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Customers Bancorp, Inc.
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

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

(Exact name of registrant as specified in its charter)

Pennsylvania	27-2290659
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1015 Penn Avenue	
Suite 103	
Wyomissing PA 19610	
(Address of principal executive offices)	
(610) 933-2000	
(Registrant's telephone number, including area code)	
N/A	
(Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

Large accelerated filer ☐

Accelerated filer

☒

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller Reporting Company ☐

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

On April 30, 2015, 26,828,600 shares of Voting Common Stock were issued and outstanding.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$68,216	\$62,746
Interest-earning deposits	265,607	308,277
Cash and cash equivalents	333,823	371,023
Investment securities available for sale, at fair value	396,194	416,685
Loans held for sale (includes \$1,676,891 and \$1,335,668, respectively, at fair value)	1,758,084	1,435,459
Loans receivable	4,337,851	4,312,173
Allowance for loan losses	(33,566)	(30,932)
Total loans receivable, net of allowance for loan losses	4,304,285	4,281,241
FHLB, Federal Reserve Bank, and other restricted stock	81,798	82,002
Accrued interest receivable	15,702	15,205
FDIC loss sharing receivable	3,427	2,320
Bank premises and equipment, net	11,061	10,810
Bank-owned life insurance	154,821	138,676
Other real estate owned	13,127	15,371
Goodwill and other intangibles	3,661	3,664
Other assets	57,242	52,914
Total assets	\$7,133,225	\$6,825,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$670,771	\$546,436
Interest-bearing	4,222,550	3,986,102
Total deposits	4,893,321	4,532,538
FHLB advances	1,545,000	1,618,000
Other borrowings	88,250	88,250
Subordinated debt	110,000	110,000
Accrued interest payable and other liabilities	38,703	33,437
Total liabilities	6,675,274	6,382,225
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; 27,356,299 and 27,277,789 shares issued as of March 31, 2015 and December 31, 2014; 26,824,039; and 26,745,529 shares outstanding as of March 31, 2015 and December 31, 2014	27,356	27,278
Additional paid in capital	357,523	355,822
Retained earnings	82,373	68,421
Accumulated other comprehensive loss, net	(1,047)	(122)
Treasury stock, at cost (532,260 shares as of March 31, 2015 and December 31, 2014)	(8,254)	(8,254)
Total shareholders' equity	457,951	443,145

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Total liabilities and shareholders' equity	\$7,133,225	\$6,825,370
See accompanying notes to the unaudited consolidated financial statements.		

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

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans receivable	\$43,093	\$28,355
Loans held for sale	10,900	5,083
Investment securities	2,363	3,040
Other	2,362	396
Total interest income	58,718	36,874
Interest expense:		
Deposits	7,526	5,415
Other borrowings	1,488	1,155
FHLB advances	1,689	496
Subordinated debt	1,685	16
Total interest expense	12,388	7,082
Net interest income	46,330	29,792
Provision for loan losses	2,964	4,368
Net interest income after provision for loan losses	43,366	25,424
Non-interest income:		
Mortgage warehouse transactional fees	2,273	1,759
Gain on sale of loans	1,231	—
Bank-owned life insurance	1,061	835
Deposit fees	179	214
Mortgage loan and banking income	151	409
Gain on sale of investment securities	—	2,832
Other	838	1,261
Total non-interest income	5,733	7,310
Non-interest expense:		
Salaries and employee benefits	13,952	9,351
FDIC assessments, taxes, and regulatory fees	3,278	2,131
Occupancy	3,078	2,637
Professional services	1,913	2,282
Technology, communications and bank operations	1,554	1,560
Other real estate owned	884	351
Advertising and promotion	347	414
Loan workout	269	441
Other	2,190	2,002
Total non-interest expense	27,465	21,169
Income before income tax expense	21,634	11,565
Income tax expense	7,682	3,429
Net income	\$13,952	\$8,136
Basic earnings per share (1)	\$0.52	\$0.30
Diluted earnings per share (1)	0.49	0.29

(1) Earnings per share amounts for the three months ended March 31, 2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Net income	\$13,952	\$8,136
Unrealized gains on securities:		
Unrealized holding gains on securities arising during the period (1)	459	9,121
Income tax effect (1)	(216	) (3,193
Less: reclassification adjustment for gains on securities included in net income	—	(2,832
Income tax effect	—	992
Net unrealized gains	243	4,088
Unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses) on cash flow hedges arising during the period	(1,946	) 664
Income tax effect	778	(232
Net unrealized gains (losses)	(1,168	) 432
Other comprehensive income (loss), net of tax	(925	) 4,520
Comprehensive income	\$13,027	\$12,656

(1)Includes immaterial gains or losses on foreign currency items.
See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY — UNAUDITED

(amounts in thousands, except share data)

	Three Months Ended March 31, 2015						
	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2015	26,745,529	\$27,278	\$355,822	\$68,421	\$ (122)	\$(8,254)	\$443,145
Net income	—	—	—	13,952	—	—	13,952
Other comprehensive loss	—	—	—	—	(925)	—	(925)
Share-based compensation expense	—	—	1,170	—	—	—	1,170
Issuance of common stock under share-based compensation arrangements	78,510	78	531	—	—	—	609
Balance, March 31, 2015	26,824,039	\$27,356	\$357,523	\$82,373	\$ (1,047)	\$(8,254)	\$457,951
	Three Months Ended March 31, 2014						
	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2014	24,224,151	\$24,756	\$307,231	\$71,008	\$ (8,118)	\$(8,254)	\$386,623
Net income	—	—	—	8,136	—	—	8,136
Other comprehensive income	—	—	—	—	4,520	—	4,520
Share-based compensation expense	—	—	955	—	—	—	955
Issuance of common stock under share-based compensation arrangements	70,013	70	634	—	—	—	704
Balance, March 31, 2014	24,294,164	\$24,826	\$308,820	\$79,144	\$ (3,598)	\$(8,254)	\$400,938

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities		
Net income	\$ 13,952	\$ 8,136
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses, net of change to FDIC receivable	2,964	4,368
Provision for depreciation and amortization	1,033	890
Share-based compensation	1,416	1,659
Deferred taxes	(1,540)	) 2,215
Net amortization of investment securities premiums and discounts	211	177
Gain on sale of investment securities	—	(2,832)
Gain on sale of mortgages and other loans	(1,266)	) (498)
Origination of loans held for sale	(6,627,070)	) (2,819,236)
Proceeds from the sale of loans held for sale	6,285,952	2,869,796
Increase in FDIC loss sharing receivable	(134)	) (990)
Amortization (accretion) of fair value discounts	32	(129)
Net loss on sales of other real estate owned	441	47
Valuation and other adjustments to other real estate owned	343	127
Earnings on investment in bank-owned life insurance	(1,061)	) (835)
(Increase) decrease in accrued interest receivable and other assets	(3,259)	) 1,552
Increase in accrued interest payable and other liabilities	3,574	14,858
Net Cash (Used In) Provided by Operating Activities	(324,412)	) 79,305
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	20,739	10,264
Proceeds from sales of investment securities available for sale	—	187,891
Purchases of investment securities available for sale	—	(149,940)
Net increase in loans	(148,554)	) (608,672)
Purchase of loan portfolios	—	(288,253)
Proceeds from sales of loans	141,437	424
Purchases of bank-owned life insurance	(15,000)	) —
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	204	(8,006)
(Payments to) reimbursements from the FDIC on loss sharing agreements	(302)	) 1,297
Purchases of bank premises and equipment	(829)	) (207)
Proceeds from sales of other real estate owned	1,619	1,376
Net Cash Used In Investing Activities	(686)	) (853,826)
Cash Flows from Financing Activities		
Net increase in deposits	360,789	646,420
Net (decrease) increase in short-term borrowed funds	(98,000)	) 185,500
Proceeds from long-term FHLB borrowings	25,000	—
Proceeds from issuance of common stock	109	—
Net Cash Provided by Financing Activities	287,898	831,920
Net (Decrease) Increase in Cash and Cash Equivalents	(37,200)	) 57,399

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Cash and Cash Equivalents – Beginning	371,023	233,068
Cash and Cash Equivalents – Ending	\$333,823	\$290,467

Supplementary Cash Flows Information

Interest paid	\$10,550	\$7,017
Income taxes paid	2,762	2,082

Non-cash items:

Transfer of loans to other real estate owned	\$159	\$4,955
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See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF THE BUSINESS

Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank (the “Bank”). Customers Bancorp also has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank and non-bank subsidiaries, serve residences and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties), Rye, New York (Westchester County), Hamilton, New Jersey (Mercer County), Boston, Massachusetts, Providence, Rhode Island and Manhattan, New York. In 2011, the Bancorp purchased Berkshire Bancorp, Inc. In 2010, Customers Bank acquired two banks, USA Bank and ISN Bank, in FDIC assisted transactions that expanded its footprint into central New Jersey and southeast New York. The Bank has 14 branches and provides commercial banking products, primarily loans and deposits. Customers Bank provides loan products to customers through its loan production offices in Boston, Massachusetts, Providence, Long Island, Manhattan, New York and Philadelphia, Pennsylvania. The Bancorp also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Customers Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited consolidated financial statements of Customers Bancorp, Inc. and subsidiaries have been prepared pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers Bancorp and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. The December 31, 2014 consolidated balance sheet presented in this report has been derived from Customers Bancorp’s audited 2014 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2014 consolidated financial statements of Customers Bancorp and subsidiaries included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 27, 2015. That Form 10-K describes Customers Bancorp’s significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents; Restrictions on Cash and Amounts Due from Banks; Investment Securities; Loan Accounting Framework; Allowance for Loan Losses; Goodwill; Investments in FHLB, Federal Reserve Bank, and other restricted stock; Other Real Estate Owned; FDIC Loss Sharing Receivable; Bank Owned Life Insurance; Bank Premises and Equipment; Treasury Stock; Income Taxes; Share-Based Compensation; Derivative Instruments and Hedging; Comprehensive Income; Earnings per Share; Segment Information; and Accounting Changes. Certain prior period amounts have been reclassified to conform to current period presentation. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standard Update (“ASU”) 2015-03, Simplifying the Presentation of Debt Issuance Costs. The guidance in this ASU is intended to simplify presentation of debt issuance costs, and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The guidance in this ASU is effective for interim and annual periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a

significant impact on its financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. The guidance in this ASU is intended to amend the update, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this update affect the following areas:

1. Limited partnerships and similar legal entities

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2. Evaluating fees paid to a decision maker or a service provider as a variable interest
3. The effect of fee arrangements on the primary beneficiary determination
4. The effect of related parties on the primary beneficiary determination
5. Certain investment funds

The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations. In November 2014, the FASB issued ASU 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument in the Form of a Share is More Akin to Debt or to Equity. The guidance in this ASU requires entities that issue or invest in a hybrid financial instrument to separate an embedded derivative feature from a host contract and account for the feature as a derivative. In the case of derivatives embedded in a hybrid financial instrument that is issued in the form of a share, that criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. If the host contract is akin to equity, then equity-like features (for example, a conversion option) are considered clearly and closely related to the host contract and, thus, would not be separated from the host contract. If the host contract is akin to debt, then equity-like features are not considered clearly and closely related to the host contract. In the latter case, an entity may be required to separate the equity-like embedded derivative feature from the debt host contract if certain other criteria in Subtopic 815-15 are met. Similarly, debt-like embedded derivative features may require separate accounting from an equity-like host contract. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The guidance in this ASU affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.
2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance in this ASU was effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The guidance may be applied using a prospective transition method in which a reporting entity applies the guidance to foreclosures that occur after the date of adoption, or a modified retrospective transition using a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. Prior periods should not be adjusted. A reporting entity must apply the same method of transition as elected under ASU 2014-04. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The guidance in this ASU applies to a reporting entity that is required to consolidate a collateralized financing entity under the Variable Interest Entities guidance when: (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Codification Topics; and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance in this ASU is

effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation. The guidance in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite period, the remaining

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unrecognized cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing. The amendments in this update require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The guidance in this ASU was effective for annual and interim periods beginning after December 15, 2014. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard's core principal is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force. The guidance in this ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The ASU also requires additional related interim and annual disclosures. The guidance in this ASU was effective in the first quarter 2015. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, a consensus of the FASB Emerging Issues Task Force. This ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The guidance in this ASU was effective for annual periods

and interim reporting periods beginning after December 15, 2014. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

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The following tables present the changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2015 and 2014.

