1,710)	1,926	216
Savings	(20)	40	20	(26)	45	19
Certificates of deposit	(1,040)	1,512	472	(4,130)	3,840	(290)
Total interest bearing deposits	(1,972)	5,406	3,434	(5,909)	5,853	(56)
Borrowings	(210)	10,979	10,769	757	1,839	2,596
Total interest expense	(2,182)	16,385	14,203	(5,152)	7,692	2,540
Net interest income	$(11,840)	$59,908	$48,068	$(2,117)	$33,919	$31,802

For the years ended December 31, 2014 and 2013

Net interest income for the year ended December 31, 2014 was $151.9 million, an increase of $48.1 million, or 46.3%, when compared to net interest income for the year ended December 31, 2013 of $103.9 million. This increase in net interest income was primarily attributable to an increase of $1.8 billion in average loans receivable, principally in multi-family and other commercial loans.

The key measure of net interest income is net interest margin. While the Bancorp's net interest margin decreased to 2.87% for the year ended December 31, 2014 from 3.14% for the year ended December 31, 2013, the impact on net interest income was secondary to the significant increases in loan volume.

For the years ended December 31, 2013 and 2012

Net interest income for the year ended December 31, 2013 was $103.9 million, an increase of $31.8 million, or 44.1%, when compared to net interest income for the year ended December 31, 2012 of $72.1 million. This increase in net interest income was primarily attributable to an increase of $568.5 million in average loans held for sale, principally loans to mortgage bankers to fund inventory, and an increase of $405.5 million in average loans held receivable, driven by increased average balances in commercial and multi-family loans.

The key measure of net interest income is net interest margin. While the Bancorp's net interest margin decreased to 3.13% for the year ended December 31, 2013 from 3.21% for the year ended December 31, 2012, the impact on net interest income was secondary to the significant increases in loan volume.

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PROVISION FOR LOAN LOSSES

For more information about our provision and allowance for loan losses methodology and our loss experience, see “Credit Risk” and “Asset Quality” herein and “NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION.”

Customers Bancorp maintains its allowance for loan losses through a provision for loan losses charged as an expense on the consolidated statements of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both 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 via a charge (or debit) to the provision for loan losses.

For the years ended December 31, 2014 and 2013

At December 31, 2014, approximately 0.7 % of the total loan portfolio was covered under loss sharing agreements with the FDIC. Reductions in estimated cash flows on the covered loans are taken as additional provisions, and a corresponding receivable due from the FDIC is recorded as a reduction to the provision for loan losses for the portion anticipated to be recovered under the loss sharing agreements.

During 2014, the provision for loan losses was $14.7 million, an increase of $12.5 million from a provision of $2.2 million during 2013. The increase in the provision for loan losses during 2014 was primarily attributable to significant organic loan growth in the held-for-investment loan portfolio, resulting in approximately $10.1 million of provision expense during 2014, and a reduced benefit expected to be collected from the FDIC as collections on covered loans improved and the loss sharing arrangements for the non-single family loans approach their contractual maturity, resulting in approximately $4.7 million of provision expense during 2014.

For the years ended December 31, 2013 and 2012

At December 31, 2013, approximately 2.1% of the total loan portfolio was covered under loss sharing agreements with the FDIC. Reductions in estimated cash flows on the covered loans are taken as additional provisions, and a corresponding receivable due from the FDIC is recorded as a reduction to the provision for loan losses for the portion anticipated to be recovered under the loss sharing agreements.

During 2013, the provision for loan losses was $2.2 million, a decrease of $12.0 million from a provision of $14.3 million during 2012. The decrease in the provision for loan losses in 2013 resulted primarily from (i) $7.5 million increase in the provision recorded in 2012 due to the re-estimation of cash flows related to purchased-credit-impaired loans, (ii) $2.6 million reduction in the provision during 2013 due to better sustained performance of the Bancorp’s commercial (including multi-family) and residential mortgage loan portfolios, (iii) $0.3 million net reduction in the provision, including the effect of a write-down of the FDIC receivable balance, in 2013 upon final payoff of covered loans which previously had a specific allowance, and (iv) approximately $1.6 million net reduction in the provision due to generally decreased delinquencies and improved asset quality and market conditions, partially offset by an increase in the provision for asset growth during 2013.

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NON-INTEREST INCOME

The chart below shows the various components of non-interest income for each of the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Mortgage warehouse transactional fees	$8,233	$12,962	$12,289
Bank-owned life insurance	3,702	2,482	1,332
Gains on sales of investment securities	3,191	1,274	9,017
Gains on sales of loans	3,125	852	357
Mortgage loan and banking income	2,048	1,142	—
Deposit fees	801	675	481
Other	4,026	3,316	5,482
Total non-interest income	$25,126	$22,703	$28,958

For the years ended December 31, 2014 and 2013

Non-interest income increased $2.4 million during 2014 to $25.1 million compared to $22.7 million during 2013. The increase in 2014 was attributed to the $2.3 million increase in gains on sales of loans as the Bank began selling excess multi-family loan originations, $1.9 million increase in gains on sales of investment securities as the Bank shortened the duration of the investment portfolio, a $1.2 million increase in bank owned life insurance income as the number of insured employees increased, and a $0.9 million increase in mortgage loan and banking income as Customers continues to develop that business, offset primarily by a decrease in the mortgage warehouse transactional fees of $4.7 million.

For the years ended December 31, 2013 and 2012

Non-interest income declined $6.3 million in the year ended December 31, 2013 to $22.7 million compared to $29.0 million for the year ended December 31, 2012. The decrease in 2013 is attributed to the $7.7 million decrease in gains on sales of investment securities, offset in part by the launching of the mortgage banking business (generating $1.1 million of income) and increased investment in bank-owned life insurance (generating an increase in income of $1.1 million). Also, 2012 other non-interest income includes a benefit of $4.5 million resulting from an increased estimate of cash flows to be received from the FDIC for future losses on covered loans.

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NON-INTEREST EXPENSE

The below chart shows the various components of non-interest expense for each of the years ended December 31, 2014, 2013, and 2012.

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Salaries and employee benefits	$46,427	$35,493	$23,846
FDIC assessments, taxes, and regulatory fees	11,812	5,568	3,037
Occupancy	11,010	8,829	6,816
Professional services	7,748	5,548	3,468
Technology, communication and bank operations	5,856	4,330	2,805
Other real estate owned	3,601	1,365	(85)
Loan workout	1,706	2,245	2,243
Advertising and promotion	1,325	1,274	1,219
Loss contingency	—	2,000	—
Stock offering expenses	—	—	1,437
Other	9,429	7,372	5,865
Total non-interest expenses	$98,914	$74,024	$50,651

For the years ended December 31, 2014 and 2013

Non-interest expense was $98.9 million for the year ended December 31, 2014, which was an increase of $24.9 million over non-interest expense of $74.0 million for the year ended December 31, 2013.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $10.9 million (30.8%) to $46.4 million for the year ended December 31, 2014 from $35.5 million for the year ended December 31, 2013. The primary reason for this increase was due to the increase in the number of employees from 383 full-time equivalents at December 31, 2013 to 422 full-time equivalents at December 31, 2014 and a full year of expense for the growth of employees in 2013 as we increased the number of team members to support our growing commercial loan, multi-family/commercial real estate, and mortgage banking businesses and the related administrative support functions.

FDIC assessments, taxes and regulatory fees increased by $6.2 million to $11.8 million for the year-ended December 31, 2014 from $5.6 million for the year-ended December 31, 2013 due to increased assets subject to the FDIC assessment, higher regulatory fees and higher Pennsylvania bank shares tax expense as a result of the growth of the Bank.

Occupancy expense increased $2.2 million, rising to $11.0 million for the year-ended December 31, 2014 from $8.8 million for the year-ended December 31, 2013 as a result of a full year of facilities expense from expansion into new markets during 2013.

Professional services expense increased $2.2 million, to $7.7 million for the year ended December 31, 2014 from $5.5 million for the year-ended December 31, 2013 due to higher legal and consulting expenses in 2014 related to regulatory filings and other regulatory and legal matters as well as general growth of the Bank.

Technology communication and bank operations increased $1.5 million, rising to $5.9 million for the year ended December 31, 2014 from $4.3 million for the year-ended December 31, 2013 related to the increased number of employees and increased technology improvements to meet the needs of a larger Bank.

Larger expenses classified in other expense include loan origination expenses, supplies, director fees, shareholder relations, sponsorships, and business development expenses. Generally these expenses increased as a direct result of the growth of the Bank.

For the years ended December 31, 2013 and 2012

Non-interest expense was $74.0 million for the year ended December 31, 2013, which was an increase of $23.4 million over non-interest expense of $50.7 million for the year ended December 31, 2012.

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Salaries and employee benefits, which represent the largest component of non-interest expense, increased $11.6 million (48.8%) to $35.5 million for the year ended December 31, 2013 from $23.8 million for the year ended December 31, 2012. The primary reason for this increase was due to the increase in the number of employees from 242 full-time equivalents at December 31, 2012 to 383 full-time equivalents at December 31, 2013. This was directly related to the need for additional employees to support our organic growth and the expansion into new markets. Specifically, the increased headcount is needed to support our growing commercial loan, multi-family/commercial real estate, and mortgage banking businesses and the related administrative support.

