Customers Bancorp, Inc.
Form 10-K
March 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
001-35542
(Commission File Number)

(Exact name of registrant as specified in its charter)

Pennsylvania	27-2290659
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1015 Penn Avenue
Suite 103
Wyomissing PA 19610
(Address of principal executive offices)
(610) 933-2000
(Registrants telephone number, including area code)
N/A
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Voting Common Stock, par value $1.00 per share	New York Stock Exchange
6.375% Senior Notes due 2018	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, par value $1.00 per share	New York Stock Exchange

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):
Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
The aggregate market value of common stock held by non-affiliates of the registrant was approximately $638,256,138 as of June 30, 2016, based upon the closing price quoted on the New York Stock Exchange for such date. Shares of common stock held by each executive officer and director have been excluded because such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.
On February 28, 2017, 30,469,997 shares of Voting Common Stock were issued and outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on or about May 31, 2017 are incorporated by reference into Part III of this Annual Report.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, as well as other written or oral communications made from time to time by us, contains forward-looking information within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "plan," "intend," or "anticipate" or the negative thereof or comparable terminology. Forward-looking statements reflect numerous assumptions, estimates and forecasts as to future events. No assurance can be given that the assumptions, estimates and forecasts underlying such forward-looking statements will accurately reflect future conditions, or that any guidance, goals, targets or projected results will be realized. The assumptions, estimates and forecasts underlying such forward-looking statements involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions, which may not be realized and which are inherently subject to significant business, economic, competitive and regulatory uncertainties and known and unknown risks, including the risks described under "Risk Factors" in this Annual Report on Form 10-K, as such factors may be updated from time to time in our filings with the SEC, including our Quarterly Reports on Form 10-Q. Our actual results may differ materially from those reflected in the forward-looking statements.

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

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

standard setters;

- The businesses of Customers Bank and any acquisition targets or merger partners and subsidiaries not integrating successfully or such integration being more difficult, time-consuming or costly than expected;

- Material differences in the actual financial results of merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within an expected time frame;
- Our ability to successfully implement our growth strategy, control expenses and maintain liquidity;
- Customers Bank’s ability to pay dividends to Customers Bancorp;
- Risks related to our proposed sale of BankMobile to Flagship Bank, including:
  - Our ability to successfully complete the proposed sale and the timing of completion;
  - The ability of Customers and Flagship Bank to meet all of the conditions to completion of the proposed sale;
  - The impact of the announcement of the proposed sale on the value of our securities, our business and our relationship with employees and customers;
  - Our use of the proceeds from the sale;
  - The effect on Customers' business if the proposed sale is not completed and Customers is unable to sell or otherwise dispose of BankMobile before exceeding $10 billion in assets;
- Risks relating to BankMobile, including:
  - That integration of the Higher One Disbursement business with BankMobile may be less successful, more difficult, time-consuming or costly than expected, and that BankMobile may be unable to realize anticipated cost savings and revenue enhancements within the expected time frame or at all;
  - The number of existing student customers who transfer their accounts to BankMobile from one of Higher One's former bank partners;
  - Material variances in the adoption rate of BankMobile's services by new students and/or the usage rate of BankMobile's services by current student customers compared to our expectations;
  - Material variances in the number of BankMobile student accounts retained following graduation compared to our expectations;
  - The levels of usage of other BankMobile student customers following graduation of additional product and service offerings of BankMobile or Customers Bank, including mortgages and consumer loans, and the mix of products and services used;
  - Our ability to implement changes to BankMobile's product and service offerings under current and future regulations and governmental policies;
  - Our ability to effectively manage revenue and expense fluctuations that may occur with respect to BankMobile's student-oriented business activities, which result from seasonal factors related to the higher-education academic year;
  - Our ability to implement our strategy regarding BankMobile, including with respect to our intent to sell or otherwise dispose of the BankMobile business in the future, depending upon market conditions and opportunities; and
  - BankMobile's ability to successfully implement its growth strategy and control expenses.

You are cautioned not to place undue reliance on any forward-looking statements we make, which speak only as of the date they are made. We do not undertake any obligation to release publicly or otherwise provide any revisions to any forward-looking statements we may make, including any forward-looking financial information, to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
PART I

Item 1. Business

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

On March 7, 2017, Customers entered into a Purchase and Assumption Agreement (the “Purchase Agreement”) with Flagship Community Bank (“Flagship Bank”). Subject to the terms and conditions of the Purchase Agreement, Customers will sell to Flagship the assets, and Flagship will assume from Customers the liabilities, of the BankMobile division of Customers Bank.