(amounts in thousands)	Three Months Ended March 31, 2015		
	Unrealized Gains on Available-for-sale Securities (2)	Unrealized Loss on Cash Flow Hedges	Total
Beginning balance - January 1, 2015	\$1,142	\$(1,264)	\$(122)
Other comprehensive income (loss) before reclassifications	243	(1,168)	(925)
Amounts reclassified from accumulated other comprehensive loss to net income	—	—	—
Net current-period other comprehensive income (loss)	243	(1,168)	(925)
Ending balance - March 31, 2015	\$1,385	\$(2,432)	\$(1,047)
(amounts in thousands)	Three Months Ended March 31, 2014		
	Unrealized Gains and (Losses) on Available-for-sale Securities (2)	Unrealized Gain on Cash Flow Hedges	Total
Beginning balance - January 1, 2014	\$(8,118)	\$—	\$(8,118)
Other comprehensive income before reclassifications	5,929	432	6,361
Amounts reclassified from accumulated other comprehensive loss to net income (3)	(1,841)	—	(1,841)
Net current-period other comprehensive income	4,088	432	4,520
Ending balance - March 31, 2014	\$(4,030)	\$432	\$(3,598)

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

(2) Includes immaterial gains or losses on foreign currency items.

(3) Reclassification amounts are reported as gain on sale of investment securities on the Consolidated Statements of Income.

NOTE 4 — EARNINGS PER SHARE

The following are the components and results of the Bancorp's earnings per share calculation for the periods presented. Share and per share amounts for the three months ended March 31, 2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

(amounts in thousands, except per share data)	Three Months Ended	
	March 31, 2015	2014
Net income available to common shareholders	\$13,952	\$8,136
Weighted-average number of common shares outstanding - basic	26,777,389	26,686,570
Share-based compensation plans	1,276,340	845,901
Warrants	284,074	242,560
Weighted-average number of common shares - diluted	28,337,803	27,775,031
Basic earnings per share	\$0.52	\$0.30
Diluted earnings per share	0.49	0.29

The following is a summary of securities that could potentially dilute basic earnings per share in future periods that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. Share-based compensation awards and eligible warrants for the three months ended March 31,

2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

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	Three Months Ended March 31,	
	2015	2014
Anti-dilutive securities:		
Share-based compensation awards	18,683	134,682
Warrants	52,242	118,745
Total anti-dilutive securities	70,925	253,427

NOTE 5 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of March 31, 2015 and December 31, 2014 are summarized in the tables below:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	\$355,904	\$4,075	\$(1,262)	) \$358,717
Corporate Bonds	15,000	172	—	15,172
Equity securities (2)	23,074	56	(825)	) 22,305
	\$393,978	\$4,303	\$(2,087)	) \$396,194
	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	\$376,854	\$2,805	\$(2,348)	) \$377,311
Corporate notes	15,000	104	—	15,104
Equity securities (2)	23,074	1,197	(1)	) 24,270
	\$414,928	\$4,106	\$(2,349)	) \$416,685

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.

(2) Comprised primarily of equity securities in a foreign entity.

The following table presents proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
(amounts in thousands)		
Proceeds from sale of available-for-sale securities	\$—	\$187,891
Gross gains	\$—	\$2,832
Gross losses	—	—
Net gains	\$—	\$2,832

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

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

	March 31, 2015 Amortized Cost	Fair Value
(amounts in thousands)		
Due in one year or less	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	15,000	15,172
Due after ten years	—	—
Mortgage-backed securities	355,904	358,717
Total debt securities	\$370,904	\$373,889

The Bancorp's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015				Total	
	Less Than 12 Months	12 Months or More				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (1)	\$23,331	\$(5)	\$78,848	\$(1,257)	\$102,179	\$(1,262)
Equity securities (2)	21,244	(824)	6	(1)	21,250	(825)
Total	\$44,575	\$(829)	\$78,854	\$(1,258)	\$123,429	\$(2,087)

	December 31, 2014				Total	
	Less Than 12 Months	12 Months or More				
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (1)	\$60,388	\$(81)	\$80,426	\$(2,267)	140,814	\$(2,348)
Equity securities (2)	—	—	5	(1)	5	(1)
Total	\$60,388	\$(81)	\$80,431	\$(2,268)	\$140,819	\$(2,349)

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.

(2) Comprised primarily of equity securities in a foreign entity.

At March 31, 2015, there were seven available-for-sale investment securities in the less-than-twelve-month category and eighteen available-for-sale investment securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. All amounts are expected to be recovered when market prices recover or at maturity. The unrealized losses on the equity securities reflect decreases in market price. Customers evaluated the financial condition and capital strength of the issuer of these securities and concluded that the decline in fair value was temporary and would recover by way of increases in market price. The Company intends to hold these securities for the foreseeable future and does not intend to sell the securities before the price recovers. Customers considers it more likely than not that it will not be required to sell the securities. Accordingly, Customers has concluded that the securities are not other-than-temporarily impaired as of March 31, 2015.

At March 31, 2015 and December 31, 2014, Customers Bank had pledged investment securities aggregating \$358.3 million and \$376.9 million fair value, respectively, as collateral against its borrowings primarily with the FHLB and

an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

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NOTE 6 – LOANS HELD FOR SALE

The composition of loans held for sale as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans at fair value	\$1,674,014	\$1,332,019
Multi-family loans at lower of cost or fair value	81,193	99,791
Commercial loans held for sale	1,755,207	1,431,810
Consumer loans:		
Residential mortgage loans at fair value	2,877	3,649
Loans held for sale	\$1,758,084	\$1,435,459

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial:		
Multi-family	\$2,053,379	\$2,127,034
Commercial real estate	1,177,725	1,132,072
Commercial and industrial	606,091	540,430
Construction	62,430	56,669
Total commercial loans	3,899,625	3,856,205
Consumer:		
Residential real estate	277,167	285,003
Manufactured housing	121,622	126,731
Other	1,324	1,541
Total consumer loans	400,113	413,275
Total loans receivable not covered under FDIC loss sharing agreements	4,299,738	4,269,480
Commercial:		
Commercial real estate	16,347	17,585
Commercial and industrial	1,746	2,235
Construction	3,975	6,705
Multi-family	361	372
Total commercial loans	22,429	26,897
Consumer:		
Residential real estate	12,159	12,392
Other	2,777	2,892
Total consumer loans	14,936	15,284
Total loans receivable covered under FDIC loss sharing agreements	37,365	42,181
(1) Total loans receivable	4,337,103	4,311,661
Deferred (fees) costs and unamortized premiums/(discounts), net	748	512
Allowance for loan losses	(33,566)	(30,932)
Loans receivable, net	\$4,304,285	\$4,281,241

(1) Loans that were acquired in two FDIC-assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as “covered” loans throughout these financial statements.

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Non-Covered Loans

The following tables summarize non-covered loans by loan type and performance status as of March 31, 2015 and December 31, 2014:

March 31, 2015

	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit- Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial real estate	\$288	\$—	\$288	\$3,436	\$1,147,262	\$26,739	\$1,177,725
Multi-family	—	—	—	—	2,050,830	2,549	2,053,379
Commercial and industrial	—	—	—	2,307	602,407	1,377	606,091
Construction	—	—	—	—	62,343	87	62,430
Residential real estate	289	—	289	946	266,670	9,262	277,167
Other consumer	—	—	—	—	1,129	195	1,324
Manufactured housing (5)	3,896	4,546	8,442	1,047	108,258	3,875	121,622
Total	\$4,473	\$4,546	\$9,019	\$7,736	\$4,238,899	\$44,084	\$4,299,738

December 31, 2014

	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit- Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial real estate	\$—	\$—	\$—	\$3,450	\$1,101,119	\$27,503	\$1,132,072
Multi-family	—	—	—	—	2,124,448	2,586	2,127,034
Commercial and industrial	366	—	366	2,257	536,326	1,481	540,430
Construction	—	—	—	—	56,510	159	56,669
Residential real estate	1,226	—	1,226	849	273,565	9,363	285,003
Other consumer	—	—	—	—	1,333	208	1,541
Manufactured housing (5)	6,324	4,388	10,712	931	111,072	4,016	126,731
Total	\$7,916	\$4,388	\$12,304	\$7,487	\$4,204,373	\$45,316	\$4,269,480

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

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

Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans (3) are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing.

Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.

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

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Covered Loans

The following tables summarize covered loans by loan type and performance status as of March 31, 2015 and December 31, 2014:

March 31, 2015

	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased - Credit Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial and industrial	\$26	\$—	\$26	\$158	\$825	\$737	\$1,746
Multi-family	—	—	—	—	361	—	361
Commercial real estate	25	—	25	497	10,765	5,060	16,347
Construction	—	—	—	2,325	—	1,650	3,975
Residential real estate	294	—	294	1,006	10,255	604	12,159
Other consumer	136	—	136	73	2,529	39	2,777
Total	\$481	\$—	\$481	\$4,059	\$24,735	\$8,090	\$37,365

December 31, 2014

	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial and industrial	\$518	\$—	\$518	\$165	\$361	\$1,191	\$2,235
Multi-family	—	—	—	—	372	—	372
Commercial real estate	—	—	—	615	11,884	5,086	17,585
Construction	—	—	—	2,325	—	4,380	6,705
Residential real estate	—	—	—	1,006	10,782	604	12,392
Other consumer	147	—	147	135	2,570	40	2,892
Total	\$665	\$—	\$665	\$4,246	\$25,969	\$11,301	\$42,181

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

(2) Purchased loans in FDIC assisted transactions with no evidence of credit deterioration since origination.

Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans

(3) are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing.

Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.

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Allowance for Loan Losses and FDIC Loss Sharing Receivable

Losses incurred on covered loans are eligible for partial reimbursement by the FDIC. Subsequent to the purchase date, the expected cash flows on the covered loans are subject to evaluation. Decreases in the present value of expected cash flows on the covered loans are recognized by increasing the allowance for loan losses with a related charge to the provision for loan losses. At the same time, the FDIC indemnification asset is increased reflecting an estimated future collection from the FDIC, which is recorded as a reduction to the provision for loan losses. If the expected cash flows on the covered loans increase such that a previously recorded impairment can be reversed, the Bancorp records a reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC receivable balance and a charge to the provision for loan losses. Increases in expected cash flows of covered loans and decreases in expected cash flows of the FDIC loss sharing receivable, when there are no previously recorded impairments, are considered together and recognized over the remaining life of the loans as interest income. The FDIC loss sharing receivable balance will be reduced through a charge to the provision for loan losses, with no offsetting reduction to the allowance for loan losses, as the FDIC loss sharing arrangements reach their contractual maturities and the estimated losses in the covered loans have not yet emerged or been realized in a final disposition event. The FDIC loss sharing arrangements for non-single family loans expire in third quarter 2015. The loss sharing arrangements for single family loans expire in third quarter 2020.

The following table presents changes in the allowance for loan losses and the FDIC loss sharing receivable for the three months ended March 31, 2015 and 2014.

(amounts in thousands)	Allowance for Loan Losses Three Months Ended March 31,	
	2015	2014
Beginning balance	\$30,932	\$23,998
Provision for loan losses (1)	3,635	2,901
Charge-offs	(1,144)	(536)
Recoveries	143	341
Ending balance	\$33,566	\$26,704

(amounts in thousands)	FDIC Loss Sharing Receivable Three Months Ended March 31,	
	2015	2014
Beginning balance	\$2,320	\$10,046
Increased (decreased) estimated cash flows (2)	671	(1,467)
Other activity, net (a)	134	990
Cash payments to/(from) FDIC	302	(1,297)
Ending balance	\$3,427	\$8,272

(1) Provision for loan losses	\$3,635	\$2,901
(2) Effect attributable to FDIC loss share arrangements	(671)	1,467
Net amount reported as provision for loan losses	\$2,964	\$4,368

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

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Loans Individually Evaluated for Impairment — Covered and Non-Covered

The following tables present the recorded investment (net of charge-offs), unpaid principal balance, and related allowance by loan type for loans that are individually evaluated for impairment as of March 31, 2015 and December 31, 2014 and the average recorded investment and interest income recognized for the three months ended March 31, 2015 and 2014. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	March 31, 2015			Three Months Ended March 31, 2015	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no related allowance recorded:					
Commercial and industrial	\$6,922	\$8,376	\$—	\$10,374	\$164
Commercial real estate	11,496	11,641	—	15,237	191
Construction	2,325	3,594	—	2,325	—
Other consumer	20	20	—	21	—
Residential real estate	1,438	1,438	—	1,447	—
With an allowance recorded:					
Commercial and industrial	6,478	6,488	2,295	4,156	5
Commercial real estate	1,409	1,409	864	1,410	—
Construction	—	—	—	—	—
Other consumer	53	53	25	84	1
Residential real estate	362	362	185	364	—
Total	\$30,503	\$33,381	\$3,369	\$35,418	\$361

	December 31, 2014			Three Months Ended March 31, 2014	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no related allowance recorded:					
Commercial and industrial	\$13,825	\$15,348	\$—	\$12,003	\$99
Commercial real estate	18,977	19,121	—	17,139	274
Construction	2,325	2,325	—	2,551	—
Other consumer	21	21	—	3	—
Residential real estate	1,455	3,697	—	2,391	13
With an allowance recorded:					
Commercial and industrial	1,833	1,833	818	1,653	8
Commercial real estate	1,410	1,410	304	2,350	1
Construction	—	—	—	1,350	15
Other consumer	114	114	32	64	1
Residential real estate	365	365	188	251	1
Total	\$40,325	\$44,234	\$1,342	\$39,755	\$412

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Troubled Debt Restructurings

At March 31, 2015 and 2014, there were \$5.2 million and \$5.1 million, respectively, in loans reported as troubled debt restructurings (“TDRs”). TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, the Bancorp requires sustained performance for nine months before returning a TDR to accrual status.