Occupancy expense increased $2.0 million, rising to $8.8 million for the year-ended December 31, 2013 from $6.8 million for the year-ended December 31, 2012. The increase was related to building the infrastructure to support our growth as well as the cost of expansion into new markets.

FDIC assessments, taxes and regulatory fees increased $2.5 million to $5.6 million for the year-ended December 31, 2013 from $3.0 million for the year-ended December 31, 2012. The primary reasons for this increase were related to higher Pennsylvania bank shares tax expense that resulted from legislative changes to the tax calculation, deposit premiums and other regulatory and filing fees.

Professional services expense increased $2.1 million, to $5.5 million for the year-ended December 31, 2013 from $3.5 million for the year-ended December 31, 2012. This increase was primarily attributable to higher legal and consulting expenses in 2013 related to regulatory filings and other matters, including responding to alleged Fair Lending violations.

Technology communication and bank operations increased $1.5 million, rising to $4.3 million for the year-ended December 31, 2013 from $2.8 million for the year-ended December 31, 2012. The primary reason for this increase was related to building the infrastructure to support the growth through increased technology improvements and upgrades as well as the costs related to expanding of technological platforms into new markets. This corresponds with our philosophy of “high touch, high tech”, whereby we provide an exceptional level of customer service supported by state-of-the-art technology.

In March 2013, a suspected fraud was discovered in the Bank’s loans held-for-sale portfolio. Total loans involved in this fraud initially appeared to be $5.2 million. The Bank determined that an aggregate of $1.0 million of the loans were not involved in the fraud, and these loans were subsequently sold during 2013. In addition, the Bank recovered $1.5 million in cash from the alleged perpetrator in 2013. During 2013, a loss contingency expense of $2.0 million was provided, resulting in a net amount of $0.7 million classified in other assets as of December 31, 2013.

Other expenses increased $1.2 million to $7.0 million for the year-ended December 31, 2013, compared to $5.8 million for the year-ended December 31, 2012. The increase was primarily attributed to the $1.2 million increase in loan origination and servicing fees to $2.1 million for the year-ended December 31, 2013, compared to $0.9 million for the year-ended December 31, 2012.

INCOME TAXES

For the years ended December 31, 2014 and 2013

The income tax expense and effective tax rate include both federal and state income taxes. In 2014, income tax expense was $20.2 million with an effective tax rate of 31.83%, compared to an expense of $17.6 million and a rate of 35.00% for 2013. Income tax expense was driven primarily by net income before taxes of $63.4 million and $50.3 million, for the twelve months ended December 31, 2014, and December 31, 2013, respectively. In 2014, income tax expense was offset by a tax benefit from bank-owned life insurance of $1,269,000, or a 2.04% tax rate reduction. In 2013, income tax expense was offset by a tax benefit from bank-owned life insurance of $869,000, or a 1.73% rate reduction. In addition to the bank-owned life insurance benefit, 2014 was affected by other tax benefits of $1,821,000, or a 2.88% tax rate deduction which included a $1,526,000 benefit from a return to provision and deferred tax analysis performed in the third quarter of 2014.

For the years ended December 31, 2013 and 2012

The income tax expense and effective tax rate include both federal and state income taxes. In 2013, income tax expense was $17.6 million with an effective tax rate of 35.00%, compared to an expense of $12.3 million and a rate of 34.00% for 2012. Income tax expense was driven primarily by net income before taxes of $50.3 million and $36.1 million, for the twelve months ended December 31, 2013, and December 31, 2012, respectively. In 2013, income tax

expense was offset by a tax benefit from bank-owned life insurance of $869,000, or a 1.73% tax rate reduction. In 2012, income tax expense was offset by a tax benefit from bank owned life insurance of $466,000, or a 1.29% tax rate reduction.

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For additional information regarding the Bancorp's income taxes, refer to "NOTE 15 – INCOME TAXES".

FINANCIAL CONDITION

GENERAL

Total assets were $6.8 billion at December 31, 2014. This represented a $2.6 billion, or 64.3% increase from $4.2 billion at December 31, 2013. The major change in our financial position occurred as the result of the growth in loans receivable, which increased by 74.9% or $1.8 billion to $4.3 billion at December 31, 2014, from $2.5 billion at December 31, 2013.

The main driver of the increase in assets was primarily from the expansion of the commercial loan portfolio. Multi-family loans increased by $1.1 billion (100.0%) to $2.2 billion at December 31, 2014 from $1.1 billion at December 31, 2013 not including $99.8 million of multi-family loans held for sale at December 31, 2014. Commercial real estate loans increased by $396.1 million (52.5%) to $1.1 billion from $753.6 million at December 31, 2013. Additionally, commercial and industrial loans increased by $246.1 million (83.0%) to $542.7 million at December 31, 2014 from $296.6 million at December 31, 2013. Loans held for sale increased by $687.9 million (92.0%) to $1.4 billion at December 31, 2014 from $747.6 million at December 31, 2013.

Total liabilities were $6.4 billion at December 31, 2014. This represented a $2.6 billion, or 69.4%, increase from $3.8 billion at December 31, 2013. The increase in total liabilities was due to a higher level of deposits in 2014, compared to 2013. Total deposits grew by $1.6 billion (53.1%), to $4.5 billion at December 31, 2014 from $3.0 billion at December 31, 2013. Deposits are obtained primarily from within the Bank's geographic service area and through wholesale and broker networks. These wholesale and network sources provide low-cost funding alternatives to retail deposits and diversify to the Bank's sources of funds. The growth in retail deposits was primarily due to exceptional sales execution, despite lower interest rates in 2014. Additional funding for asset growth was obtained through FHLB advances which increased by $911.5 million to $1.6 billion at December 31, 2014 from $706.5 million at December 31, 2013.

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

	December 31,	
	2014	2013
(amounts in thousands)		
Cash and cash equivalents	$371,023	$233,068
Investment securities, available for sale	416,685	497,573
Loans held for sale (includes $1,335,668 and $747,593, respectively at fair value)	1,435,459	747,593
Loans receivable	4,312,173	2,465,078
Total loans receivable, net of the allowance for loan losses	4,281,241	2,441,080
Total assets	6,825,370	4,153,173
Total deposits	4,532,538	2,959,922
Federal funds purchased	—	13,000
FHLB advances	1,618,000	706,500
Other borrowings	88,250	63,250
Subordinated debt	110,000	2,000
Total liabilities	6,382,225	3,766,550
Total shareholders' equity	443,145	386,623
Total liabilities and shareholders' equity	6,825,370	4,153,173

CASH AND DUE FROM BANKS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled $62.7 million at December 31, 2014. This represents a $2.0 million increase from $60.7 million at December 31, 2013. These balances vary from day to day, primarily due to variations in customers' deposits with the Bank.

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INTEREST-EARNING DEPOSITS

Interest earning deposits consist mainly of deposits at the Federal Reserve Bank of Philadelphia. These deposits totaled $308.3 million at December 31, 2014, which is a $135.9 million increase from $172.4 million at December 31, 2013. This balance varies from day to day, depending on several factors, such as variations in customers' deposits with the Bank and the payment of checks drawn on customers' accounts.

INVESTMENT SECURITIES

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

At December 31, 2014, investment securities were $416.7 million compared to $497.6 million at December 31, 2013. The decrease was primarily the result of the sale of securities to strategically reduce interest rate risk by shortening the duration of the investment securities' term.

Unrealized gains and losses on available-for-sale securities are included in other comprehensive income and reported as a separate component of shareholders' equity, net of the related tax effect.

The following table sets forth the amortized cost of the investment securities at the last three fiscal year ends:

	December 31,		
	2014	2013	2012
(amounts in thousands)			
Available for Sale:			
Mortgage-backed securities (1)	$376,854	$461,988	$102,449
Corporate notes (2)	15,000	25,000	25,000
Equity securities (3)	23,074	23,074	6
	$414,928	$510,062	$127,455

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.
(2) Includes subordinated debt issued by other bank holding companies.
(3) Comprised primarily of equity securities in a foreign entity.

For financial reporting purposes, available-for-sale securities are carried at fair value.

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.

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	December 31, 2014						
	Amortized Cost						Fair Value
	< 1yr	1 -5 years	5 -10 years	After 10 years	No Specific Maturity	Total	Total
	(dollars in thousands)						
Available for Sale							
Mortgage-backed securities	$—	$—	$—	$—	$376,854	$376,854	$377,311
Yield	—	—	—	—	2.29 %	2.29 %	—
Corporate notes	—	—	15,000	—	—	15,000	15,104
Yield	—	—	5.58 %	—	—	5.58 %	—
Equity securities	—	—	—	—	23,074	23,074	24,270
Yield	—	—	—	—	— %	— %	—
Total	$—	$—	$15,000	$—	$399,928	$414,928	$416,685
Weighted Average Yield	— %	— %	5.58 %	— %	2.29 %	2.28 %	

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. The corporate notes in the portfolio are high-quality investments in financial service industry companies

LOANS

Existing lending relationships are primarily with small businesses and individual consumers primarily in Bucks, Berks, Chester, Montgomery, Delaware, and Philadelphia Counties, Pennsylvania; Camden and Mercer Counties, New Jersey; and Westchester County and New York City, New York; and the New England area. The loans to mortgage banking companies portfolio is nation-wide. The loan portfolio is primarily comprised of loans to support mortgage banking companies’ funding needs, multi-family/commercial real estate, construction, and commercial and industrial loans. The Bank continues to focus on small business loans to grow its commercial lending efforts, establish a specialty lending business, and expand its consumer lending products, as outlined below:

Commercial Lending

The Bank’s commercial lending is divided into four groups: Business Banking, Small Business Banking, Multi-family, and Commercial real estate. 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 on companies with annual revenues ranging from $5 million to $50 million, which typically have credit requirements between $0.5 million and $10 million.