In fourth quarter 2016, Customers announced its intent to sell BankMobile and, as a result, BankMobile has been classified as “held for sale” on the consolidated balance sheets at December 31, 2016 and 2015 and BankMobile’s operating results have been presented as discontinued operations in the consolidated financial statements included in this Annual Report on Form 10-K. Although Customers currently anticipates that the sale of BankMobile to Flagship Bank will be completed in 2017, the information included herein regarding BankMobile’s business, operations, strategy, and risk factors is included in this Annual Report on Form 10-K to provide disclosure regarding Customers’ ownership and operation of BankMobile to date and through the completion of the sale of BankMobile to Flagship Bank or another sale or disposition of BankMobile if the sale to Flagship Bank is not completed.

For a description of certain risks relating to the proposed sale of BankMobile to Flagship Bank, please see “Risk Factors - Risks Related to the Proposed Sale of BankMobile.”

Business Summary

Customers Bancorp, through its wholly owned subsidiary Customers Bank, provides financial products and services to small and middle market businesses, not-for-profits, and consumers through its branches and offices in Southeastern Pennsylvania (Bucks, Berks, Chester, Delaware and Philadelphia Counties), Rye Brook, Melville and New York, New York (Westchester, Suffolk and New York Counties), Hamilton, New Jersey (Mercer County), Providence, Rhode Island (Providence County), Portsmouth, New Hampshire (Rockingham County) and Boston, Massachusetts (Suffolk County). Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its loans to mortgage banking companies. At December 31, 2016, Customers had total assets of $9.4 billion, including loans, net of the allowance for loan losses (including held-for-sale loans) of $8.2 billion, total deposits of $6.8 billion, and shareholders’ equity of $0.9 billion.

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

Customers also launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smart phone delivery channel. BankMobile refers to Customers' efforts to build a full service bank that is accessible to our customers anywhere and anytime through the customer's smartphone or other web-enabled device. As part of the BankMobile strategic initiative, on June 15, 2016, Customers completed the acquisition of substantially all the assets and the assumption of certain liabilities of the OneAccount Student Checking and Refund Management Disbursement Services business (the "Disbursement business") from Higher One Holdings, Inc. and Higher One, Inc. (together, "Higher One"). Higher One was acquired by a subsidiary of Blackboard, Inc. in third quarter 2016 and we continue to refer to that combined business as “Higher One” throughout this document. BankMobile, including the Disbursement business, provides a nationwide deposit-aggregation platform. BankMobile focuses on the aggregation of low-cost deposits and currently offers no fee banking, lines of credits to qualified customers, no overdraft fees, higher than average interest rate on savings, and access to 55,000 ATMs (and if the customer makes a monthly direct deposit into their BankMobile account over 400,000 ATMs) across the U.S. Customers believed that consolidating BankMobile with the Disbursement business would uniquely position it to become the graduating students "bank for life" and service each graduate's financial needs throughout their life. BankMobile's revenues are largely derived from interchange charges paid by the product selling

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vendor and user based fees for specific activities (such as lost card replacement). It is BankMobile's strategy to disrupt traditional banks' retail branch customer service delivery model and become the bank of choice for life of college students and middle income and under-banked Americans using its low-cost digital delivery platform and superior deposit products, serve as a white label deposit service customer to large companies, and disrupt payday lenders and high cost check lenders by making low cost quality banking services available to key under-banked markets. BankMobile has obtained and is applying for patents and copyrights to protect key elements of its products and delivery methods. This intellectual property will allow BankMobile to continue to differentiate its business from potential competitors. In fourth quarter 2016, Customers announced its intent to sell BankMobile and anticipates the sale to close in 2017. Accordingly, BankMobile has been classified as "held for sale" on the consolidated balance sheets at December 31, 2016 and 2015 and BankMobile's operating results have been presented as discontinued operations in the accompanying consolidated financial statements.

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

Background and History

Customers Bancorp was incorporated in Pennsylvania in April 2010 to facilitate a reorganization into a bank holding company structure pursuant to which Customers Bank became a wholly owned subsidiary of Customers Bancorp (the “Reorganization”) on September 17, 2011. Pursuant to the Reorganization, all of the issued and outstanding shares of Voting Common Stock and Class B Non-Voting Common Stock of Customers Bank were exchanged on a one-for-three basis for shares of Voting Common Stock and Class B Non-Voting Common Stock, respectively, of Customers Bancorp. Customers Bancorp’s corporate headquarters are located at 1015 Penn Avenue, Wyomissing, Pennsylvania 19610. The main telephone number is (610) 933-2000.