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

The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three months ended March 31, 2015 and 2014. There were no modifications that involved forgiveness of debt.

	TDRs in Compliance with Their Modified Terms and Accruing Interest	TDRs in Compliance with Their Modified Terms and Not Accruing Interest	Total
(amounts in thousands)			
Three Months Ended March 31, 2015			
Extended under forbearance	\$—	\$—	\$—
Multiple extensions resulting from financial difficulty	—	—	—
Interest-rate reductions	198	207	405
Total	\$198	\$207	\$405
Three Months Ended March 31, 2014			
Extended under forbearance	\$—	\$—	\$—
Multiple extensions resulting from financial difficulty	—	—	—
Interest-rate reductions	247	127	374
Total	\$247	\$127	\$374

The following table provides, by loan type, the number of loans modified in troubled debt restructurings and the related recorded investment during the three months ended March 31, 2015 and 2014.

	TDRs in Compliance with Their Modified Terms and Accruing Interest		TDRs in Compliance with Their Modified Terms and Not Accruing Interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(amounts in thousands)				
Three Months Ended March 31, 2015				
Commercial and industrial	—	\$—	—	\$—
Commercial real estate	—	—	—	—
Construction	—	—	—	—
Manufactured housing	—	—	2	207
Residential real estate	1	198	—	—
Other consumer	—	—	—	—
Total	1	\$198	2	\$207
Three Months Ended March 31, 2014				
Commercial and industrial	—	\$—	—	\$—

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Commercial real estate	—	—	—	—
Construction	—	—	—	—
Manufactured housing	1	47	2	127
Residential real estate	3	200	—	—
Other consumer	—	—	—	—
Total	4	\$247	2	\$127

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At March 31, 2015 and 2014, there were no commitments to lend additional funds to debtors whose terms have been modified in TDRs.

For the three months ended March 31, 2015 and 2014, the recorded investment of loans determined to be TDRs was \$0.4 million and \$0.4 million, respectively, both before and after restructuring. During the three month period ended March 31, 2015, two manufactured housing TDR loans defaulted with a recorded investment of \$0.2 million. There were two TDRs that defaulted in the three month period ended March 31, 2014, with a recorded investment of \$0.1 million.

Loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses. There were no specific allowances resulting from TDR modifications during the three months ended March 31, 2015 and 2014.

Credit Quality Indicators

Commercial and industrial, multi-family, commercial real estate, residential real estate and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic or on an “as needed” basis. Consumer, mortgage warehouse and manufactured housing loans are evaluated based on the payment activity of the loan and are not assigned internal risk ratings.

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

The risk rating grades are defined as follows:

“1” – Pass/Excellent

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

“2” – Pass/Superior

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

“3” – Pass/Strong

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

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“4” – Pass/Good

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

“5” – Satisfactory

Loans rated 5 are extended to borrowers who are determined to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower’s historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.

“6” – Satisfactory/Bankable with Care

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

“7” – Special Mention

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

“8” – Substandard

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

“9” – Doubtful

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

“10” – Loss

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

Risk ratings are not established for 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 upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and nonperforming.

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The following tables present the credit ratings of the non-covered loan portfolio as of March 31, 2015 and December 31, 2014:

	March 31, 2015							
	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Other Consumer	Manufactured Housing	Total
(amounts in thousands)								
Pass/Satisfactory	\$592,072	\$1,160,583	\$2,053,379	\$62,430	\$275,426	\$—	\$—	\$4,143,890
Special Mention	11,484	10,608	—	—	—	—	—	22,092
Substandard	2,535	6,534	—	—	1,741	—	—	10,810
Performing (1)	—	—	—	—	—	1,324	112,133	113,457
Non-performing (2)	—	—	—	—	—	—	9,489	9,489
Total	\$606,091	\$1,177,725	\$2,053,379	\$62,430	\$277,167	\$1,324	\$121,622	\$4,299,738

	December 31, 2014							
	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Other Consumer	Manufactured Housing	Total
(amounts in thousands)								
Pass/Satisfactory	\$524,848	\$1,109,565	\$2,127,034	\$56,669	\$283,240	\$—	\$—	\$4,101,356
Special Mention	13,238	16,002	—	—	243	—	—	29,483
Substandard	2,344	6,505	—	—	1,520	—	—	10,369
Performing (1)	—	—	—	—	—	1,541	115,088	116,629
Non-performing (2)	—	—	—	—	—	—	11,643	11,643
Total	\$540,430	\$1,132,072	\$2,127,034	\$56,669	\$285,003	\$1,541	\$126,731	\$4,269,480

(1) Includes consumer and other installment loans not subject to risk ratings.

(2) Includes loans that are past due and still accruing interest and loans on nonaccrual status.

The following tables present the credit ratings of the covered loan portfolio as of March 31, 2015 and December 31, 2014:

	March 31, 2015						
	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Other Consumer	Total
(amounts in thousands)							
Pass/Satisfactory	\$1,061	\$10,117	\$361	\$—	\$10,752	\$—	\$22,291
Special Mention	—	4,046	—	—	—	—	4,046
Substandard	685	2,184	—	3,975	1,407	—	8,251
Performing (1)	—	—	—	—	—	2,568	2,568
Non-performing (2)	—	—	—	—	—	209	209
Total	\$1,746	\$16,347	\$361	\$3,975	\$12,159	\$2,777	\$37,365

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	December 31, 2014						
	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Other Consumer	Total
(amounts in thousands)							
Pass/Satisfactory	\$ 1,104	\$ 10,207	\$ 372	\$ —	\$ 10,985	\$ —	\$ 22,668
Special Mention	—	5,076	—	—	—	—	5,076
Substandard	1,131	2,302	—	6,705	1,407	—	11,545
Performing (1)	—	—	—	—	—	2,610	2,610
Non-performing (2)	—	—	—	—	—	282	282
Total	\$ 2,235	\$ 17,585	\$ 372	\$ 6,705	\$ 12,392	\$ 2,892	\$ 42,181

(1) Includes consumer and other installment loans not subject to risk ratings.

(2) Includes loans that are past due and still accruing interest and loans on nonaccrual status.

As of March 31, 2015, the Bank had \$5.3 million of residential real estate held in other real estate owned. As of March 31, 2015, the Bank had initiated foreclosure proceedings on residential real estate securing outstanding loan balances of \$0.2 million.

Allowance for loan losses

The changes in the allowance for loan losses for the three months ended March 31, 2015 and 2014 and the loans and allowance for loan losses by loan class based on impairment evaluation method are as follows. The amounts presented for the provision for loan losses below do not include the effect of changes to estimated benefits resulting from the FDIC loss share arrangements for the covered loans.

Three Months Ended March 31, 2015 (amounts in thousands)	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Beginning Balance, January 1, 2015	\$ 4,746	\$ 13,572	\$ 8,493	\$ 1,047	\$ 2,698	\$ 262	\$ 114	\$ 30,932
Charge-offs	(21)	(318)	—	(769)	—	—	(36)	(1,144)
Recoveries	45	—	—	15	—	—	83	143
Provision for loan losses	1,977	1,067	(297)	559	297	84	(52)	3,635
Ending Balance, March 31, 2015	\$ 6,747	\$ 14,321	\$ 8,196	\$ 852	\$ 2,995	\$ 346	\$ 109	\$ 33,566
Loans:								
Individually evaluated for impairment	\$ 13,400	\$ 12,905	\$ —	\$ 2,325	\$ 1,800	\$ —	\$ 73	\$ 30,503
Collectively evaluated for impairment	592,323	1,149,368	2,051,191	62,343	277,660	117,747	3,794	4,254,426
Loans acquired with credit deterioration	2,114	31,799	2,549	1,737	9,866	3,875	234	52,174

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	\$ 607,837	\$ 1,194,072	\$ 2,053,740	\$ 66,405	\$ 289,326	\$ 121,622	\$ 4,101	\$ 4,337,103
Allowance for loan losses:								
Individually evaluated for impairment	\$ 2,295	\$ 864	\$ —	\$ —	\$ 185	\$ —	\$ 25	\$ 3,369
Collectively evaluated for impairment	4,294	8,645	8,196	468	1,648	90	30	23,371
Loans acquired with credit deterioration	158	4,812	—	384	1,162	256	54	6,826
	\$ 6,747	\$ 14,321	\$ 8,196	\$ 852	\$ 2,995	\$ 346	\$ 109	\$ 33,566

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Three Months Ended March 31, 2014 (amounts in thousands)	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Manufactured Housing	Other Consumer	Total
Beginning Balance, January 1, 2014	\$2,674	\$11,478	\$4,227	\$2,385	\$2,490	\$614	\$130	\$23,998
Charge-offs	—	(248)	—	—	(288)	—	—	(536)
Recoveries	90	25	—	—	224	—	2	341
Provision for loan losses	(281)	1,377	1,993	(43)	(119)	(21)	(5)	2,901
Ending Balance, March 31, 2014	\$2,483	\$12,632	\$6,220	\$2,342	\$2,307	\$593	\$127	\$26,704
As of December 31, 2014								
Loans:								
Individually evaluated for impairment	\$15,658	\$20,387	\$—	\$2,325	\$1,820	\$—	\$135	\$40,325
Collectively evaluated for impairment	524,335	1,096,681	2,124,820	56,510	285,608	122,715	4,050	4,214,719
Loans acquired with credit deterioration	2,672	32,589	2,586	4,539	9,967	4,016	248	56,617
	\$542,665	\$1,149,657	\$2,127,406	\$63,374	\$297,395	\$126,731	\$4,433	\$4,311,661
Allowance for loan losses:								
Individually evaluated for impairment	\$818	\$304	\$—	\$—	\$188	\$—	\$32	\$1,342
Collectively evaluated for impairment	3,766	8,336	8,493	424	1,436	92	28	22,575
Loans acquired with credit deterioration	162	4,932	—	623	1,074	170	54	7,015
	\$4,746	\$13,572	\$8,493	\$1,047	\$2,698	\$262	\$114	\$30,932

The non-covered manufactured housing portfolio was purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the purchase agreement for defaults of the underlying borrower and other specified items. At March 31, 2015 and December 31, 2014, funds available for reimbursement, if necessary, were \$1.1 million and \$3.0 million, respectively. Each quarter, these funds are evaluated to determine if they would be sufficient to absorb the probable incurred losses within the manufactured housing portfolio. The changes in accretable yield related to purchased-credit-impaired loans for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31, 2015	2014
(amounts in thousands)		
Accretable yield balance, beginning of period	\$17,606	\$22,557

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Accretion to interest income	(660	) (1,080	)
Reclassification from nonaccretable difference and disposals, net	(1,522	) (858	)
Accretable yield balance, end of period	\$ 15,424	\$ 20,619	

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NOTE 8 — SHARE-BASED COMPENSATION

Stock Options

There were no stock options granted, exercised or forfeited during the three months ended March 31, 2015.

The following table summarizes stock option activity for the three months ended March 31, 2015.