The small business banking platform originates loans, including Small Business Administration loans, through the branch network sales force and a team of dedicated Small Business 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 the Bank’s 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, the Bank 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 excessive market turmoil. The Bank 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.

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The goal of the lending to mortgage banking businesses lending group is to provide liquidity to mortgage companies. These loans are primarily used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. The residential loans are taken as collateral for the Bank's loans. As of December 31, 2014, loans in the warehouse lending portfolio totaled $1.3 billion and are designated as held for sale.
The goal of the Bank's multi-family lending product is to build a portfolio of high-quality multi-family loans within the Bank's covered markets, while cross selling other products and services. This product primarily targets refinancing existing loans with other banks using conservative underwriting and provides 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, 2014, the Bank had multi-family loans of $2.2 billion outstanding, making up approximately 38.8% of the Bank's total loan portfolio, compared to $1.1 billion, or approximately 33.1% of the total loan portfolio at December 31, 2013.
As of December 31, 2014, the Bank had $5.3 billion in commercial loans outstanding, composing approximately 92.5% of its total loan portfolio, which includes loans held for sale, compared to $2.9 billion, composing approximately 90.2% at December 31, 2013.

Consumer Lending

The Bank 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 the Bank's efforts to grow total relationship revenues for its consumer households. As of December 31, 2014, the Bank had $432.2 million in consumer loans outstanding, or 7.5% of the Bank's total loan portfolio, which includes loans held for sale. The Bank plans to expand its product offerings in real estate secured consumer lending.
Customers Bank has launched a community outreach program in Philadelphia to finance homeownership in urban communities. As part of this program, the Bank 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 Bank's assessment areas.
The composition of loans held for sale was as follows:

	December 31, 2014 (in thousands)	2013	2012	2011	2010
Commercial Loans:					
Mortgage warehouse loans at fair value (1)	$1,332,019	$740,694	$1,439,889	$174,999	$199,970
Multi-family loans at lower of cost or fair value	99,791	—	—	—	—
Total Commercial Loans Held for Sale	1,431,810	740,694	1,439,889	174,999	199,970
Consumer Loans:					
Residential mortgage loans at fair value	3,649	6,899	—	—	—
Loans held for sale	$1,435,459	$747,593	$1,439,889	$174,999	$199,970

(1) Prior to 2012 the Bank had not elected the fair value option on Mortgage warehouse loans held for sale.

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During the fourth quarter of 2014, certain types of loans were reclassified due to their purpose and overall risk characteristics. Therefore, balances on certain loans and allowance for loan losses as of December 31, 2013 were reclassified to conform to the December 31, 2014 presentation.

The composition of loans receivable (excluding loans held for sale) was as follows:

	December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Commercial:					
Multi-family	$2,127,034	$1,063,459	$362,689	$70,945	$—
Commercial real estate	1,132,072	724,752	437,696	244,106	144,849
Commercial and industrial	540,430	292,937	114,615	109,986	35,942
Construction	56,669	31,314	25,709	10,732	13,387
Mortgage warehouse (b)	—	—	9,565	619,318	186,113
Total Commercial Loans	3,856,205	2,112,462	950,274	1,055,087	380,291
Consumer:					
Residential real estate	285,003	145,188	110,008	53,646	28,964
Manufactured housing	126,731	139,471	153,429	104,565	102,924
Home equity / other	1,541	2,144	2,072	2,208	1,581
Total Consumer Loans	413,275	286,803	265,509	160,419	133,469
Total loan receivable not covered under FDIC loss sharing agreements	4,269,480	2,399,265	1,215,783	1,215,506	513,760
Commercial:					
Commercial real estate	17,585	28,839	51,636	61,128	75,245
Commercial and industrial	2,235	3,658	11,718	13,798	22,876
Construction	6,705	11,603	19,845	24,873	38,280
Multi-family	372	600	647	—	—
Total Commercial Loans	26,897	44,700	83,846	99,799	136,401
Consumer:					
Residential real estate	12,392	18,732	19,952	22,465	23,822
Home equity / other	2,892	3,293	3,729	4,012	4,662
Total Consumer Loans	15,284	22,025	23,681	26,477	28,484
Total loan receivable covered under FDIC loss sharing agreements (a)	42,181	66,725	107,527	126,276	164,885
	4,311,661	2,465,990	1,323,310	1,341,782	678,645
Unearned origination costs, net	512	(912)	1,157	(389)	327
Allowance for loan losses	(30,932)	(23,998)	(25,837)	(15,032)	(15,129)
Loans receivable, net	$4,281,241	$2,441,080	$1,298,630	$1,326,361	$663,843

(a) Covered loans receivable acquired from the former USA Bank and ISN Bank are covered under the FDIC loss sharing agreements over a five to ten year period which begin to expire in 2015 depending upon the type of loan.

(b) During the third quarter of 2012, the Bancorp elected the fair value option for certain warehouse lending transactions originated after July 1, 2012. The documentation on the loans was modified to a purchase with agreement to resell contract. As such, qualified warehouse lending transactions on its balance sheet at December 31, 2013 and 2012, were accounted for at fair value and classified as held for sale. Warehouse lending transactions on the Bancorp's balance sheet at December 31, 2011 were classified as loans receivable not covered

under FDIC loss sharing agreements.

Loans to mortgage bank businesses and certain residential loans expected to be sold are classified as loans held for sale. Loans held for sale totaled $1.4 billion and $747.6 million at December 31, 2014 and 2013, respectively. Loans held for sale are not included in the loan receivable amounts. The mortgage warehouse product line provides financing to mortgage companies nationwide from the time of the home purchase or refinancing of a mortgage loan through the sale of the loan by the mortgage

originator into the secondary market, either through a repurchase facility or the purchase of the underlying mortgages. As a mortgage warehouse lender, we provide 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. We are 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. The mortgage warehouse lending employees monitor these mortgage originators by obtaining financial and other relevant information to reduce these risks during the lending period.

Loans receivable, net, increased by $1.8 billion to $4.3 billion at December 31, 2014 from $2.4 billion at December 31, 2013. The increase in Loans receivable, net, was also attributable to higher balances for multi-family, commercial real estate, and commercial and industrial loans which increased $1.1 billion, $396.1 million, and $246.1 million, respectively from December 31, 2013. The multi-family, commercial real estate and commercial and industrial loan balance is increasing due to the focus on this element of the Bank's organic growth strategy. Offsetting these increases in part was the loan runoff for purchased-credit-impaired and covered loans.

The following table sets forth certain categories of loans receivable* as of December 31, 2014, in terms of contractual maturity date:

	Within one year	After one but within five years	After five years	Total
	(in thousands)			
Types of Loans:				
Construction	$7,207	$14,698	$41,469	$63,374
Commercial real estate	32,478	512,365	604,814	1,149,657
Multi-family	11	1,266,938	860,457	2,127,406
Commercial and industrial	131,424	230,178	181,063	542,665
Total	$171,120	$2,024,179	$1,687,803	$3,883,102
Amount of such loans with:				
Predetermined rates	$36,013	$1,716,479	$1,117,602	$2,870,094
Floating or adjustable rates	135,107	307,700	570,201	1,013,008
Total	$171,120	$2,024,179	$1,687,803	$3,883,102

* Includes covered and non-covered loans.

CREDIT RISK

Customers Bancorp manages credit risk by maintaining diversification in its loan portfolio, by establishing and enforcing prudential underwriting standards, by collection efforts and by 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, to the allowance for loan losses when and as appropriate, but at least quarterly. The allowance for loan losses is evaluated at least quarterly.

The provision for loan losses was $14.7 million, $2.2 million, and $14.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. The allowance for loan losses maintained for loans receivable (excludes loans held for sale as estimable credit losses are embedded in the fair values at which the loans are reported) was $30.9 million, or 0.7% of total non-covered loans, at December 31, 2014, and $24.0 million, or 1.0% of total non-covered loans, at December 31, 2013. The coverage ratio declined during 2014 largely due to the decrease in non-performing loans as a result of net-charge-offs on loans resolved or transferred to other real estate owned, and the growth of the multi-family loan portfolio which draws only a 40 bps reserve level due to its historical payment experience. Net charge-offs were $3.1 million for the year ended December 31, 2014, a decrease of $3.8 million compared to the $6.9 million for the year ending December 31, 2013. The Bank had approximately $42.2 million in loans that were covered under loss share arrangements with the FDIC as of December 31, 2014 and $66.7 million as of December 31, 2013. Customers

Bank considers the covered loans in estimating the allowance for loan losses and considers recovery of estimated credit losses from the FDIC in the FDIC indemnification asset.