The deposits of Customers Bank, which was chartered as New Century Bank in 1994, are insured by the Federal Deposit Insurance Corporation. Customers Bank’s home office is located at 99 Bridge Street, Phoenixville, Pennsylvania 19460. The main telephone number is (610) 933-2000. BankMobile is a division of Customers Bank, first marketing its deposit products beginning in January 2015. As a division of Customers Bank, BankMobile's deposits are also insured by the Federal Deposit Insurance Corporation.

Executive Summary

Customers' Markets

Market Criteria

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

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

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BankMobile products are delivered to customers nationwide, via its digital delivery channels, such as a smartphone or other web-enable device. The BankMobile business is currently focused on millennials, now the largest generation in the United States, developing white label relationships with large companies that wish to expand their relationships with their retail customers and employees, and the under-banked who can utilize a low cost banking services provider. As a general retail deposit product and related services provider, the BankMobile segment does not have a dependency on a particular customer, but is focused on providing deposit services to college students who receive federal government loans or grants. BankMobile currently provides deposit products and services to students on nearly 800 college and university campuses.

Current Markets

Customers' target market is broadly defined as extending from the greater Washington, D.C. area to Boston, Massachusetts roughly following Interstate 95. As of December 31, 2016, Customers had bank branches or limited purpose offices ("LPOs") in the following locations:

Market	Offices	Type
Berks County, PA	4	Branch
New Haven, CT	1	LPO
Boston, Massachusetts	1	LPO
Mercer County, NJ	2	Branch/LPO
New York, NY	1	LPO
Philadelphia-Southeastern PA	9	Branch/LPO
Portsmouth, NH	1	LPO
Providence, RI	1	LPO
Suffolk County, NY	1	LPO
Westchester County, NY	1	Branch/LPO

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

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

Prospective Markets

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

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Competitive Strengths

- Experienced and respected management team. An integral element of the business strategy of Customers is to capitalize on and leverage the prior experience of its executive management team. The management team is led by Chairman and Chief Executive Officer, Jay Sidhu, who is the former Chief Executive Officer and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team of Customers have experience working together at Sovereign with Mr. Sidhu, including Richard Ehst, President and Chief Operating Officer, as well as Warren Taylor, Chief Financial Officer of BankMobile. During their tenure at Sovereign, these individuals established a track record of producing strong financial results, integrating acquisitions, managing risk, working with regulators and achieving organic growth and expense control. Team leaders Timothy Romig, Regional Chief Lending Officer, Steve Issa, New England Marketing President and Chief Lending Officer, and George Maroulis, Head of Private and Commercial Banking - New York, head the New Jersey and Pennsylvania, New England, and New York commercial lending areas, respectively, with 33, 40, and 25 years of experience, respectively. Ken Keiser, Director of Multi-Family and Investment Commercial Real Estate Lending, leads the commercial real estate and multi-family lending group and brings more than 40 years of experience including oversight of the Mid-Atlantic commercial real estate group at Sovereign. In addition, the residential lending group, which primarily includes commercial loans (warehouse facilities) to residential mortgage originators and, to a lesser extent, mortgage loans to individuals is led by Glenn Hedde, President of Warehouse Lending who brings more than 25 years of experience in this sector. This team has significant experience in successfully building a banking organization as well as existing valuable community and business relationships in our core markets.

- Unique Asset and Deposit Generation Strategies. Customers focuses on local market lending combined with relatively low-risk specialty lending segments. Local market asset generation provides various types of business lending products and consumer lending products, such as mortgage loans and home equity loans. Customers has also established a multi-family and commercial real estate product line that is focused on the Mid-Atlantic region, particularly New York City. The strategy is to focus on refinancing existing loans with conservative underwriting and to keep costs low. Through the multi-family and commercial real estate product, Customers earns interest and fee income and generates commercial deposits. Customers also maintains a specialty lending business, commercial loans to mortgage originators, which is a national business where the Bank provides liquidity to non-depository mortgage companies to fund their mortgage pipelines and meet other business needs. Through the loans to mortgage bankers business, Customers earns interest and fee income and generates core deposits.