	Number of Options	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term in Years	Aggregate Intrinsic Value
(amount in thousands, except Weighted-average exercise price)				
Outstanding at January 1, 2015	3,168,067	\$12.61		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at March 31, 2015	3,168,067	\$12.61	6.95	\$37,246
Exercisable at March 31, 2015	13,683	\$16.67	2.29	\$119

Restricted Stock Units

There were 146,920 restricted stock units granted during the three months ended March 31, 2015. Of the aggregate restricted stock units granted, 84,392 were granted under the Bonus Recognition and Retention Program and are subject to five-year cliff vesting. The remaining units are subject to three-year waterfall vesting with one third of the amount vesting annually. The following table summarizes restricted stock unit activity for the three months ended March 31, 2015.

	Restricted Stock Units	Weighted- average Grant- date Fair Value
Outstanding and unvested at January 1, 2015	788,971	\$13.00
Granted	146,920	19.09
Vested	(62,605)	) 11.45
Forfeited	(1,658)	) 14.32
Outstanding and unvested at March 31, 2015	871,628	\$14.13

Total share-based compensation expense for the three months ended March 31, 2015 and 2014 was \$1.2 million and \$1.0 million, respectively.

Customers Bancorp has a policy that permits its directors to elect to receive shares of voting common stock in lieu of their cash retainers. During the three months ended March 31, 2015, Customers Bancorp issued 10,631 shares of voting common stock with a fair value of \$0.3 million to directors as compensation for their services during the first three months of 2015. The fair values were determined based on the opening price of the common stock on the day the shares were issued.

NOTE 9 — REGULATORY MATTERS

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

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Quantitative measures established by regulation to ensure capital adequacy require the Bank and Bancorp to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (as defined in the regulations). At March 31, 2015 and December 31, 2014, the Bank and Bancorp met all capital adequacy requirements to which they were subject.

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

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		
(amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of March 31, 2015:							
Common equity Tier 1 (to risk weighted assets)							
Customers Bancorp, Inc.	\$454,889	8.25	% \$248,013	4.5	% N/A	N/A	
Customers Bank	\$496,018	9.05	% \$246,741	4.5	% \$356,404	6.5	%
Total capital (to risk weighted assets)							
Customers Bancorp, Inc.	\$587,473	10.66	% \$440,913	8.0	% N/A	N/A	
Customers Bank	\$639,584	11.66	% \$438,651	8.0	% \$548,314	10.0	%
Tier 1 capital (to risk weighted assets)							
Customers Bancorp, Inc.	\$454,889	8.25	% \$330,684	6.0	% N/A	N/A	
Customers Bank	\$496,018	9.05	% \$328,988	6.0	% \$438,651	8.0	%
Tier 1 capital (to average assets)							
Customers Bancorp, Inc.	\$454,889	6.72	% \$270,915	4.0	% N/A	N/A	
Customers Bank	\$496,018	7.35	% \$269,801	4.0	% \$337,251	5.0	%
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	%

The new risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio equates to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required

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

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NOTE 10 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bancorp uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. FASB ASC 825, Financial Instruments, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Bancorp, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments.

However, many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. For fair value disclosure purposes, the Bancorp utilized certain fair value measurement criteria under the FASB ASC 820, Fair Value Measurements and Disclosures, as explained below.

In accordance with ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bancorp's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

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

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

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

The following methods and assumptions were used to estimate the fair values of the Bancorp's financial instruments as of March 31, 2015 and December 31, 2014:

Cash and cash equivalents:

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values. These assets are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Investment securities:

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

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

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Loans held for sale - Residential mortgage loans:

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

Loans held for sale - Mortgage warehouse loans:

The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized since at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 16 days from purchase to sale. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale – Multi-family loans:

The fair values of multi-family loans held for sale are estimated using pricing indications from letters of intent with third-party investors or recent sale transactions within the secondary markets for loans with similar characteristics. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans receivable, net of allowance for loan losses:

The fair values of loans held for investment are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal.

Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Impaired loans:

Impaired loans are those that are accounted for under ASC 450, Contingencies, in which the Bancorp has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties that collateralize the loans, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

FDIC loss sharing receivable:

The FDIC loss sharing receivable is measured separately from the related covered assets, as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. Fair value is estimated using projected cash flows related to the loss sharing agreements based on the estimated losses to be incurred on the loans and the expected reimbursements for losses using the applicable loss share percentages. These cash flows are discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC. This asset is included as Level 3 fair value, based upon the lowest level of input that is significant to the fair value measurements.

Other real estate owned:

The fair value of OREO is determined using appraisals, which may be discounted based on management's review and changes in market conditions (Level 3 Inputs). All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice. Appraisals are certified to the Bancorp and performed by appraisers on the Bancorp's approved list of appraisers. Evaluations are completed by a person independent of management. The content of the appraisal depends on the complexity of the property. Appraisals are completed on a "retail value" and an "as is value". These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Deposit liabilities:

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

significant to the fair value measurements.

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Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. These liabilities are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Federal funds purchased:

For these short-term instruments, the carrying amount is considered a reasonable estimate of fair value. These liabilities are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Borrowings:

Borrowings consist of long-term and short-term FHLB advances, five-year senior unsecured notes, and subordinated debt. For the short-term borrowings, the carrying amount is considered a reasonable estimate of fair value and is included as Level 1. Fair values of long-term FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. The prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. Fair values of privately placed subordinated and senior unsecured debt are estimated by a third-party financial adviser using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit-risk characteristics, terms and remaining maturity. These liabilities are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements. The \$63 million senior unsecured notes issued during third quarter 2013 are traded on The New York Stock Exchange, and their price can be obtained daily. This fair value measurement is classified as Level 1.

Derivatives (Assets and Liabilities):

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

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

Off-balance-sheet financial instruments:

The fair values of unused commitments to lend and standby letters of credit are considered to be the same as their contractual amounts

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

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The estimated fair values of the Bancorp's financial instruments were as follows at March 31, 2015 and December 31, 2014.

			Fair Value Measurements at March 31, 2015		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(amounts in thousands)					
Assets:					
Cash and cash equivalents	\$333,823	\$333,823	\$333,823	\$—	\$—
Investment securities, available for sale	396,194	396,194	22,305	373,889	—
Loans held for sale	1,758,084	1,758,695	—	1,676,891	81,804
Loans receivable, net of allowance for loan losses	4,304,285	4,311,848	—	—	4,311,848
FHLB, Federal Reserve Bank and other restricted stock	81,798	81,798	—	81,798	—
FDIC loss sharing receivable	3,427	3,427	—	—	3,427
Derivatives	8,810	8,810	—	8,723	87
Liabilities:					
Deposits	\$4,893,321	\$4,905,100	\$3,059,457	\$1,845,643	\$—
FHLB advances	1,545,000	1,547,465	1,175,147	372,318	—
Other borrowings	88,250	92,928	67,678	25,250	—
Subordinated debt	110,000	113,025	—	113,025	—
Derivatives	12,938	12,938	—	12,938	—

			Fair Value Measurements at December 31, 2014		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(amounts in thousands)					
Assets:					
Cash and cash equivalents	\$371,023	\$371,023	\$371,023	\$—	\$—
Investment securities, available for sale	416,685	416,685	24,270	392,415	—
Loans held for sale	1,435,459	1,436,460	—	1,335,668	100,792
Loans receivable, net of allowance for loan losses	4,281,241	4,285,537	—	—	4,285,537
FHLB, Federal Reserve Bank and other stock	82,002	82,002	—	82,002	—
FDIC loss sharing receivable	2,320	2,320	—	—	2,320
Derivatives	7,552	7,552	—	7,509	43
Liabilities:					
Deposits	\$4,532,538	\$4,540,507	\$2,820,875	\$1,719,632	\$—
FHLB advances	1,618,000	1,619,858	1,298,000	321,858	—
Other borrowings	88,250	92,069	66,944	25,125	—
Subordinated debt	110,000	111,925	—	111,925	—
Derivatives	9,716	9,716	—	9,716	—

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For financial assets and liabilities measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			
	Fair Value Measurements at the End of the Reporting Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(amounts in thousands)				
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Mortgage-backed securities	\$—	\$ 358,717	\$—	\$358,717
Corporate notes	—	15,172	—	15,172
Equity securities	22,305	—	—	22,305
Derivatives (1)	—	8,723	87	8,810
Loans held for sale – fair value option	—	1,676,891	—	1,676,891
Total assets - recurring fair value measurements	\$22,305	\$ 2,059,503	\$87	\$2,081,895
Liabilities				
Derivatives (2)	\$—	\$ 12,938	\$—	\$12,938
Measured at Fair Value on a Nonrecurring Basis:				
Assets				
Impaired loans, net of specific reserves of \$3,369	\$—	\$ —	\$4,943	\$4,943
Other real estate owned	—	—	546	546
Total assets - nonrecurring fair value measurements	\$—	\$ —	\$5,489	\$5,489
	December 31, 2014			
	Fair Value Measurements at the End of the Reporting Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(amounts in thousands)				
Measured at Fair Value on a Recurring Basis:				
Assets				
Available-for-sale securities:				
Mortgage-backed securities	\$—	\$ 377,311	\$—	\$377,311
Corporate notes	—	15,104	—	15,104
Equity securities	24,270	—	—	24,270
Derivatives (1)	—	7,509	43	\$7,552
Loans held for sale – fair value option	—	1,335,668	—	1,335,668
Total assets - recurring fair value measurements	\$24,270	\$ 1,735,592	\$43	\$1,759,905
Liabilities				
Derivatives (2)	—	\$ 9,716	—	\$9,716
Measured at Fair Value on a Nonrecurring Basis:				

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Assets

Impaired loans, net of specific reserves of \$1,342	\$—	\$ —	\$2,380	\$2,380
Other real estate owned	—	—	9,149	9,149
Total assets - nonrecurring fair value measurements	\$—	\$ —	\$11,529	\$11,529
(1)Included in Other Assets				
(2)Included in Other Liabilities				

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The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2015 and 2014 are summarized as follows.

Three Months Ended March 31, 2015	Residential Mortgage Loan Commitments
(amounts in thousands)	
Balance at January 1, 2015	\$43
Issuances	87
Settlements	(43)
Balance at March 31, 2015	\$87
Three Months Ended March 31, 2014	Residential Mortgage Loan Commitments
(amounts in thousands)	
Balance at January 1, 2014	\$240
Issuances	103
Settlements	(240)
Balance at March 31, 2014	\$103

The Bancorp's policy is to recognize transfers between fair value levels when events or circumstances warrant transfers. There were no transfers between levels during the first three months of 2015 nor 2014.

The following table summarizes financial assets and financial liabilities measured at fair value as of March 31, 2015 and December 31, 2014 on a recurring and nonrecurring basis for which the Bancorp utilized Level 3 inputs to measure fair value.

March 31, 2015	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	\$4,943	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	546	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	87	Adjusted market bid	Pull-through rate	80%
December 31, 2014	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
(amounts in thousands)				
Impaired loans	\$2,380	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Other real estate owned	9,149	Collateral appraisal (1)	Liquidation expenses (2)	(8)%
Residential mortgage loan commitments	43	Adjusted market bid	Pull-through rate	80%

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

(2) Fair value is adjusted for costs to sell.

(3) Presented as a percentage of the value determined by appraisal.

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NOTE 11 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with a forecasted issuance of debt. The ineffective portion of the change in fair value of the derivatives is to be recognized directly in earnings. During the three months ended March 31, 2015 and 2014, Customers Bancorp did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Bancorp's variable-rate debt. The Bancorp does not expect to reclassify any amounts from accumulated other comprehensive income to interest expense during the next 12 months as Customers Bancorp's derivatives are effective after April 2016.

Customers Bancorp is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 24 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At March 31, 2015 and December 31, 2014, Customers Bancorp had one outstanding interest rate derivative with a notional amount of \$150.0 million that was designated as a cash flow hedge of interest rate risk. The hedge expires in April 2019.

Derivatives Not Designated as Hedging Instruments

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan to a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that the Bank executes with a third party in order to minimize interest rate risk exposure resulting from such transactions. Since the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting third-party market swaps are recognized directly in earnings. At March 31, 2015, the Bancorp had 46 interest rate swaps with an aggregate notional amount of \$263.0 million related to this program. At December 31, 2014, the Bancorp had 44 interest rate swaps with an aggregate notional amount of \$251.9 million related to this program.

The Bank enters into residential mortgage loan commitments in connection with its mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under applicable accounting guidance

and are reported at fair value, with changes in fair value recorded directly to earnings. At March 31, 2015 and December 31, 2014, the Bank had an outstanding notional balance of residential mortgage loan commitments of \$3.0 million and \$3.8 million, respectively.