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The chart below depicts the Bancorp's allowance for loan losses, excluding the effects of the FDIC receivable, for the periods indicated.

	December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Balance of the allowance at the beginning of the year	$23,998	$25,837	$15,032	$15,129	$10,032
Loan charge-offs (1)					
Construction	895	2,096	2,507	1,179	1,214
Commercial real estate	2,197	3,358	2,462	5,775	964
Commercial and industrial	1,155	1,387	522	2,543	1,699
Residential real estate	667	410	649	109	1,366
Home equity / other	33	87	26	55	22
Total Charge-offs (2)	4,947	7,338	6,166	9,661	5,265
Loan recoveries					
Construction	13	—	4	2	—
Commercial real estate	1,026	42	63	94	—
Commercial and industrial	511	391	514	11	6
Residential real estate	265	2	5	—	9
Home equity / other	8	9	114	7	—
Total Recoveries	1,823	444	700	114	15
Total net charge-offs	3,124	6,894	5,466	9,547	5,250
Provision for loan losses (3)	10,058	5,055	16,271	9,450	10,397
Transfer (4)	—	—	—	—	(50)
Balance of the allowance for loan losses at the end of the year	$30,932	$23,998	$25,837	$15,032	$15,129
Net charge-offs as a percentage of average non-covered loans	0.09%	0.38%	0.43%	1.13%	1.00%

(1) Charge-offs on purchased-credit-impaired loans that are pooled are not recognized until the pool matures.

(2) The large charge-offs in 2011 were related to loans acquired in the 2010 FDIC assisted transactions and the Legacy portfolio.

(3) The 2014, 2013, 2012 and 2011provision amounts excludes the (cost)/benefit of the FDIC loss share arrangements of $(4.7) million, $2.8 million, $2.0 million, and $2.0 million respectively. There are no comparable amounts for 2010.

(4) In 2010, Customers Bancorp had a reserve of $50,000 for unfunded commitments previously included in the allowance for loan losses. The reserve for unfunded loan commitments was reclassified to other liabilities.

The allowance for loan losses is based on a periodic evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb potential losses. All commercial loans are assigned 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 the appropriate level of allowance for loan losses. Management's methodology to estimate an aggregate reserve is described in "NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION." See "Asset Quality" for further discussion of the allowance for loan losses.

The Bank's methodology includes an evaluation of loss potential from individual problem credits, as well as a general reserve for the portfolio considering anticipated specific and general economic factors that may positively or adversely affect collectability. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions that may affect borrowers’ ability to repay, and other factors that may warrant consideration in estimating the reserve. In addition, the Bancorp’s internal auditors, loan review, and various regulatory agencies periodically review the adequacy of the allowance as

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an integral part of their work responsibilities or examination process. Customers Bancorp may be asked to recognize additions or reductions to the allowance for loan losses based on their judgments of information available at the time of their examination.

In the covered loan table, many of the Bank's commercial and industrial loans have been classified as covered real estate. Approximately 75-80% of the Bank's 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"). The Bank's 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 the Bank's 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 fifteen 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. On a quarterly basis, if necessary, the collateral values or discounted cash flow models are used to determine the estimated fair value of the underlying collateral for the quantification of a specific reserve for impaired loans. Appraisals used within this evaluation process do not typically age more than two years before a new appraisal is obtained. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to determine the fair value of the underlying collateral.

These evaluations, however, are inherently subjective as they require material estimates, including, among others, the amounts and timing of expected future cash flows on impaired loans, estimated losses in the loan portfolio, and general amounts for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which may be susceptible to significant change. Pursuant to ASC 450 Contingencies and ASC 310-40 Troubled Debt Restructurings by Creditors, impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit 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 how the allowance for loan losses was allocated among the various loan portfolios outstanding as of December 31, 2014, 2013, and 2012, respectively. This allocation was based on management's specific review of the credit risk of the outstanding loan portfolios in each category as well as historical trends.

	December 31, 2014			2013			2012		
	Allowance for loan losses	Percent of Loans in each category to total loans (a)		Allowance for loan losses	Percent of Loans in each category to total loans (a)		Allowance for loan losses	Percent of Loans in each category to total loans (a)	
	(dollars in thousands)								
Construction	$1,047	3.4	%	$2,385	9.9	%	$3,991	15.4	%
Commercial real estate	13,572	43.9	%	11,478	47.8	%	13,645	52.9	%
Multi-family	8,493	27.5	%	4,227	17.6	%	1,794	6.9	%
Commercial and industrial	4,746	15.3	%	2,674	11.2	%	1,477	5.7	%
Residential real estate	2,698	8.7	%	2,490	10.4	%	3,233	12.5	%
Home equity / other	114	0.4	%	130	0.5	%	154	0.6	%
Mortgage warehouse	—	—	%	—	—	%	71	0.3	%

Manufactured housing	262	0.8	%	614	2.6	%	750	2.9	%
Residual Reserve	—	—	%	—	—	%	722	2.8	%
	$30,932	100.0	%	$23,998	100.0	%	$25,837	100.0	%

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	December 31, 2011			2010		
	Allowance for loan losses	Percent of Loans in each category to total loans (a)		Allowance for loan losses	Percent of Loans in each category to total loans	
	(dollars in thousands)					
Construction	$4,656	31.0	%	$2,126	14.1	%
Commercial real estate	5,447	36.2	%	6,280	41.5	%
Multi-family	1,583	10.5	%	—	—	%
Commercial and industrial	1,441	9.6	%	1,663	11.0	%
Residential real estate	844	5.6	%	3,988	26.3	%
Home equity / other	77	0.5	%	11	0.1	%
Mortgage warehouse	929	6.2	%	465	3.1	%
Manufactured housing	1	—	%	—	—	%
Residual Reserve	54	0.4	%	596	3.9	%
	$15,032	100.0	%	$15,129	100.0	%

(a) Total loans include covered and non-covered loans in 2014, 2013, 2012, and 2011. No covered loans were held prior to 2010.

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ASSET QUALITY

The Bank divides its loan portfolio into two categories to analyze and understand loan activity and performance: loans that were originated, and loans that were acquired. The Bank further divides originated loans into two categories: those originated prior to the current underwriting standards in 2009 and those originated subject to those standards post 2009, and purchased loans into two categories: those purchased at a credit discount, and those not acquired with credit discount. Management believes that this additional information provides for a better understanding of the risk in the portfolio and the various types of reserves that are available to absorb loan losses that may arise in future periods. Credit losses from originated loans are absorbed by the allowance for loan loss reserves. 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 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. This schedule includes both loans held for sale and loans held for investment.

Asset Quality at December 31, 2014

Loan Type	Total Loans	Current	30-90 Days	Greater than 90 Days and Accruing	Non-accrual/ NPL (a)	OREO (b)	NPA (a)+(b)	NPL to Loan Type (%)	NPA to Loans + OREO (%)
	(dollars in thousands)								
Legacy Loans									
Legacy	$54,075	$50,322	$1,100	$—	$2,653	$4,958	$7,611	4.91 %	12.89 %
TDRs	1,060	998	—	—	62	—	62	5.85 %	5.85 %
Total Legacy Loans	55,135	51,320	1,100	—	2,715	4,958	7,673	4.92 %	12.77 %
Multi-Family	2,122,473	2,122,473	—	—	—	—	—	0.00 %	0.00 %
Commercial Real Estate	1,027,184	1,025,330	—	—	1,854	—	1,854	0.18 %	0.18 %
Commercial & Industrial	466,653	465,746	—	—	907	335	1,242	0.19 %	0.27 %
Residential	160,225	159,572	492	—	161	—	161	0.10 %	0.10 %
Construction	56,510	56,510	—	—	—	—	—	0.00 %	0.00 %
Home equity / other	576	567	—	—	9	—	9	1.56 %	1.56 %
TDR's	576	576	—	—	—	—	—	0.00 %	0.00 %
Total Originated Loans	3,834,197	3,830,774	492	—	2,931	335	3,266	0.08 %	0.09 %
Acquired Loans									
Covered	30,282	25,371	665	—	4,246	9,445	13,691	14.02 %	34.46 %
Non-covered	332,045	320,459	6,219	4,388	979	633	1,612	0.29 %	0.48 %
TDR's Covered	532	532	—	—	—	—	—	0.00 %	0.00 %
TDRs Non-Covered	2,853	1,886	105	—	862	—	862	30.21 %	30.21 %
Total Acquired Loans	365,712	348,248	6,989	4,388	6,087	10,078	16,165	1.66 %	4.30 %
Acquired PCI Loans									
Covered	11,367	3,933	—	7,434	—	—	—	0.00 %	0.00 %
Non-Covered	45,250	38,951	655	5,644	—	—	—	0.00 %	0.00 %
Total Acquired PCI Loans	56,617	42,884	655	13,078	—	—	—	0.00 %	0.00 %
Unearned Origination Fees	512	512	—	—	—	—	—		

Total Loans Receivable	4,312,173	4,273,738	9,236	17,466	11,733	15,371	27,104	0.27 %	0.63 %
Total Loans Held for Sale	1,435,459	1,435,459	—	—	—	—	—		
Total Portfolio	$5,747,632	$5,709,197	$9,236	$17,466	$11,733	$15,371	$27,104	0.20 %	0.47 %