- BankMobile Strategy. Customers launched BankMobile as a key strategic initiative in January 2015, recognizing the product delivery flexibility demanded by the millennial generation and the low cost of the smartphone delivery channel. BankMobile refers to Customers' efforts to build a full service bank that is accessible to our customers anywhere and anytime through the customer's smartphone or other web-enabled device. BankMobile provides a nationwide deposit-aggregation platform. BankMobile focuses on the aggregation of low-cost deposits and currently offers no fee banking, lines of credits to qualified customers, no overdraft fees, higher than average interest rate on savings, and access to 55,000 ATMs (and if the customer makes a monthly direct deposit over 400,000 ATMs) across the U.S. Customers believed that consolidating BankMobile with the acquired Disbursement business uniquely positioned Customers to become the graduating students "bank for life" and service each graduate's financial needs throughout their life. Successful execution of the BankMobile strategy, including its consolidation with the Disbursement business, greatly accelerated BankMobile's ability to achieve profitability. BankMobile's revenues are largely derived from interchange charges paid by the product selling vendor and user based fees for specific activities (such as lost card replacement).

- Unique product experience. As a digital bank, BankMobile provides a unique experience to a banking customer in delivering a full banking experience through a smartphone or other web-enabled device. This alternative delivery channel, available nationwide, provides Customers with access to a customer base today with the opportunity to develop life long profitable banking relationships with a large population segment of what reasonably is expected to be the higher income segment of the millennial generation.

- Attractive low credit risk profile. Customers has sought to maintain high asset quality and moderate credit risk by using conservative underwriting standards and early identification of potential problem assets. Customers has also formed a special assets department to manage classified and non-performing assets. As of December 31, 2016, only $17.8 million, or 0.22%, of the Bank's total loan portfolio was non performing.

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- Superior Community Banking Model. Customers expects to drive organic growth by employing its Concierge Banking® strategy, which provides specific relationship managers or private bankers for all customers, delivering an appointment banking approach available 12 hours a day, seven days a week. This allows Customers to provide services in a personalized, convenient and expeditious manner. This approach, coupled with superior technology, including remote account opening, remote deposit capture, mobile banking and the first fee free mobile first digital bank, BankMobile, results in a competitive advantage over larger institutions, which management believes contributes to the profitability of its franchise and allows the Bank to generate core deposits. The “high-tech, high-touch,” model requires less staff and smaller branch locations to operate, thereby significantly reducing operating costs.
- Acquisition Expertise. The depth of Customers' management team and their experience working together and successfully completing acquisitions provides unique insight in identifying and analyzing potential markets and acquisition targets. The experience of Customers' team, which includes the acquisition and integration of over 35 institutions, as well as numerous asset and branch acquisitions, provides a substantial advantage in pursuing and consummating future acquisitions. Additionally, management believes Customers' strengths in structuring transactions to limit its risk, its experience in the financial reporting and regulatory process related to troubled bank acquisitions, and its ongoing risk management expertise, particularly in problem loan workouts, collectively enable it to capitalize on the potential of the franchises it acquires. With Customers' depth of operational experience in connection with completing merger and acquisition transactions, it expects to be able to integrate and reposition acquired franchises cost-efficiently with a minimum disruption to customer relationships.

Customers believes its ability to operate efficiently is enhanced by its centralized risk management structure, its access to attractive labor and real estate costs in its markets, and an infrastructure that is unencumbered by legacy systems. Furthermore, Customers anticipates additional expense synergies from the integration of its acquisitions, which it believes will enhance its financial performance.

Segments

Customers has historically operated under one business segment, "Community Banking." However, beginning in third quarter 2016, Customers revised its segment financial reporting to reflect the manner in which its chief operating decision makers (our Chief Executive Officer and Board of Directors) have begun allocating resources and assessing performance subsequent to Customers' acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile technology platform late in second quarter 2016.

Management has determined that Customers' operations consist of two reportable segments - Community Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing, and analysis of these segments vary considerably. For more information on Customers' reportable operating segments, see NOTE 25 - BUSINESS SEGMENTS.

In third quarter 2016, Customers announced its intent to sell BankMobile and anticipates a sale to close in 2017. Because BankMobile met the criteria to be classified as held for sale at December 31, 2016, the assets and liabilities of BankMobile have been presented as "Assets held for sale" and "Liabilities held for sale" on the consolidated balance sheets at December 31, 2016 and 2015. BankMobile's operating results and associated cash flows have been presented as "Discontinued operations" within the accompanying consolidated financial statements and prior period amounts have been reclassified to conform with the current period presentation. For more information on BankMobile discontinued operations, see NOTE 3 - DISCONTINUED OPERATIONS.

The BankMobile operating segment results differ from the amounts reported as "Discontinued operations" on the consolidated financial statements primarily because of the internal funds transfer pricing methodology used by management to allocate interest income to BankMobile for the value provided to the Community Business Banking segment for the use of low/no cost deposits.