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The Bank also purchased credit derivatives to hedge the performance risk associated with one of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value reported directly in earnings. At March 31, 2015 and December 31, 2014, the Bank had an outstanding notional balance of credit derivatives of \$14.8 million and \$13.4 million, respectively.

Fair Value of Derivative Instruments on the Balance Sheet

The following table presents the fair value of the Bancorp's derivative financial instruments as well as their classification on the balance sheet as of March 31, 2015 and December 31, 2014.

	March 31, 2015		Derivative Liabilities	
	Derivative Assets Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	\$—	Other liabilities	\$3,891
Total		\$—		\$3,891
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	\$8,515	Other liabilities	\$9,047
Credit contracts	Other assets	208	Other liabilities	—
Residential mortgage loan commitments	Other assets	87	Other liabilities	—
Total		\$8,810		\$9,047
	December 31, 2014		Derivative Liabilities	
	Derivative Assets Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(amounts in thousands)				
Derivatives designated as cash flow hedges:				
Interest rate swaps	Other assets	\$—	Other liabilities	\$1,945
Total		\$—		\$1,945
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other assets	\$7,332	Other liabilities	\$7,771
Credit contracts	Other assets	177	Other liabilities	—
Residential mortgage loan commitments	Other assets	43	Other liabilities	—
Total		\$7,552		\$7,771

Effect of Derivative Instruments on Comprehensive Income

The following tables present the effect of the Bancorp's derivative financial instruments on comprehensive income for the three months ended March 31, 2015 and 2014.

Three Months Ended March 31, 2015		
	Income Statement Location	Amount of Income Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	\$ 121
Credit contracts	Other non-interest income	30
Residential mortgage loan commitments	Mortgage loan and banking income	44
Total		\$ 195

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Three Months Ended March 31, 2014		
	Income Statement Location	Amount of Income (Loss) Recognized in Earnings
(amounts in thousands)		
Derivatives not designated as hedging instruments:		
Interest rate swaps	Other non-interest income	\$ 520
Credit contracts	Other non-interest income	(149)
Residential mortgage loan commitments	Mortgage loan and banking income	(137)
Total		\$ 234

Three Months Ended March 31, 2015		
	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
(amounts in thousands)		
Derivative in cash flow hedging relationships:		
Interest rate swaps	\$ (1,168) Interest expense	\$ —

Three Months Ended March 31, 2014		
	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
(amounts in thousands)		
Derivative in cash flow hedging relationships:		
Interest rate swaps	\$ 432 Interest expense	\$ —
(1) Net of taxes		

Credit-risk-related Contingent Features

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

Agreements with major derivative dealer counterparties contain provisions whereby default on any of the Bancorp's indebtedness would be considered a default on its derivative obligations. The Bancorp also has entered into agreements that contain provisions under which the counterparty could require the Bancorp to settle its obligations if the Bancorp fails to maintain its status as a well/adequately-capitalized institution. As of March 31, 2015, the fair value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was \$13.2 million. In addition, the Bancorp has minimum collateral posting thresholds with certain of these counterparties and at March 31, 2015 had posted \$12.8 million of cash as collateral. The Bancorp records cash posted as collateral as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of other assets.

Disclosures about Offsetting Assets and Liabilities

The following tables present derivative instruments that are subject to enforceable master netting arrangements. The Bancorp's interest rate swaps with institutional counterparties are subject to master netting arrangements and are included in the table below. Interest rate swaps with commercial banking customers and residential mortgage loan

commitments are not subject to master netting arrangements and are excluded from the table below. The Bancorp has not made a policy election to offset its derivative positions.

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Offsetting of Financial Assets and Derivative Assets At March 31, 2015

	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet Financial Instruments	Cash Collateral Received	Net Amount
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(amounts in thousands)

Description

Interest rate swap derivatives with institutional counterparties	\$208	\$—	\$208	\$208	\$—	\$—
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Offsetting of Financial Liabilities and Derivative Liabilities At March 31, 2015

	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet Financial Instruments	Cash Collateral Pledged	Net Amount
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(amounts in thousands)

Description

Interest rate swap derivatives with institutional counterparties	\$12,938	\$—	\$12,938	\$208	\$12,730	\$—
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Offsetting of Financial Assets and Derivative Assets At December 31, 2014

	Gross Amount of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts not Offset in the Consolidated Balance Sheet Financial Instruments	Cash Collateral Received	Net Amount
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(amounts in thousands)

Description

Interest rate swap derivatives with institutional counterparties	\$192	\$—	\$192	\$192	\$—	\$—
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Offsetting of Financial Liabilities and Derivative Liabilities At December 31, 2014

	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the	Gross Amounts not Offset in the Consolidated Balance Sheet Financial	Cash	Net Amount
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		Sheet	Consolidated Balance Sheet	Instruments	Collateral Pledged	
(amounts in thousands)						
Description						
Interest rate swap derivatives with institutional counterparties	\$9,703	\$—	\$9,703	\$192	\$9,511	\$—

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Note Regarding Forward-Looking Statements

This report and all attachments hereto as well as other written or oral communications made from time to time by Customers Bancorp may contain certain forward-looking information within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “plan,” “intend,” “anticipates,” “strategies” or the negative thereof or comparable terminology, or by discussion of strategy that involve risks and uncertainties. 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. These forward-looking statements are subject to significant uncertainties and contingencies, many of which are beyond the control of the Bancorp and the Bank. 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 report and attachments hereto. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or, in the case of documents referred to, the dates of those documents. Neither Customers Bancorp nor the 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.

Management’s discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, a financial holding company, and its wholly owned subsidiaries, including Customers Bank. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers Bancorp’s financial condition and results of operations as of and for the three months ended March 31, 2015. All quarterly information in this Management’s Discussion and Analysis is unaudited. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Customers Bancorp’s filing on Form 10-K for the fiscal year ended December 31, 2014 (“2014 Form 10-K”).

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in “NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION” to our audited financial statements included in our 2014 Form 10-K and updated in this report on Form 10-Q for the quarterly period ended March 31, 2015.

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. We consider 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 our assets and liabilities and our results of operations. There have been no material changes in our critical accounting policies, judgments and estimates, including assumptions or estimation techniques utilized, as compared to those disclosed in our 2014 Form 10-K.

First Quarter Events of Note

Customers Bancorp continued its strong financial performance through first quarter 2015. Most notably, total assets were \$7.1 billion at March 31, 2015, an increase of \$0.3 billion from December 31, 2014. During first quarter 2015,

Customers achieved significant organic loan and deposit growth as loan balances increased \$0.3 billion and deposits grew \$0.4 billion. During first quarter 2015, commercial loans including loans held for sale increased \$362 million. Asset quality remained high and capital ratios exceeded levels established for “well-capitalized” banks. Financial results for first quarter 2015 included strong earnings of \$14.0 million, a record high, or \$0.49 per diluted share. Return on average common equity continued to trend upwards, reaching 12.5% for first quarter 2015, and the efficiency ratio declined to 52.8%. During the quarter, Customers sold approximately \$140 million of multi-family loans in market based transactions which resulted in a gain on sale of approximately \$1.2 million. Additionally, in January 2015 Customers launched Phase 1 of Bank Mobile, an absolutely no customer fee mobile bank offering, and the first to allow opening of deposit accounts using smart phone technology.

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Results of Operations

First Quarter 2015 Compared to First Quarter 2014

Net income available to common shareholders increased \$5.8 million, or 71.5%, to \$14.0 million for the three months ended March 31, 2015, compared to \$8.1 million for the three months ended March 31, 2014. The increased net income resulted from increased net interest income of \$16.5 million, largely reflecting the loan portfolio growth of the past year and decreased provision for loan losses of \$1.4 million, partially offset by decreased non-interest income of \$1.6 million, increased non-interest expense of \$6.3 million, and increased income tax expense of \$4.3 million resulting from higher level of pre-tax income and increase in the effective tax rate.

Net interest income increased \$16.5 million, or 55.5%, for the three months ended March 31, 2015 to \$46.3 million, compared to \$29.8 million for the three months ended March 31, 2014. This increase resulted principally from an increase in average loan balances (loans plus loans held for sale) of \$2.3 billion.

The provision for loan losses decreased by \$1.4 million to \$3.0 million for the three months ended March 31, 2015, compared to \$4.4 million for the same period in 2014. The provision for loan losses for the three months ended March 31, 2015 included \$2.0 million for decreased valuation estimates on property collateralizing impaired loans, \$0.9 million for growth and change in mix of the held for investment portfolio, and \$0.8 million for increased loss estimates on purchased credit impaired loans, partially offset by \$0.7 million for increased benefits expected to be collected from the FDIC. Provision expense for the three months ended March 31, 2014 was driven primarily by growth in loans held for investment of nearly \$900 million during the quarter.

Non-interest income decreased \$1.6 million during the three months ended March 31, 2015 to \$5.7 million, compared to \$7.3 million for the three months ended March 31, 2014. The decrease in first quarter 2015 was primarily attributable to gains realized from sales of investment securities in first quarter 2014 of \$2.8 million, partially offset by gains realized from loan sales in first quarter 2015 of \$1.2 million.

Non-interest expense increased \$6.3 million during the three months ended March 31, 2015 to \$27.5 million, compared to \$21.2 million during the three months ended March 31, 2014 primarily as a result of the \$2.0 billion growth in Customers' loan portfolio, requiring increased staffing for loan origination and administrative support of approximately \$4.6 million and increased occupancy expense, FDIC assessments, taxes, and other regulatory fees of \$1.6 million. Costs related to Bank Mobile totaling approximately \$1.0 million are also included in first quarter 2015 operating expenses.

Income tax expense increased \$4.3 million in the three months ended March 31, 2015 to \$7.7 million, compared to \$3.4 million in the same period of 2014. The increase in the income tax expense was driven primarily from increased taxable income of \$10.1 million in first quarter 2015 and an out of period adjustment of \$0.6 million recorded in the first quarter 2014 that reduced income tax expense.

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.

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

	Three Months Ended March 31, 2015				2014			
	Average Balance	Interest Income or Expense	Average Yield or Cost (%)		Average Balance	Interest Income or Expense	Average Yield or Cost	
(amounts in thousands)								
Assets								
Interest earning deposits	\$283,613	\$179	0.25	%	\$186,563	\$116	0.25	%
Investment securities, taxable (A)	406,600	2,363	2.32		516,902	3,040	2.35	
Loans held for sale	1,367,301	10,900	3.23		566,535	5,083	3.64	
Loans (B)	4,361,664	43,093	4.00		2,842,050	28,355	4.04	
Other interest-earning assets	75,068	2,183	11.80		38,010	280	2.99	
Total interest earning assets	6,494,246	58,718	3.66	%	4,150,060	36,874	3.59	%
Non-interest earning assets	285,280				220,180			
Total assets	\$6,779,526				\$4,370,240			
Liabilities								
Interest checking	\$93,880	\$154	0.67	%	\$57,067	\$69	0.49	%
Money market	2,196,850	3,021	0.56		1,397,299	2,199	0.64	
Other savings	35,138	38	0.44		38,312	40	0.43	
Certificates of deposit	1,795,394	4,313	0.97		1,252,871	3,107	1.01	
Total interest bearing deposits	4,121,262	7,526	0.74		2,745,549	5,415	0.80	
Borrowings	1,471,494	4,862	1.33		551,339	1,667	1.22	
Total interest-bearing liabilities	5,592,756	12,388	0.90		3,296,888	7,082	0.87	
Non-interest-bearing deposits	708,901				666,775			
Total deposits & borrowings	6,301,657		0.79		3,963,663		0.72	
Other non-interest bearing liabilities	24,542				11,619			
Total liabilities	6,326,199				3,975,282			
Shareholders' Equity	453,327				394,958			
Total liabilities and shareholders' equity	\$6,779,526				\$4,370,240			
Net interest earnings		46,330				29,792		
Tax-equivalent adjustment (C)		125				90		
Net interest earnings		\$46,455				\$29,882		
Interest spread			2.87	%			2.87	%
Net interest margin			2.89	%			2.90	%
Net interest margin tax equivalent (C)			2.90	%			2.91	%

(A) For presentation in this table, average 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.

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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.