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Asset Quality at December 31, 2014 (continued)

Loan Type	Total Loans	NPL	ALL	Cash Reserve	Total Credit Reserves	Reserves to Loans (%)	Reserves to NPLs (%)
New Century Orig. Loans							
Legacy	$54,075	$2,653	$1,546	$—	$1,546	2.86 %	58.27 %
TDRs	1,060	62	30	—	30	2.83 %	48.39 %
Total Legacy Loans	55,135	2,715	1,576	—	1,576	2.86 %	58.05 %
Multi-Family	2,122,473	—	8,491	—	8,491	0.40 %	n/a
Commercial Real Estate	1,027,184	1,854	7,610	—	7,610	0.74 %	410.46 %
Commercial & Industrial	466,653	907	3,418	—	3,418	0.73 %	376.85 %
Residential	160,225	161	1,171	—	1,171	0.73 %	727.33 %
Construction	56,510	—	424	—	424	0.75 %	n/a
Home equity / other	576	9	8	—	8	1.39 %	88.89 %
TDR's	576	—	—	—	—	0.00 %	n/a
Total Originated Loans	3,834,197	2,931	21,122	—	21,122	0.55 %	720.64 %
Acquired Loans							
Covered	30,282	4,246	603	—	603	1.99 %	14.20 %
Non-covered	332,045	979	617	3,042	3,659	1.10 %	373.75 %
TDR's Covered	532	—	—	—	—	0.00 %	n/a
TDRs Non-Covered	2,853	862	—	—	—	0.00 %	0.00 %
Total Acquired Loans	365,712	6,087	1,220	3,042	4,262	1.17 %	70.02 %
Acquired PCI Loans							
Covered	11,367	—	1,669	—	1,669	14.68 %	n/a
Non-Covered	45,250	—	5,345	—	5,345	11.81 %	n/a
Total Acquired PCI Loans	56,617	—	7,014	—	7,014	12.39 %	n/a
Unearned Origination Fees	512						
Total Loans Held for Investment	4,312,173	11,733	30,932	3,042	33,974	0.79 %	289.56 %
Total Loans Held for Sale	1,435,459	—	—	—	—	0.00 %	n/a
Total Portfolio	$5,747,632	$11,733	$30,932	$3,042	$33,974	0.59 %	289.56 %

Originated Loans

Originated loans (excluding held-for-sale loans) totaled $3.8 billion, or 67.7%, of total loans at December 31, 2014, compared to $2.1 billion, or 64.2%, at December 31, 2013. Of the total originated loans at December 31, 2014, $3.8 billion, or 98.6%, were originated post 2009, when the new management team adopted new underwriting standards that management believes better limits risks of loss. Only $2.9 million, or 0.08%, of the post 2009 loans were non-performing at December 31, 2014. Of the total originated loans at December 31, 2013, $2.0 billion, or 96.3%, were originated post 2009. Only $0.5 million, or 0.03%, of the post 2009 loans were non-performing at December 31, 2013. The post 2009 originated loans were supported by an allowance for loan losses of $21.1 million (0.55% of post 2009 originated loans) and $10.7 million (0.54% of post 2009 originated loans), respectively, at December 31, 2014 and December 31, 2013.

Legacy loans declined $20.9 million to $55.1 million at December 31, 2014, compared to $76.0 million at December 31, 2013. Non-performing Legacy loans also declined to $2.7 million at December 31, 2014 from $10.2 million at December 31, 2013 as the Bank continued to workout the losses in this portfolio. The Legacy originated loans were supported by an allowance for loan losses of $1.6 million (2.86% of Legacy loans) and $2.4 million (3.21% of Legacy loans), respectively, at December 31, 2014 and December 31, 2013.

Acquired Loans

At December 31, 2014, Customers Bank reported $0.4 billion of acquired loans, which was 7.4% of total loans, compared to $0.4 billion, or 12.6%, of total loans at December 31, 2013. Non-performing acquired loans totaled $6.1 million at December 31, 2014 and $8.5 million at December 31, 2013. 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 from Tammac prior to 2012, $70.6 million were supported by a $3.0 million cash reserve at December

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31, 2014, compared to $74.7 million supported by a cash reserve of $3.1 million at December 31, 2013. 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. For the manufactured housing loans purchased in 2012, Tammac 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, 2014, $47.5 million of these loans were outstanding, compared to $53.5 million at December 31, 2013. Many of the acquired loans were purchased at a discount. The price paid considered management's judgment as to the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the cash flow forecast to incorporate changes in the credit outlook. Generally, a decrease in forecasted cash flows for a purchased loan will result in a provision for loan losses, and absent charge-offs, an increase in the allowance for loan losses. Acquired loans have a significantly higher percentage of non-performing loans than loans originated after September 2009. Management acquired these loans with the expectation that non-performing loan levels would be elevated, and therefore incorporated that expectation into the price paid. There is a Special Assets Group that focuses on workouts for these acquired non-performing assets. Total acquired loans were supported by reserves (allowance for loan losses and cash reserves) of $11.3 million (2.67% of total acquired loans) and $13.9 million (3.43% of total acquired loans), respectively, at December 31, 2014 and December 31, 2013.

Held-for-Sale Loans

At December 31, 2014, loans held for sale were $1.4 billion, or 25.0%, of the total loan portfolio, compared to $0.7 billion, or 23.3% of the total loan portfolio at December 31, 2013. The loans held-for-sale portfolio at December 31, 2014 included $1.3 billion of loans to mortgage banking businesses, $99.8 million of multi-family loans and $3.6 million of residential mortgage loans, compared to $740.7 million of loans to mortgage banking businesses and $6.9 million of residential mortgages loans at December 31, 2013. Held-for-sale loans are carried on our balance sheet at either fair value (due to the election of the fair value option) or the lower of cost of fair value. An allowance for loan losses is not recorded on loans that are held for sale.

The Bank 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, 2014 and December 31, 2013, non-performing loans to total loans were 0.20% and 0.60%, respectively. Total reserves to non-performing loans were 289.6% and 152.9%, respectively, at December 31, 2014 and December 2013.

The tables below set forth non-covered non-performing loans and non-performing assets and asset quality ratios:

	December 31, 2014 (in thousands)	2013	2012	2011	2010
Loans 90+ days delinquent still accruing	$4,388	$3,772	$1,966	$—	$5
Non-accrual loans	7,487	13,513	22,347	29,633	22,242
OREO	5,926	5,312	4,005	7,316	1,906
Non-performing non-covered assets	$13,413	$18,825	$26,352	$36,949	$24,148

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	December 31, 2014		2013		2012		2011		2010	
Non-accrual non-covered loans to total non-covered loans	0.18	%	0.56	%	1.84	%	2.44	%	4.33	%
Non-performing non-covered assets to total non-covered assets	0.31	%	0.78	%	2.16	%	3.02	%	4.68	%
Non-accrual non-covered loans and 90+ days delinquent to total non-covered assets	0.28	%	0.72	%	1.99	%	2.42	%	4.31	%
Allowance for loan losses to (1):										
Total non-covered loans	0.56	%	0.62	%	1.20	%	1.24	%	2.94	%
Non-performing non-covered loans	319.44	%	109.16	%	65.26	%	50.73	%	68.02	%

(1) Excludes the impact of purchased-credit-impaired loans and their related allowance for loan losses of $7.0 million for 2014, $9.2 million for 2013, and $11.3 million for 2012. There was no related allowance for loan losses for 2011 and 2010. There were no purchased-credit-impaired loans in the portfolio in 2009.

The table below sets forth types of non-covered loans that were non-performing at December 31, 2014, 2013, 2012, 2011 and 2010.

	December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Construction	$—	$2,049	$2,423	$5,630	$4,673
Residential real estate	849	969	1,669	1,643	1,125
Commercial real estate	3,450	9,924	17,770	19,535	15,739
Commercial and industrial	2,257	123	288	2,785	705
Manufactured housing	931	448	141	—	—
Consumer and other	—	—	56	40	—
Total non-performing loans	$7,487	$13,513	$22,347	$29,633	$22,242

The Bank 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. The Bank 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, commercial real estate, construction portfolio and residential real estate segments, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective portfolio segment, the Bank utilizes the following categories of risk ratings: pass (there are six risk ratings of 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 periodically thereafter. Pass ratings, which are assigned to those borrowers who do not have an identified potential or well-defined weaknesses and for which there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgment, the risk rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to managing the loans.

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

repayment prospects for the loan and our credit position. At December 31, 2014 and 2013, special mention loans were $34.6 million and $27.7 million, respectively.

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

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 our progress in working toward a solution, and to assist in determining an appropriate specific allowance for possible losses. All loan work-out situations involve the active participation of management and are reported regularly to the Board. When a loan becomes delinquent 90 days or more, or earlier if considered appropriate, the loan is assigned to Customers' Special Asset Group ("SAG") 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 (TDRs)

At December 31, 2014 and 2013, there were $5.0 million and $4.6 million, respectively, in loans reported as TDRs. TDRs are considered impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum six-month performance requirement; however, it will remain classified as an impaired loan. Generally, Customers Bank requires sustained performance for nine months before returning a TDR to accrual status.

Modification of purchased-credit-impaired loans that are accounted for within loan pools in accordance with the accounting standards for purchased-credit-impaired loans do not result in the removal of these loans from the pool even if modifications would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an expectation of cash flows, modifications of loans within such pools are not 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 the Bancorp would not offer in non-troubled situations. During the years ended December 31, 2014 and 2013, respectively, loans aggregating $1.1 million and $1.2 million were modified in troubled debt restructurings. 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; and modifications of residential real estate loans were primarily interest rate concessions and deferrals of principal. As of December 31, 2014 and 2013, there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt structuring.

There were no valuation losses at the time of the troubled debt restructuring and the TDR had no impact on the allowance for loan losses. During the twelve- month period ending December 31, 2014, six TDR loans defaulted with a total recorded investment of $0.4 million. During the twelve-month period ending December 31, 2013, five TDR loans defaulted with a total recorded investment of $0.4 million. Since these loans were included in the loan portfolio that is subject to the cash reserve, they will be removed from the loan portfolio when they become ninety days past due; accordingly, there were no defaulted TDR loans at December 31, 2014 and 2013.

All loans modified in troubled debt restructurings are considered impaired and measured for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses. There were no specific allowances resulting from TDR modifications during 2014 and 2013.

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Non-performing loans and assets covered under FDIC loss sharing agreements

The tables below set forth non-accrual covered loans and non-performing covered assets covered under FDIC loss sharing agreements excluding purchased-credit-impaired loans.

	December 31,		
	2014	2013	2012
	(in thousands)		
Non-accrual covered loans	$4,246	$5,650	$10,504
Covered other real estate owned	9,445	6,953	4,109
Total non-performing covered assets	$13,691	$12,603	$14,613

The table below sets forth the types of covered loans that were non-performing excluding purchased-credit-impaired loans.

	December 31,		
	2014	2013	2012
	(in thousands)		
Construction	$2,325	$3,382	$5,244
Residential real estate	1,006	564	1,358
Commercial real estate	615	1,691	3,712
Commercial and industrial	165	2	100
Home equity / other	135	11	90
Total non-performing covered loans	$4,246	$5,650	$10,504

FDIC LOSS SHARING RECEIVABLE

As of December 31, 2014, $42.2 million, or 0.7%, of outstanding loans, and $ 9.4 million, or 61.5% of other real estate assets, were covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those assets. We estimated the FDIC reimbursement that will result from losses or expenses incurred as we dispose of covered loans and other real estate assets, and included qualifying incurred expenses, we recorded the total as a receivable from the FDIC. The FDIC loss sharing receivable was approximately $2.3 million and $10.0 million as of December 31, 2014 and 2013, respectively. Increases in the FDIC indemnification asset reflect an estimated decrease in cash flows on a covered loan, and a decrease in the indemnification asset reflects an increase in the estimated cash flows of a covered loan, and the change in estimated collections is presented net in the provision for loan losses.

ACCRUED INTEREST RECEIVABLE

Accrued interest receivable increased by $6.8 million, or 81.8%, to $15.2 million at December 31, 2014 from $8.4 million at December 31, 2013. This increase was primarily associated with the increase in total loans receivable of $1.8 billion to $4.3 billion at December 31, 2014 from $2.5 billion at December 31, 2013.

PREMISES AND EQUIPMENT AND OTHER ASSETS

Our premises and equipment, net of accumulated depreciation, was $10.8 million and $11.6 million at December 31, 2014 and 2013, respectively. Leasehold improvements and furniture and equipment purchases and back office contributed $0.3 million to the increase. Technology equipment contributed $1.0 million due to the increase of additional technology facilities and employees.

Customers Bank’s restricted stock holdings at December 31, 2014 and December 31, 2013 were $82.0 million and $42.4 million, respectively. These consist of stock of the Federal Reserve Bank, Federal Home Loan Bank and Atlantic Central Bankers Bank, and are required as part of our relationship with these banks.

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Other assets at December 31, 2014 and December 31, 2013 were $52.9 million and $41.0, respectively. Activity that contributed to the increase of $11.9 million included $6.2 million of cash pledged for interest rate swaps, $3.8 million increase in value of interest rate swaps and $1.4 million of technology infrastructure related to BankMobile that was capitalized.

BOLI purchases of $30.5 million during 2014 contributed to the increase in our BOLI cash surrender value of $138.7 million at December 31, 2014 from $104.4 million at December 31, 2013. BOLI is used by the Bank as tax-free funding for employee benefits. Included in BOLI on the balance sheet is the cash surrender value of the Supplemental Executive Retirement Plan (“SERP”) balance of $2.8 million and $2.3 million at December 31, 2014 and 2013, respectively.

DEPOSITS

The Bank offers a variety of deposit accounts, including checking, savings, money market deposit accounts (“MMDA”) and time deposits. Deposits are obtained primarily from our geographic service area. Total deposits grew to $4.5 billion at December 31, 2014, an increase of $1.6 million, or 53.1%, from $3.0 billion at December 31, 2013. Note that $1.1 billion of the deposits were brokered deposits with the remaining generated from the retail network and listing services. We experienced growth in retail deposits due to exceptional sales behaviors, despite continued low interest rates in 2014.

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

	December 31,		
	2014	2013	2012
	(in thousands)		
Demand, non-interest bearing	$546,436	$478,103	$219,687
Demand, interest bearing	71,202	58,013	37,260
Savings, including MMDA	2,203,237	1,298,468	1,003,985
Time, $100,000 and over	1,043,265	797,322	708,487
Time, other	668,398	328,016	471,399
Total deposits	$4,532,538	$2,959,922	$2,440,818

Time deposits of $100,000 or more were $1.0 billion at December 31, 2014 compared to $797.3 million at December 31, 2013, an increase of $245.9 million or 30.9%. We experienced growth in retail deposits, despite lower interest rates in 2014. Non-interest bearing demand deposits totaled $546.4 million at December 31, 2014, up from $478.1 million at December 31, 2013. These accounts include deposits of students made pursuant to a program serviced by a third party on behalf of the Bank. Deposits of students were flat at $232.7 million as of December 31, 2014 and $232.8 million as of December 31, 2013. These deposits are seasonal, peaking in the fall and mid-winter and lowest in the summer.

Average deposit balances by type and the associated average rate paid are summarized below:

	For the Year ended December 31,								
	2014			2013			2012		
	Average Balance	Average Rate Paid		Average Balance	Average Rate Paid		Average Balance	Average Rate Paid	
	(dollars in thousands)								
Demand deposits	$620,385	0.00	%	$385,175	0.00	%	$180,719	0.00	%
Interest-bearing demand deposits	62,840	0.61		45,613	0.52		36,701	0.52	
Savings, including MMDA	1,753,691	0.42		1,138,200	0.68		876,605	0.86	
Time deposits	1,403,774	0.96		1,251,707	1.04		935,207	1.43	
Total	$3,840,690			$2,820,695			$2,029,232		

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At December 31, 2014, the scheduled maturities of time deposits greater than $100,000 were as follows:

	December 31, (in thousands)
3 months or less	$188,976
Over 3 through 6 months	264,206
Over 6 through 12 months	236,626
Over 12 months	353,457
Total	$1,043,265

FHLB ADVANCES and OTHER BORROWINGS

Borrowed funds from various sources are generally used to supplement deposit growth and meet other operating needs. The Bank strategically views the short term FHLB advances as funding the loans to mortgage companies national business.

Short-term debt

Short-term debt was as follows:

	December 31,								
	2014			2013			2012		
	Amount	Rate		Amount	Rate		Amount	Rate	
(amounts in thousands)									
FHLB advances	$1,298,000	0.29	%	$611,500	0.26	%	$411,000	0.25	%
Federal funds purchased	—	—	%	13,000	0.48	%	5,000	0.20	%
Total short-term borrowings	$1,298,000			$624,500			$416,000		

For additional information on the Company’s short-term debt, refer to “NOTE 11 – BORROWINGS.”

Long-term debt

The contractual maturities of fixed-rate long-term FHLB advances are as noted below.

	December 31,					
	2014			2013		
	Amount	Rate		Amount	Rate	
(amounts in thousands)						
2015	$—	—	%	$50,000	0.37	%
2016	85,000	0.59		35,000	0.66	
2017	180,000	1.21		5,000	3.08	
2018	55,000	1.61		5,000	3.31	
	$320,000			$95,000		

Senior notes

On June 26, 2014, Customers Bancorp, Inc. closed a private placement transaction in which it issued $25.0 million of 4.625% senior notes due 2019. Interest is paid semi-annually in arrears in June and December. The notes are unsecured obligations of the Bancorp and rank equally with all of its secured and unsecured senior indebtedness.

In July and August 2013, the Bancorp issued $63.3 million in aggregate principal amount of senior notes due 2018. The notes bear interest at 6.375% per year which is payable on March 15, June 15, September 15, and December 15.