	Three Months Ended March 31, 2015 vs. 2014		
	Increase (Decrease) due to Change in		
	Rate	Volume	Total
(amounts in thousands)			
Interest income:			
Interest earning deposits	\$2	\$61	\$63
Investment securities	(35	) (642	) (677
Loans held for sale	(625	) 6,442	5,817
Loans	(254	) 14,992	14,738
Other interest-earning assets	1,430	473	1,903
Total interest income	518	21,326	21,844
Interest expense:			
Interest checking	30	55	85
Money market deposit accounts	(307	) 1,129	822
Savings	1	(3	) (2
Certificates of deposit	(99	) 1,305	1,206
Total interest bearing deposits	(375	) 2,486	2,111
Borrowings	177	3,018	3,195
Total interest expense	(198	) 5,504	5,306
Net interest income	\$716	\$15,822	\$16,538

Net interest income for the three months ended March 31, 2015 was \$46.3 million, an increase of \$16.5 million, or 55.5%, when compared to net interest income of \$29.8 million for the three months ended March 31, 2014. This net increase was primarily the result of an increase of \$800.8 million in the average balance of "Loans held for sale" and an increase of \$1.5 billion in the average balance of "Loans." Within "Loans," changes in the following categories primarily were responsible for the net increase in loan volume:

- \$969.5 million increase in the average balance of multi-family loans due to growth of the multi-family lending business; and

- \$628.7 million increase in the average balance of commercial loans primarily due to the growth of the commercial and industrial loan portfolio, including owner occupied commercial real estate loans.

These particular increases in loan volume were the result of concentrated efforts by Customers Bank's lending teams to execute an organic growth strategy.

Average interest-bearing deposits for the three months ended March 31, 2015 increased by \$1.4 billion when compared to average interest-bearing deposits for the three months ended March 31, 2014. Interest expense on total interest bearing deposits increased \$2.1 million in first quarter 2015 compared to first quarter 2014. The average rate on interest bearing deposits decreased 6 basis points, and the net impact of the increased deposit volume and the decreased deposit rate resulted in increased interest expense in first quarter 2015. Borrowings also had a significant effect on net interest income due to increased volume as well as an 11 basis point increase in the average rate due to the issuance in June 2014 of subordinated and senior debt. The increased borrowings volume included the following:

\$789.4 million increase in the average balance of FHLB advances; and

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\$133.3 million increase in the average balance of subordinated and senior debt due to the issuances of \$110 million of subordinated debt with an interest rate of 6.125%, and \$25 million of senior debt with an interest rate of 4.625% in June 2014.

Customers' net interest margin (tax equivalent) decreased 1 basis point to 2.90% for the three months ended March 31, 2015 when compared to the net interest margin (tax equivalent) of 2.91% for the same period in 2014.

Provision for Loan Losses

Customers Bank has established an 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. At March 31, 2015, approximately \$37 million, or 0.6% of the total loan portfolio, was covered under loss sharing agreements with the FDIC. Charge-offs incurred on the loans covered by the loss share agreements greater than the original estimated value are recorded as an increase to the provision for loan losses, 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. Conversely, if the estimated cash flows on the covered loans increase, all or a portion of the previously recorded provision for loan losses will be reversed, and the corresponding receivable due from the FDIC will be written down as an increase to the provision for loan losses. The FDIC loss sharing receivable balance will be reduced through a charge to the provision for loan losses, with no offsetting reduction to the allowance for loan losses, as the FDIC loss sharing arrangements reach their contractual maturities and the estimated losses in the covered loans have not yet emerged or been realized in a final disposition event. The FDIC loss sharing arrangements for non-single family loans expire in third quarter 2015. The loss sharing arrangements for single family loans expire in third quarter 2020.

The provision for loan losses decreased by \$1.4 million to \$3.0 million for the three months ended March 31, 2015, compared to \$4.4 million for the same period in 2014. The decrease in the first quarter 2015 provision for loan losses was primarily driven by an increase in the estimated benefits expected to be collected from the FDIC of \$0.7 million compared to a reduction of estimated benefits expected to be derived from the FDIC loss sharing agreements of \$1.4 million in first quarter 2014. This decrease was partially offset by an increase in the provision of loan losses of \$0.7 million mainly driven by reduced valuation estimates on property collateralizing impaired loans in first quarter 2015. For more information about our provision and allowance for loan losses and our loss experience, see "Credit Risk" and "Asset Quality" herein.

Non-Interest Income

The table below presents the components of non-interest income for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
(amounts in thousands)		
Mortgage warehouse transactional fees	\$2,273	\$1,759
Gain on sale of loans	1,231	—
Bank-owned life insurance	1,061	835
Deposit fees	179	214
Mortgage loan and banking income	151	409
Gain on sale of investment securities	—	2,832
Other	838	1,261
Total non-interest income	\$5,733	\$7,310

Non-interest income decreased \$1.6 million during the three months ended March 31, 2015 to \$5.7 million, compared to \$7.3 million for the three months ended March 31, 2014. The decrease in first quarter 2015 was primarily attributable to gains realized from the sale of investment securities in first quarter 2014 of \$2.8 million, partially offset

by gains realized from the sales of loans in first quarter 2015 of \$1.2 million. In addition, in first quarter 2015 mortgage warehouse transactional fees increased \$0.5 million due to the increased level of warehouse transactions, and bank-owned life insurance increased \$0.2 million as a result of policies purchased throughout 2014 and first quarter 2015. These increases were offset by reduced

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mortgage loan and banking income of \$0.3 million resulting from lower gains realized from the sale of mortgages and decreased other income of \$0.4 million primarily due to management advisory fees recognized in first quarter 2014.

Non-Interest Expense

The table below presents the components of non-interest expense for the three months ended March 31, 2015 and 2014.

	Three Months Ended March 31,	
	2015	2014
(amounts in thousands)		
Salaries and employee benefits	\$ 13,952	\$ 9,351
FDIC assessments, taxes, and regulatory fees	3,278	2,131
Occupancy	3,078	2,637
Professional services	1,913	2,282
Technology, communications and bank operations	1,554	1,560
Other real estate owned	884	351
Loan workout	347	414
Advertising and promotion	269	441
Other	2,190	2,002
Total non-interest expense	\$ 27,465	\$ 21,169

Non-interest expense was \$27.5 million for the three months ended March 31, 2015, an increase of \$6.3 million from non-interest expense of \$21.2 million for the three months ended March 31, 2014.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased \$4.6 million, or 49.2%, to \$14.0 million for the three months ended March 31, 2015. The primary reason for this increase was an increase in the number of employees to 449 full-time equivalents at March 31, 2015 from 387 full-time equivalents at March 31, 2014. This was directly related to the need for additional employees to support our organic growth. More specifically, the increased headcount is needed to support the growing multi-family, commercial real estate and commercial and industrial loan portfolios.

FDIC assessments, taxes and regulatory fees increased by \$1.1 million, or 53.8%, to \$3.3 million for the three months ended March 31, 2015 from \$2.1 million for the three months ended March 31, 2014. The primary reasons for this increase were increased deposit premiums and other regulatory and filing fees as a result of the growth of the Bank. Many of the premiums and fees are based upon assets of the Bank.

Occupancy expense increased by \$0.4 million, or 16.7%, to \$3.1 million for the three months ended March 31, 2015 from \$2.6 million for the three months ended March 31, 2014. This increase was driven by increased business activity in existing markets which require additional people and space for their work activities.

Professional services expense decreased by \$0.4 million, or 16.2%, to \$1.9 million for the three months ended March 31, 2015 from \$2.3 million for the three months ended March 31, 2014. This decrease was primarily attributable to lower legal and consulting expenses in first quarter 2015 related to litigation and other general regulatory matters.

Technology, communication and bank operations were unchanged at \$1.6 million for the three months ended March 31, 2015 and March 31, 2014 as core processing and other technology fees have remained flat in the first quarter 2014 despite the growth of the Bank.

Other real estate owned expense increased by \$0.5 million, or 151.8%, to \$0.9 million for the three months ended March 31, 2015 from \$0.4 million for the three months ended March 31, 2014. The increase was primarily attributable to higher valuation write downs based on updated appraisals received on foreclosed properties.

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Income Taxes

Income tax expense increased \$4.3 million in the three months ended March 31, 2015 to \$7.7 million, compared to \$3.4 million in the same period of 2014. The increase in the income tax expense was driven primarily from increased taxable income of \$10.1 million in first quarter 2015 and an out of period adjustment of \$0.6 million recorded in the first quarter 2014 that reduced income tax expense.

Financial Condition

General

Total assets were \$7.1 billion at March 31, 2015. This represented a \$0.3 billion, or 4.5%, increase from total assets of \$6.8 billion at December 31, 2014. The major change in our financial position occurred as the result of organic growth in our loan portfolio, which increased by \$0.3 billion, or 6.1%, to \$6.1 billion at March 31, 2015. The main driver of the increase in loans in first quarter 2015 was increased mortgage warehouse loans of \$342 million (up to \$1.7 billion at March 31, 2015 compared to \$1.3 billion at December 31, 2014) as a result of a decline in interest rates and increased level of refinancing activity.

Total liabilities were \$6.7 billion at March 31, 2015. This represented a \$0.3 billion, or 4.6%, increase from \$6.4 billion at December 31, 2014. The increase in total liabilities resulted from increased deposits at March 31, 2015 compared to December 31, 2014. Total deposits increased by \$0.4 billion, or 8.0%, to \$4.9 billion at March 31, 2015 from \$4.5 billion at December 31, 2014. Deposits are obtained primarily from within the Bank's geographic service area and through wholesale and broker networks. Broker networks provide low-cost funding alternatives to retail deposits and increase the diversity of the Bank's sources of funds. The increase in bank deposits was largely due to the seasonal inflow of student deposits and growth in certificates of deposits and money market and other interest bearing demand deposit accounts.

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

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Cash and cash equivalents	\$333,823	\$371,023
Investment securities, available for sale	396,194	416,685
Loans held for sale (includes \$1,676,891 and \$1,335,668, respectively, at fair value)	1,758,084	1,435,459
Loans receivable	4,337,851	4,312,173
Total loans receivable, net of the allowance for loan losses	4,304,285	4,281,241
Total assets	7,133,225	6,825,370
Total deposits	4,893,321	4,532,538
FHLB advances	1,545,000	1,618,000
Other borrowings	88,250	88,250
Subordinated debt	110,000	110,000
Total liabilities	6,675,274	6,382,225
Total shareholders' equity	457,951	443,145
Total liabilities and shareholders' equity	7,133,225	6,825,370
Cash and Cash Equivalents		

Cash and cash equivalents include cash and due from banks and interest-earning deposits. Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled \$68.2 million at March 31, 2015. This represents a \$5.5 million increase from \$62.7 million at December 31, 2014. These balances vary from day to day, primarily due to variations in customers' deposits with the Bank. Interest-earning deposits consist of cash deposited at other banks, primarily the Federal Reserve Bank of Philadelphia. Interest-earning deposits were \$265.6 million and \$308.3 million at March 31, 2015 and December 31, 2014, respectively.

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Investment Securities

The investment securities portfolio is an important source of interest income and liquidity. At March 31, 2015, investments consisted of mortgage-backed securities (principally guaranteed by an agency of the United States government), corporate notes and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity and collateral for borrowings, and diversify the credit risk of interest-earning assets. The portfolio is structured to maximize net interest income, given changes in the economic environment, liquidity position, and balance sheet mix.

At March 31, 2015, our investment securities were \$396.2 million compared to \$416.7 million at December 31, 2014. The decrease was primarily the result of maturities and principal repayments on mortgage-backed securities during the quarter.

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.

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.

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 March 31, 2015, loans in the warehouse lending portfolio totaled \$1.7 billion and are designated as held for sale.

The goal of the Bank's multi-family lending group 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 March 31, 2015, the Bank had multi-family loans of \$2.1 billion outstanding, making up approximately 35.0% of the Bank's total loan portfolio, compared to \$2.2 billion, or approximately 38.8% of the total loan portfolio at December 31, 2014.

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As of March 31, 2015, the Bank had \$5.7 billion in commercial loans outstanding, composing approximately 93.1% of its total loan portfolio, which includes loans held for sale, compared to \$5.3 billion, composing approximately 92.5% at December 31, 2014.