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Subordinated debt

On June 26, 2014, Customers Bank closed a private placement transaction in which it issued $110.0 million of fixed-to-floating rate subordinated notes due 2029. The subordinated notes bear interest at an annual fixed rate of 6.125% until June 26, 2024, and interest is paid semiannually. From June 26, 2024, the subordinated notes will bear an annual interest rate equal to three-month LIBOR plus 344.3 basis points until maturity on June 26, 2029. Customers Bank has the ability to call the subordinated notes, in whole or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024.

The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

SHAREHOLDERS' EQUITY

Shareholders' equity increased by $56.5 million to $443.1 million at December 31, 2014, from $386.6 million at December 31, 2013. The increase in equity was primarily the result of net income for 2014 of $43.2 million and a decrease in unrealized losses (net of taxes) on available-for-sale securities of $9.3 million.

In May 2014, the Bancorp's Board of Directors declared a 10% stock dividend to all shareholders of record as of May 27, 2014. This special dividend was paid on June 30, 2014 in the form of an aggregate of 2.4 million additional shares of Common Stock.

During 2014 the Bancorp issued 91,457 shares of Common Stock, 52,770 shares were issued to directors in lieu of meeting retainer fees, 34,414 shares were issued under share-based compensation arrangements and 4,273 shares under the employee stock purchase plan.

During 2013, the Bancorp:

- sold 6.2 million shares of new issue Voting Common Stock to the public at a price of $16.75 per share. The net proceeds after deducting underwriting discounts and commissions and offering expenses were $97.5 million;
- converted 3.7 million shares of Class B Non-Voting Common Stock into 3.7 million shares of Voting Common Stock;
- 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 current book value. The repurchase program 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;
- repurchased 0.5 million shares under the stock repurchase program discussed above;
- issued 23,413 shares of Common Stock under share-based compensation arrangements;
- issued 31,904 shares of Class B Non-Voting Common Stock and 14,869 shares of Voting Common Stock upon exercise of outstanding warrants; and
- repurchased warrants to purchase 17,227 shares of voting Common Stock and 17,227 shares of Class B Non-Voting stock.

During 2012, the Bancorp:

- sold 7.1 million shares of common stock in private offerings. The proceeds, net of offering costs, were $94.6 million; and
- announced that, due to market conditions, it had postponed its initial public offering of Voting Common Stock. Costs related to this postponed offering in the amount of $1.4 million were expensed and are a component of non-interest expenses.

For additional details relating to changes in the Bancorp's shareholders' equity, refer to the "Consolidated Statements of Changes in Shareholders Equity" presented in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

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

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The Bank's investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. Our principal sources of funds are proceeds from stock issuance, deposits, debt issuance, principal and interest payments on loans, and other funds from operations. Borrowing arrangements are maintained with the Federal Home Loan Bank and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. As of December 31, 2014 and 2013, our borrowing capacity with the Federal Home Loan Bank was $3.2 billion and $1.6 billion, respectively, of which $1.3 billion and $611.5 million, respectively, was used in short-term borrowings. As of December 31, 2014 and 2013, our borrowing capacity with the Federal Reserve Bank of Philadelphia was $62.7 million and $92.3 million, respectively.

Net cash flows used in operating activities were $543.5 million for the twelve months ended December 31, 2014, compared to net cash flows provided by operating activities of $722.0 million for the twelve months ended December 31, 2013. Origination of loans held for sale in excess of the proceeds from the sales of loans contributed $585.1 million to cash flows used in operating activities during 2014. Proceeds from loans held for sale in excess of the originations of loans contributed $689.6 million to cash flows provided by operating activities during 2013.

Investing activities used net cash flows of $1.9 billion for the twelve months ended December 31, 2014. Purchases less proceeds from sales of investment securities provided $97.5 million which was offset by a net increase in loans of $1.8 billion. For the twelve months ended December 31, 2013, net cash flows used in investing activities were $1.6 billion.

Financing activities provided $2.6 billion for the twelve months ended December 31, 2014, as increases in cash from deposits provided $1.6 billion. In addition, increases in short-term and FHLB term borrowings of $633.5 million and $265.0 million, respectively, provided sufficient cash flows to support operating and investing activities. Additionally, $133.1 million in net proceeds were raised by private placement subordinated and senior debt offerings in 2014.

Overall, based on our core deposit base and available sources of borrowed funds, management believes that we have adequate resources to meet our short-term and long-term cash requirements for the foreseeable future.

CAPITAL ADEQUACY

The Board of Governors of the Federal Reserve System has adopted risk-based capital and leverage ratio requirements for bank holding companies like the Bancorp and banks like Customers Bank that are members of the Federal Reserve System. The Pennsylvania Department of Banking and Securities also sets minimum capital requirements. At December 31, 2014 and 2013, the Bancorp met each of our minimum capital requirements. Management believes that the Bancorp meets the regulatory "well capitalized" criteria as of December 31, 2014. Banking regulators have discretion to establish an institution's classification based on other factors, in addition to the institution's numeric capital levels.

Management is not aware of any developments that have occurred and that could, or would be reasonably likely to, cause the Bancorp's classification to be reduced below a level of "well capitalized" for regulatory purposes. The Bancorp's capital classification is determined pursuant to "prompt corrective action" regulations, and to determine levels of deposit insurance assessments, and may not constitute an accurate representation of our overall financial condition or prospects.

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The following table summarizes the required capital ratios and the corresponding regulatory capital positions of the Bancorp and Customers Bank for the periods or dates indicated:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2014:									
Total capital (to risk weighted assets)									
Customers Bancorp, Inc.	$578,644	11.09	%	$417,473	8.0	%	N/A	N/A	
Customers Bank	$621,894	11.98	%	$415,141	8.0	%	$518,926	10.0	%
Tier 1 capital (to risk weighted assets)									
Customers Bancorp, Inc.	$437,712	8.39	%	$208,737	4.0	%	N/A	N/A	
Customers Bank	$480,963	9.27	%	$207,570	4.0	%	$311,356	6.0	%
Tier 1 capital (to average assets)									
Customers Bancorp, Inc.	$437,712	6.69	%	$261,622	4.0	%	N/A	N/A	
Customers Bank	$480,963	7.39	%	$260,462	4.0	%	$325,577	5.0	%
As of December 31, 2013:									
Total capital (to risk weighted assets)									
Customers Bancorp, Inc.	$411,527	13.21	%	$249,196	8.0	%	N/A	N/A	
Customers Bank	$435,432	14.11	%	$246,936	8.0	%	$308,670	10.0	%
Tier 1 capital (to risk weighted assets)									
Customers Bancorp, Inc.	$387,529	12.44	%	$124,598	4.0	%	N/A	N/A	
Customers Bank	$411,434	13.33	%	$123,468	4.0	%	$185,202	6.0	%
Tier 1 capital (to average assets)									
Customers Bancorp, Inc.	$387,529	10.11	%	$153,310	4.0	%	N/A	N/A	
Customers Bank	$411,434	10.81	%	$152,191	4.0	%	$190,239	5.0	%

Capital Ratios

The Bank continued to build capital during 2014. In general, in the past few years, capital growth has been achieved by earnings and increases in capital from sales of common stock.

The Bank is unaware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on our liquidity, capital resources, or operations.

The maintenance of appropriate levels of capital is an important objective of our Asset and Liability Management process. Through our initial capitalization and our subsequent offerings, we believe we have continued to maintain a strong capital position.

Effective January 1, 2015, Customers Bancorp and Customers Bank became subject to new capital requirements as detailed earlier in this document. Management has reviewed these new calculations and requirements, and expects to comply with the requirements when they become effective.

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OFF-BALANCE SHEET ARRANGEMENTS

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

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

As of December 31, 2014 and 2013, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
	2014	2013
	(in thousands)	
Commitments to fund loans	$231,294	$202,809
Unfunded commitments to fund mortgage warehouse loans	713,619	905,442
Unfunded commitments under lines of credit	430,995	177,457
Letters of credit	36,206	29,116
Other unused commitments	7,685	8,010

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

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

Mortgage warehouse loan commitments are agreements to purchase mortgage loans from mortgage bankers that agree to purchase the loans back in a short period of time or to sell to third party mortgage originators. These commitments generally fluctuate monthly as existing loans are repurchased by the mortgage bankers and new loans are purchased by the Bank.

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

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CONTRACTUAL OBLIGATIONS

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2014. Interest on subordinated notes, FHLB long-term advances, and senior notes was calculated using then current contractual interest rates.

	Total	Within one year	After one but within three years	After three but within five years	More than five years
(amounts in thousands)					
Operating leases	$21,835	$3,574	$ 6,740	$ 5,587	$5,934
Benefit plan commitments	4,500	300	600	600	3,000
Contractual maturities of time deposits	1,711,663	976,051	636,771	98,841	0
Subordinated notes	110,000	0	0	0	110,000
Interest on subordinated notes	101,070	6,738	13,476	13,476	67,380
Loan commitments	1,375,908	1,056,862	65,519	116,369	137,158
FHLB long-term advances	320,000	0	265,000	55,000	0
Interest on FHLB long-term advances	5,322	3,552	592	1,178	0
Senior notes	88,250	0	63,250	25,000	0
Interest on senior notes	20,230	5,188	10,377	4,665	0
Other commitments (1)	7,685	0	0	7,685	0
Standby letters of credit	36,206	28,292	1,500	6,414	0
Total	$3,802,669	$2,080,557	$ 1,063,825	$ 334,815	$323,472

(1) Represents a commitment expiring in approximately three years that is subject to unscheduled requests for payment.

NEW ACCOUNTING PRONOUNCEMENTS

For information about the impact that recently adopted or issued accounting guidance will have on us, refer to “NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION”.

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Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

The largest component of our net income is net interest income, and the majority of our financial instruments are interest rate sensitive assets and liabilities with various terms and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Our Asset/Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

We use two complementary methods to analyze and measure interest rate sensitivity as part of the overall management of interest rate risk. They are income simulation modeling and estimates of economic value of equity. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest rate risk of our exposure to time factors and changes in interest rate environments.

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

Through the use of income simulation modeling, we have estimated the net interest income for the year ending December 31, 2014, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2013. We have also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately (“rate shocks”). Rate shocks assume that all interest rates increase or decrease immediately. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2014, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change	
Up 3%	(6.3	)%
Up 2%	(1.4	)%
Up 1%	1.4	%
Down 1%	—	%
Down 2%	(1.9	)%
Down 3%	(4.4	)%

The net changes in net interest income in all scenarios are within Customers Bank’s interest rate risk policy guidelines.

Economic Value of Equity (“EVE”) estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. This method of measurement primarily evaluates the longer term repricing risks and options in Customers Bank’s balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2014, resulting from shocks to interest rates.

Rate Shocks	From base	
Up 3%	(30.0	)%
Up 2%	(15.0	)%
Up 1%	(3.1	)%
Down 1%	(9.6	)%
Down 2%	(18.3	)%
Down 3%	(11.1	)%

The matching of assets and liabilities may also be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank’s interest rate sensitivity “gap.” An asset or liability is said to be interest rate

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sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest earning assets maturing or repricing within a specific time period and the amount of interest bearing liabilities maturing or repricing within that time period.
The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2014 that are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2014 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable and fixed rate loans, and as a result of contractual-rate adjustments on adjustable-rate loans.

Balance Sheet Gap Analysis at December 31, 2014	3 months or less	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
	(dollars in thousands)						
Assets							
Interest earning deposits and federal funds sold	$308,276	$—	$—	$—	$—	$61,046	$369,322
Investment securities	16,606	16,862	33,684	115,432	85,425	206,407	474,416
Loans (a)	2,228,332	232,401	337,453	1,206,119	1,139,264	573,131	5,716,700
Total interest-earning assets	2,553,214	249,263	371,137	1,321,551	1,224,689	840,584	6,560,438
Non interest-earning assets	—	—	—	—	—	224,430	224,430
Total assets	2,553,214	249,263	371,137	1,321,551	1,224,689	1,065,014	$6,784,868
Liabilities							
Other interest-bearing deposits	$2,165,612	$—	$—	$—	$—	$108,827	$2,274,439
Time deposits	335,768	314,626	356,057	615,786	89,393	33	1,711,663
Other borrowings	1,282,998	—	25,002	260,000	50,000	—	1,618,000
Subordinated debt	0	—	—	—	—	110,000	110,000
Total interest-bearing liabilities	3,784,378	314,626	381,059	875,786	139,393	218,860	5,714,102
Non-interest-bearing liabilities	—	—	—	—	—	587,467	587,467
Shareholders' equity	—	—	—	—	—	483,299	483,761
Total liabilities and shareholders' equity	3,784,378	314,626	381,059	875,786	139,393	1,289,626	$6,785,330
Interest sensitivity gap	$(1,231,164)	$(65,363)	$(9,922)	$445,765	$1,085,296	$(224,612)	

Cumulative interest sensitivity gap		$(1,296,527)	$(1,306,449)	$(860,684)	$224,612	$—
Cumulative interest sensitivity gap to total assets	(18.1)%	(19.1)%	(19.3)%	(12.7)%	3.3%	0.0%
Cumulative interest-earning assets to cumulative interest-bearing liabilities	67.5%	68.4%	70.8%	83.9%	104.1%	114.8%

(a) Including loans held for sale

As shown above, we have a negative cumulative gap (cumulative interest sensitive assets are lower than cumulative interest sensitive liabilities) within the next year, which generally indicates that an increase in rates may lead to a decrease in net interest income, and a decrease in rates may lead to an increase in net interest income. Interest rate sensitivity gap analysis measures whether assets or liabilities may reprice but does not capture the ability to reprice or the range of potential repricing on assets or liabilities. Thus indications based on a negative or positive gap position need to be analyzed in conjunction with other interest rate risk management tools.

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

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Item 8. Financial Statements and Supplementary Data

Financial Statements for the three years ended
December 31, 2014, 2013 and 2012
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Report of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
Customers Bancorp, Inc.
We have audited the accompanying consolidated balance sheets of Customers Bancorp, Inc. and Subsidiaries (the "Bancorp") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Customers Bancorp, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bancorp's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Bancorp's internal controls over financial reporting.
/s/ BDO USA, LLP
Philadelphia, Pennsylvania
February 27, 2015

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Report of Independent Registered Public Accounting Firm on Internal Controls
Board of Directors and Shareholders
Customers Bancorp, Inc.

We have audited Customers Bancorp, Inc. and Subsidiaries' (the "Bancorp") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Bancorp's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Responsibility for Financial Statements and Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bancorp's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Customers Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Customers Bancorp, Inc. and Subsidiaries as of December 31, 2014 and 2013 and the related consolidated statement of income, comprehensive income, changes in shareholders' equity, and cash flow for the years, then ended and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Philadelphia, Pennsylvania
February 27, 2015

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Report of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
Customers Bancorp, Inc.
We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows of Customers Bancorp, Inc. and Subsidiaries for the year ended December 31, 2012. These consolidated financial statements are the responsibility of the Bancorp's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Customers Bancorp, Inc. and Subsidiaries' operations and their cash flows for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.
/s/ Baker Tilly Virchow Krause, LLP
Allentown, Pennsylvania
March 18, 2013

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	December 31, 2014	2013
ASSETS		
Cash and due from banks	$62,746	$60,709
Interest earning deposits	308,277	172,359
Cash and cash equivalents	371,023	233,068
Investment securities available for sale, at fair value	416,685	497,573
Loans held for sale (includes $1,335,668 and $747,593, respectively at fair value)	1,435,459	747,593
Loans receivable	4,312,173	2,465,078
Allowance for loan losses	(30,932)	(23,998)
Total loans receivable, net of allowance for loan losses	4,281,241	2,441,080
FHLB, Federal Reserve Bank, and other restricted stock	82,002	42,424
Accrued interest receivable	15,205	8,362
FDIC loss sharing receivable	2,320	10,046
Bank premises and equipment, net	10,810	11,625
Bank-owned life insurance	138,676	104,433
Other real estate owned	15,371	12,265
Goodwill and other intangibles	3,664	3,676
Other assets	52,914	41,028
Total assets	$6,825,370	$4,153,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$546,436	$478,103
Interest bearing	3,986,102	2,481,819
Total deposits	4,532,538	2,959,922
Federal funds purchased	—	13,000
FHLB advances	1,618,000	706,500
Other borrowings	88,250	63,250
Subordinated debt	110,000	2,000
Accrued interest payable and other liabilities	33,437	21,878
Total liabilities	6,382,225	3,766,550
Commitments and contingencies (NOTES 17 and 21)		
Shareholders' equity:		
Preferred stock, no par value or as set by the board; 100,000,000 shares authorized, none issued	—	—
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 27,277,789 and 24,756,411 shares issued as of December 31, 2014 and 2013; 26,745,529 and 24,224,151 shares outstanding as of December 31, 2014 and 2013	27,278	24,756
Additional paid in capital	355,822	307,231
Retained earnings	68,421	71,008
Accumulated other comprehensive loss, net	(122)	(8,118)
Treasury stock, at cost (532,260 shares as of December 31, 2014 and 2013)	(8,254)	(8,254)
Total shareholders' equity	443,145	386,623
Total liabilities and shareholders' equity	$6,825,370	$4,153,173

See accompanying notes to the consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except share data)

	For the Year Ended December 31,		
	2014	2013	2012
Interest income:			
Loans receivable, including fees	$146,388	$82,580	$70,510
Loans held for sale	30,801	38,140	15,950
Investment securities	10,386	6,314	6,731
Other	2,852	1,122	623
Total interest income	190,427	128,156	93,814
Interest expense:			
Deposits	24,454	21,020	21,076
Other borrowings	5,342	2,024	10
FHLB advances	5,194	1,192	606
Subordinated debt	3,514	65	69
Total interest expense	38,504	24,301	21,761
Net interest income	151,923	103,855	72,053
Provision for loan losses	14,747	2,236	14,270
Net interest income after provision for loan losses	137,176	101,619	57,783
Non-interest income:			
Mortgage warehouse transactional fees	8,233	12,962	12,289
Bank-owned life insurance	3,702	2,482	1,332
Gains on sales of investment securities	3,191	1,274	9,017
Gains on sales of loans	3,125	852	357
Mortgage loan and banking income	2,048	1,142	—
Deposit fees	801	675	481
Other	4,026	3,316	5,482
Total non-interest income	25,126	22,703	28,958