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 March 31, 2015, the Bank had \$417.9 million in consumer loans outstanding, or 6.9%, 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 as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans at fair value	\$1,674,014	\$1,332,019
Multi-family loans at lower of cost or fair value	81,193	99,791
Total commercial loans held for sale	1,755,207	1,431,810
Consumer loans:		
Residential mortgage loans at fair value	2,877	3,649
Loans held for sale	\$1,758,084	\$1,435,459

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Loans receivable, net, increased by \$23.0 million during first quarter 2015. The composition of loans receivable as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial:		
Multi-family	\$2,053,379	\$2,127,034
Commercial real estate	1,177,725	1,132,072
Commercial and industrial	606,091	540,430
Construction	62,430	56,669
Total commercial loans	3,899,625	3,856,205
Consumer:		
Residential real estate	277,167	285,003
Manufactured housing	121,622	126,731
Other	1,324	1,541
Total consumer loans	400,113	413,275
Total loan receivable not covered under FDIC loss sharing agreements	4,299,738	4,269,480
(1)		
Commercial:		
Commercial real estate	16,347	17,585
Commercial and industrial	1,746	2,235
Construction	3,975	6,705
Multi-family	361	372
Total commercial loans	22,429	26,897
Consumer:		
Residential real estate	12,159	12,392
Other	2,777	2,892
Total consumer loans	14,936	15,284
Total loans receivable covered under FDIC loss sharing agreements	37,365	42,181
(1)		
Total loans receivable	4,337,103	4,311,661
Deferred (fees) costs and unamortized premiums/(discounts), net	748	512
Allowance for loan losses	(33,566)	(30,932)
Loans receivable, net	\$4,304,285	\$4,281,241

(1) Loans that were acquired in two FDIC assisted transactions and are covered under loss sharing arrangements with the FDIC are referred to as “covered loans” throughout this Management’s Discussion and Analysis.

Credit Risk

Customers Bancorp manages credit risk by maintaining diversification in its loan portfolio, establishing and enforcing prudent underwriting standards, diligent collection efforts and continuous and periodic loan classification reviews. Management also considers the effect of credit risk on financial performance by 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. The allowance for loan losses is evaluated at least quarterly.

The provision for loan losses was \$3.0 million and \$4.4 million for the three months ended March 31, 2015 and 2014, respectively. The allowance for loan losses maintained for loans receivable (excludes loans held for sale) was \$33.6 million, or 0.78% of non-covered loans receivable, at March 31, 2015, \$30.9 million, or 0.72% of non-covered loans receivable, at December 31, 2014, and \$26.7 million, or 0.81% of non-covered loans receivable, at March 31, 2014. The coverage ratio increased from December 31, 2014 primarily due to provisions for estimated loan losses recorded to reflect decreased valuation estimates on properties collateralizing certain impaired loans as well as the change in the

mix of the held for investment portfolio and increased loss estimates on purchase credit impaired loans. Net charge-offs were \$1.0 million for the three months ended March 31, 2015, an increase of \$0.8 million compared to the same period in 2014. The Bank had approximately

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\$37.4 million in loans that were covered under loss share arrangements with the FDIC as of March 31, 2015 compared to \$42.2 million as of December 31, 2014 and \$61.6 million as of March 31, 2014. The 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.

The chart below depicts changes in Customers Bancorp's allowance for loan losses for the periods indicated.

Analysis of the Allowance for Loan Losses

	Three Months Ended March 31,	
	2015	2014
(amounts in thousands)		
Balance at the beginning of the period	\$30,932	\$23,998
Loan charge-offs		
Construction	769	—
Commercial real estate	318	248
Commercial and industrial	21	—
Residential real estate	—	288
Other consumer	36	—
Total Charge-offs	1,144	536
Loan recoveries		
Construction	15	—
Commercial real estate	—	25
Commercial and industrial	45	90
Residential real estate	—	224
Other consumer	83	2
Total Recoveries	143	341
Total net charge-offs	1,001	195
Provision for loan losses	3,635	2,901
Balance at the end of the period	\$33,566	\$26,704

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. See "Asset Quality" for further discussion of the allowance for loan losses.

Customers' methodology includes an evaluation of loss potential from individual problem credits (potentially impaired loans), 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 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.

Nearly 90% 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

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estate values may 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 one year 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, are inherently subjective as they require material estimates, including, among other estimates, 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 loan losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral (less estimated costs to sell) if principal repayment is expected to come from the sale or operation of such collateral.

Asset Quality

Customers divides its loan portfolio into two categories to analyze and understand loan activity and performance: loans that were originated and loans that were acquired. Customers further divides originated loans into two categories: those originated prior to the current underwriting standards in 2009 (“Legacy”) and those originated subject to those standards post 2009 (“Total Originated Loans”), and purchased loans into two categories: those purchased credit impaired, and those not acquired credit impaired. 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 losses. Credit losses from acquired loans are absorbed by the allowance for loan losses and cash reserves, as described below. The schedule below includes both loans held for sale and loans held for investment.

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Asset Quality at March 31, 2015

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 (%)
(amounts in thousands)									
Legacy Loans									
Legacy	\$49,559	\$46,946	\$76	\$—	\$2,537	\$4,104	\$6,641	5.12 %	12.38 %
TDRs	1,251	1,189	—	—	62	—	62	4.96 %	4.96 %
Total Legacy Loans	50,810	48,135	76	—	2,599	4,104	6,703	5.12 %	12.21 %
Multi-Family									
Commercial Real Estate	2,049,029	2,049,029	—	—	—	—	—	— %	— %
Commercial & Industrial	1,077,664	1,075,524	288	—	1,852	—	1,852	0.17 %	0.17 %
Residential	534,884	533,983	—	—	901	271	1,172	0.17 %	0.22 %
Construction	157,109	156,766	183	—	160	—	160	0.10 %	0.10 %
Other consumer	62,343	62,343	—	—	—	—	—	— %	— %
TDRs	391	391	—	—	—	—	—	— %	— %
Total Originated Loans	551	551	—	—	—	—	—	— %	— %
Acquired Loans	3,881,971	3,878,587	471	—	2,913	271	3,184	0.08 %	0.08 %
Covered	28,747	24,208	481	—	4,058	8,239	12,297	14.12 %	33.25 %
Non-covered	319,998	310,648	3,681	4,546	1,123	513	1,636	0.35 %	0.51 %
TDRs Covered	528	528	—	—	—	—	—	— %	— %
TDRs Non-Covered	2,875	1,528	245	—	1,102	—	1,102	38.33 %	38.33 %
Total Acquired Loans	352,148	336,912	4,407	4,546	6,283	8,752	15,035	1.78 %	4.17 %
Acquired PCI Loans									
Covered	8,090	3,806	—	4,284	—	—	—	— %	— %
Non-Covered	44,084	37,603	677	5,804	—	—	—	— %	— %
Total Acquired PCI Loans	52,174	41,409	677	10,088	—	—	—	— %	— %
Deferred (fees) costs and unamortized premiums/(discounts), net									
	748	748	—	—	—	—	—	— %	— %
Total Loans Receivable	4,337,851	4,305,791	5,631	14,634	11,795	13,127	24,922	0.27 %	0.57 %
Total Loans Held for Sale	1,758,084	1,758,084	—	—	—	—	—	— %	— %
Total Portfolio	\$6,095,935	\$6,063,875	\$5,631	\$14,634	\$11,795	\$13,127	\$24,922	0.19 %	0.41 %

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Asset Quality at March 31, 2015 (continued)

Loan Type	Total Loans	NPL	ALL	Cash Reserve	Total Credit Reserves	Reserves to Loans (%)	Reserves to NPLs (%)		
(amounts in thousands)									
New Century Orig. Loans									
Legacy	\$49,559	\$2,537	\$1,691	\$—	\$1,691	3.41	%	66.65	%
TDRs	1,251	62	2	—	2	0.16	%	3.23	%
Total Legacy Loans	50,810	2,599	1,693	—	1,693	3.33	%	65.14	%
Multi-Family	2,049,029	—	8,196	—	8,196	0.40	%	—	%
Commercial Real Estate	1,077,664	1,852	9,900	—	9,900	0.92	%	534.56	%
Commercial & Industrial	534,884	901	3,946	—	3,946	0.74	%	437.96	%
Residential	157,109	160	1,393	—	1,393	0.89	%	870.63	%
Construction	62,343	—	468	—	468	0.75	%	—	%
Other consumer	391	—	6	—	6	1.53	%	—	%
TDRs	551	—	—	—	—	—	%	—	%
Total Originated Loans	3,881,971	2,913	23,909	—	23,909	0.62	%	820.77	%
Acquired Loans									
Covered	28,747	4,058	672	—	672	2.34	%	16.56	%
Non-covered	319,998	1,123	467	1,065	1,532	0.48	%	136.42	%
TDRs Covered	528	—	—	—	—	—	%	—	%
TDRs Non-Covered	2,875	1,102	—	—	—	—	%	—	%
Total Acquired Loans	352,148	6,283	1,139	1,065	2,204	0.63	%	35.08	%
Acquired PCI Loans									
Covered	8,090	—	1,220	—	1,220	15.08	%	—	%
Non-Covered	44,084	—	5,605	—	5,605	12.71	%	—	%
Total Acquired PCI Loans	52,174	—	6,825	—	6,825	13.08	%	—	%
Deferred (fees) costs and unamortized premiums/(discounts), net									
	748								
Total Loans Held for Investment	4,337,851	11,795	33,566	1,065	34,631	0.80	%	293.61	%
Total Loans Held for Sale	1,758,084	—	—	—	—				
Total Portfolio	\$6,095,935	\$11,795	\$33,566	\$1,065	\$34,631	0.57	%	293.61	%

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 March 31, 2015 and December 31, 2014, non-performing loans to total loans were 0.19% and 0.20%, respectively. Total reserves to non-performing loans were 293.6% and 289.6%, respectively, at March 31, 2015 and December 31, 2014.

Originated Loans

Originated loans (excluding held-for-sale loans) totaled \$3.9 billion, or 64.5%, of total loans at March 31, 2015, compared to \$3.8 billion, or 67.7%, at December 31, 2014. Of the total originated loans at March 31, 2015, \$3.9 billion, or 98.7%, 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 March 31, 2015. Of the total originated loans at December 31, 2014, \$3.8 billion, or 98.6%, were originated post 2009. Only \$2.9 million, or 0.08%, of the post 2009 loans were non-performing at December 31, 2014. The post 2009 originated loans were supported by an allowance for loan losses of \$23.9 million (0.62% of post 2009 originated loans) and \$21.1 million (0.55% of post 2009 originated loans), respectively, at March 31, 2015 and

December 31, 2014.

Legacy loans declined \$4.3 million to \$50.8 million at March 31, 2015, compared to \$55.1 million at December 31, 2014. Non-performing Legacy loans also declined from \$2.7 million at December 31, 2014 to \$2.6 million at March 31, 2015 as Customers continued to workout the losses in this portfolio. The Legacy originated loans were supported by an allowance for loan losses of \$1.7 million (3.33% of Legacy loans) and \$1.6 million (2.86% of Legacy loans), respectively, at March 31, 2015 and December 31, 2014.

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Table of Contents**Acquired Loans**

At March 31, 2015, Customers Bank reported \$404.3 million of acquired loans, which was 6.6% of total loans, compared to \$422.3 million, or 7.4%, of total loans at December 31, 2014. Non-performing acquired loans totaled \$6.3 million at March 31, 2015 and \$6.1 million at December 31, 2014. 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, \$67.4 million were supported by a \$1.1 million cash reserve at March 31, 2015, compared to \$70.6 million supported by a cash reserve of \$3.0 million at December 31, 2014. 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 March 31, 2015, \$45.9 million of these loans were outstanding, compared to \$47.5 million at December 31, 2014.

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 \$9.0 million (2.23% of total acquired loans) and \$11.3 million (2.67% of total acquired loans), respectively, at March 31, 2015 and December 31, 2014.

Held-for-Sale Loans

At March 31, 2015, loans held for sale were \$1.8 billion, or 28.8%, of the total loan portfolio, compared to \$1.4 billion, or 25.0% of the total loan portfolio at December 31, 2014. The loans held-for-sale portfolio at March 31, 2015 included \$1.7 billion of loans to mortgage banking businesses, \$81.2 million of multi-family loans and \$2.9 million of residential mortgage loans, compared to \$1.3 billion of loans to mortgage banking businesses, \$3.6 million of residential mortgages loans and \$99.8 million of multi-family loans at December 31, 2014. 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 or fair value. An allowance for loan losses is not recorded on loans that are held for sale.

Deposits

Customers Bank offers a variety of deposit accounts, including checking, savings, money market deposit accounts ("MMDA") and time deposits. Deposits are generally obtained primarily from our geographic service area. Customers also acquires deposits nationwide through deposit brokers, listing services and other relationships. Total deposits grew to \$4.9 billion at March 31, 2015, an increase of \$0.4 billion, or 8.0%, from \$4.5 billion at December 31, 2014. Demand deposits were \$797.8 million at March 31, 2015, compared to \$617.6 million at December 31, 2014, an increase of \$180.2 million, or 29.2%. These amounts were comprised primarily of non-interest bearing demand deposits. Savings, including MMDA, totaled \$2.3 billion at March 31, 2015, an increase of \$58.4 million or 2.7%, primarily attributed to the increase in brokered savings accounts. Time deposits were \$1.8 billion at March 31, 2015, an increase of \$122.2 million or 7.1%. At March 31, 2015, the Bank had \$675.5 million in state and municipal deposits which are subject to a reduction in the amount of available borrowing capacity through the FHLB based on collateral agreements with the depositors. State and municipal deposits under this program increased \$96.3 million, or 16.6% from December 31, 2014.

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

	March 31, 2015	December 31, 2014
(amounts in thousands)		

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Demand	\$797,819	\$617,638
Savings, including MMDA	2,261,638	2,203,237
Time, \$100,000 and over	1,174,894	1,043,265
Time, other	658,970	668,398
Total deposits	\$4,893,321	\$4,532,538

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Borrowings

During the three months ended March 31, 2015, Customers Bank borrowed \$25 million of long-term FHLB advances and repaid \$98 million of short-term FHLB advances.

Capital Adequacy and Shareholders' Equity

Shareholders' equity increased \$14.8 million to \$458.0 million at March 31, 2015 when compared to shareholders' equity of \$443.1 million at December 31, 2014. The components of the increase were as follows:

- net income of \$14.0 million for the three months ended March 31, 2015;
- share-based compensation expense of \$1.2 million;
- net other comprehensive loss of \$0.9 million; and
- the issuance of 78,510 shares of voting common stock under share-based-compensation plans.

We are subject to various regulatory capital requirements that are monitored by federal banking agencies. Failure to meet minimum capital requirements can lead to supervisory actions by regulators; any supervisory action could have a direct material effect on our financial statements. At March 31, 2015, Customers Bank and Customers Bancorp met all capital adequacy requirements to which they were subject and were well capitalized.

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The capital ratios for the Bank and the Bancorp at March 31, 2015 and December 31, 2014 were as follows:

(amounts in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of March 31, 2015:							
Common equity Tier 1 capital (to risk weighted assets)							
Customers Bancorp, Inc.	\$454,889	8.25	% \$248,013	4.5	% N/A	N/A	
Customers Bank	\$496,018	9.05	% \$246,741	4.5	% \$356,404	6.5	%
Total capital (to risk weighted assets)							
Customers Bancorp, Inc.	\$587,473	10.66	% \$440,913	8.0	% N/A	N/A	
Customers Bank	\$639,584	11.66	% \$438,651	8.0	% \$548,314	10.0	%
Tier 1 capital (to risk weighted assets)							
Customers Bancorp, Inc.	\$454,889	8.25	% \$330,684	6.0	% N/A	N/A	
Customers Bank	\$496,018	9.05	% \$328,988	6.0	% \$438,651	8.0	%
Tier 1 capital (to average assets)							
Customers Bancorp, Inc.	\$454,889	6.72	% \$270,915	4.0	% N/A	N/A	
Customers Bank	\$496,018	7.35	% \$269,801	4.0	% \$337,251	5.0	%
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	%

The capital ratios above reflect the new capital requirements under "Basel III" effective during the first quarter of 2015. As of March 31, 2015, the Bank and Bancorp were in compliance with the new requirements. See "NOTE 9 - REGULATORY MATTERS" for additional discussion regarding regulatory capital requirements.

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 its interest rate sensitivity and capital position, and strives to maintain a strong liquidity position.

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 March 31, 2015, our borrowing capacity with the Federal Home Loan Bank was \$3.2 billion of which \$1.2 billion was utilized in short-term borrowings and \$901.2 million of

available capacity utilized to collateralize state and municipal deposits. As of March 31, 2015, our borrowing capacity with the Federal Reserve Bank of Philadelphia was \$60.9 million.

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Net cash flows used in operating activities were \$324.4 million for the three months ended March 31, 2015, compared to net cash flows provided by operating activities of \$79.3 million for the three months ended March 31, 2014. For the three months ended March 31, 2015, originations of loans held for sale exceeded proceeds by \$341.1 million. For the three months ended March 31, 2014, proceeds received from the sale of loans exceeded originations of loans held for sale by \$50.6 million.

Investing activities used net cash flows of \$0.7 million for the three months ended March 31, 2015, compared to \$0.9 billion for the three months ended March 31, 2014. Net cash used to originate loans totaled \$0.1 billion for the three months ended March 31, 2015, compared to \$0.6 billion for the three months ended March 31, 2014. No loans were purchased in the three months ended March 31, 2015, compared to \$288.3 million for the three months ended March 31, 2014.

Financing activities provided an aggregate of \$0.3 billion for the three months ended March 31, 2015, increases in deposits provided \$0.4 billion, repayments of short-term borrowed funds used \$98.0 million, net proceeds from long-term FHLB advances provided \$25.0 million, and proceeds from the issuance of common stock provided \$0.1 million. Financing activities provided an aggregate of \$831.9 million for the three months ended March 31, 2014 driven by a net increase in deposits of \$646.4 million, and cash proceeds from short-term borrowed funds of \$185.5 million. These financing activities provided sufficient cash flows to support the Bancorp's investing and operating activities.

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

Effect of Government Monetary Policies

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At March 31, 2015, there have been no material changes in the information disclosed under "Quantitative and Qualitative Disclosures About Market Risk" included within Customers Bancorp's 2014 Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp's disclosure controls and procedures were effective at March 31, 2015.

During the quarter ended March 31, 2015, there have been no changes in the Bancorp's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings disclosed within our 2014 Form 10-K.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Risk Factors" included within the 2014 Form 10-K and included below. The risks described herein and in the 2014 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial also may materially adversely affect our business, financial condition and/or operating results. See "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements."

The information presented below updates and should be read in connection with the risk factors and information disclosed in our 2014 Annual Report.

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

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

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

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

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

Our organic growth strategy focuses on, among other things, expanding market share through our "high-tech" model, which includes remote account opening, remote deposit capture and mobile banking. These technological advances, such as BankMobile, are intended to allow the Bank to generate additional core deposits at a lower cost than generating deposits through opening and operating branch locations. Some of our competitors may have greater

resources to invest in technology and may be better equipped to market new technology-driven products and services. This may result in limiting, reducing or otherwise adversely affecting our growth strategy in this area and our access to deposits through mobile banking. In addition, to the extent we fail to keep pace with technological changes, or incur respectively large expenses to implement technological changes, our business, financial condition and results of operations may be adversely affected.

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We may not be able to attract and retain our relationship manager and private bankers, who are central to our strategic model.

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

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

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

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

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

Loans that we make through certain federal programs are dependent on the federal government's continuation and support of these programs and on our compliance with their requirements.

We participate in various U.S. government agency guarantee programs, including programs operated by the Small Business Administration. We are responsible for following all applicable U.S. government agency regulations, guidelines and policies whenever we originate loans as part of these guarantee programs. If we fail to follow any applicable regulations, guidelines or policies associated with a particular guarantee program, any loans we originate as part of that program may lose the associated guarantee, exposing us to credit risk we would not otherwise be exposed

to or underwritten as part of our origination process for U.S. government agency guaranteed loans, or result in our inability to continue originating loans under such programs. The loss of any guarantees for loans we have extended under U.S. government agency guarantee programs or the loss of our ability to participate in such programs could have a material adverse effect on our business, financial condition or results of operations.

The Federal Reserve is pursuing regulatory action against one of our business partners, which has subjected us to regulatory inquiry and potential regulatory action, which may result in liabilities adversely affecting our business, financial conditions and/or results of operations or in reputational harm.

Customers Bank provides deposit accounts and services to college students through relationships a third party, Higher One, Inc. (“Higher One”), has with colleges and universities in the United States using Higher One’s technological services. Because Higher One is not a bank, it must partner with one or more banks to provide deposit accounts and services to students. Higher One and one of Higher One’s former bank partners (the “predecessor bank”), announced in May 2014 that the Board of

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Governors of the Federal Reserve (the “Federal Reserve”) notified them that certain disclosures and operating processes of these entities may have violated certain laws and regulations and may result in penalties and restitution. In May, 2014, the Federal Reserve also informed Customers Bank, as one of Higher One’s bank partners since August 2013, that it is reviewing similar disclosures and processes related to deposit accounts provided by Customers Bank to determine whether there have been similar violations of certain laws and regulations.

Although the predecessor bank referenced above, which no longer is a partner with Higher One, has entered into a consent order to cease and desist pursuant to which it has agreed to pay a total of \$4.1 million in civil money penalties and an additional amount that it may be required to pay in restitution to students in the event Higher One is unable to pay the restitution obligations, if any, imposed on Higher One (“back-up restitution”), Customers Bank believes that the circumstances of its relationship with Higher One and the student customers are different than the relationship between the predecessor bank and Higher One and the student customers. Notably, Customers Bank believes that it identified the critical alleged compliance deficiencies within 30 days of beginning its relationship with Higher One, and caused such deficiencies to be remediated within 120 days. In addition, we understand that the amount of the total fees that Higher One collected from students who opened accounts at Customers Bank during the relevant time period is substantially less than the total fees that Higher One collected from students who opened deposit accounts at the predecessor bank during its relevant time period. Therefore, we anticipate, although we cannot assure you, that any back-up restitution obligations imposed on us would be substantially less than the back-up restitution obligations imposed on the predecessor bank.

Nonetheless, the Federal Reserve or other regulatory agencies which supervise us may determine that Customers Bank has responsibility for the violations of certain laws and regulations in connection with its relationship with Higher One and the student customers and may take regulatory action against Customers Bank that could include, among other things, entry into a consent order to cease and desist, civil money penalties and an obligation to provide back-up restitution to students who opened deposit accounts at Customer Bank during the relevant time period, in the event Higher One is unable to pay such restitution amounts. While Higher One has publicly disclosed that it amended its credit facility in February 2015 to allow, among other things, for the payment of up to \$75 million in connection with the resolution of these regulatory matters, we cannot assure you that Higher One will use or have access to the credit facility or otherwise have resources to satisfy its restitution obligations, if any. If any of the regulatory actions described herein were to occur, or if any other regulatory actions were to be taken against us, alone or in combination, such regulatory actions could have an adverse effect on our business or financial condition. We are currently in discussions with the Federal Reserve regarding these matters and at this time cannot predict the outcome of those discussions, including the amount of any civil money penalties or restitution that might be sought from us. However, based on these discussions and information currently available to us regarding Higher One and the predecessor bank, we currently do not believe that any penalties or customer restitution for which we may ultimately be responsible would have a material adverse effect on our business or financial condition.

We will be subject to heightened regulatory requirements if we exceed \$10 billion in assets.

Based on our current total assets and growth strategy, we do not anticipate our bank’s total assets to exceed \$10 billion in the near future, however, our bank’s total assets ultimately could exceed that level. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with \$10 billion or more in total assets, including compliance with portions of the Federal Reserve’s enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with \$10 billion or more in total assets are primarily examined by the Consumer Financial Protection Bureau (“CFPB”) with respect to various federal consumer financial protection laws and regulations. Currently, our bank is subject to regulations adopted by the CFPB, but the Federal Reserve is primarily responsible for examining our bank’s compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB’s examination and regulatory authority might impact our business.

Compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or our bank's total assets equal or exceed \$10 billion. As a result, we may incur compliance-related costs before we might otherwise be required, including if we do not continue to grow at the rate we expect or at all. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

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

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.

During the three months ended March 31, 2015, the Bancorp did not repurchase any of its shares. The maximum number of shares available to be purchased under the plan is 750,551 shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

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Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012
3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
4.1	Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.2	First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.3	6.375% Global Note in aggregate principal amount of \$55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.4	Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013.
4.5	6.375% Global Note in aggregate principal amount of \$8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013
4.6	Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp 8-K filed with the SEC on June 26, 2014
31.1	Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
31.2	Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

101	The Exhibits filed as part of this report are as follows:
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.

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SIGNATURES

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

Customers Bancorp, Inc.

May 7, 2015

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

Customers Bancorp, Inc.

May 7, 2015

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

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Exhibit Index

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3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
4.1	Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.2	First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.3	6.375% Global Note in aggregate principal amount of \$55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013
4.4	Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013.
4.5	6.375% Global Note in aggregate principal amount of \$8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013
4.6	Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp 8-K filed with the SEC on June 26, 2014
31.1	Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
31.2	Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a)
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

101 The Exhibits filed as part of this report are as follows:

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definitions Linkbase Document.

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