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Products

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

BankMobile is focused on providing quality low cost deposit products and related services to its customers, such as no or low fee checking, no overdraft charges, photo bill pay, no opening balance requirements, instant virtual debit cards, and similar customer friendly technology enabled services. Customers can also obtain cash free of any fees from over 55,000 ATMs in the United States. BankMobile looks to develop its capabilities to deliver retail loan products, such as automobile loans, credit cards, and personal loans, to its customers, either as a referral or direct lender, as its technological capabilities develop.

Lending Activities

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

- Commercial Lending – our focus is on Business Banking (commercial and industrial lending), including Small and Middle Market Business Banking (including small business administration (SBA) loans), Multi-family and Commercial Real Estate lending, and commercial loans to mortgage originators; and
- Consumer Lending – local market mortgage and home equity lending.

Commercial Lending

The Bank's commercial lending activities are divided into four distinct groups: Business Banking, Small and Middle Market Business Banking, Multi-family and Commercial Real Estate Lending, and Mortgage Banking Lending. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest rate risk and higher productivity levels.

The commercial lending group focuses on companies with annual revenues ranging from $1.0 million to $100.0 million, which typically have credit requirements between $0.5 million and $10.0 million.

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

The goal of the Bank's multi-family lending group is to build a portfolio of high-quality multi-family and commercial real estate loans within its covered markets, while cross selling its other products and services. This business line primarily focuses on refinancing existing loans, using conservative underwriting. The primary collateral for these loans is a first-lien mortgage on the multi-family property, plus an assignment of all leases related to such property. During the years ended December 31, 2016 and 2015, the Bank originated approximately $0.9 billion and $1.3 billion, respectively, of multi-family loans.

The goal of commercial loans to mortgage originators is to provide liquidity to mortgage companies. The loans are predominately short-term facilities used by mortgage companies to fund their pipelines from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans that collateralize our commercial loans to mortgage companies are insured or guaranteed by the U.S. government through one of their programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. The Bank is currently expanding its product offerings to mortgage companies to meet a wider array of business needs. During the years ended December 31, 2016 and 2015, the Bank funded $36.1 billion and $29.9 billion of mortgage loans, respectively, to mortgage originators via warehouse facilities.

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As of December 31, 2016 and 2015, the Bank had $8.0 billion and $6.9 billion, respectively, in commercial loans outstanding, composing approximately 96.4% and 94.6%, respectively, of its total loan portfolio, which includes loans held for sale. During the years ended December 31, 2016 and 2015, the Bank originated $0.8 billion and $0.9 billion, respectively, of commercial loans, exclusive of multi-family loan originations and loans to mortgage originators via warehouse facilities.

Consumer Lending

The Bank provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in the Bank’s efforts to grow total relationship revenues for its consumer households. These areas also support the Bank's commitment to lower and moderate income families in its market area. The Bank plans to expand its product offerings in real estate secured consumer lending.

Beginning in 2013, Customers Bank launched a community outreach program in Philadelphia to encourage a higher percentage of homeownership in urban communities. As part of this program, the Bank is offering an “Affordable Mortgage Product”. This community outreach program is penetrating the underserved population, especially in low-and moderate income neighborhoods. As part of this commitment, a loan production office was opened at Progress Plaza, 1501 North Broad Street, Philadelphia, PA. The program includes homebuyer seminars that prepare potential homebuyers for homeownership by teaching money management and budgeting skills, including the financial responsibilities that come with having a mortgage and owning a home. The “Affordable Mortgage Product” is offered throughout Customers Bank’s CRA assessment areas.

As of December 31, 2016 and 2015, the Bank had $298.7 million and $391.1 million, respectively, in consumer loans outstanding, composing 3.6% and 5.4%, respectively, of the Bank’s total loan portfolio, which includes loans held for sale. During the years ended December 31, 2016 and 2015, the Bank originated $59.3 million and $63.0 million of consumer loans, respectively.

Private Banking

Beginning in 2013, Customers Bank introduced a Private Banking model for its commercial clients in the major markets within its geographic footprint. This unique model provides unparalleled service to customers through an in-market team of experienced private bankers. Acting as a single-point-of-contact for all the banking needs of the Bank’s commercial clients, these private bankers deliver the whole bank – not only to its clients, but to their families, their management teams, and their employees, as well. With a world-class suite of sophisticated cash management products, these private bankers deliver on Customers Bank’s “high-tech, high-touch” strategy and provide real value to its mid-market commercial clients.

Customers Bank opened its first private banking representative office in Manhattan in second quarter 2013, and eventually, all of its markets will be served by private bankers.

Deposit Products and Other Funding Sources

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

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Financial Products and Services

In addition to traditional banking activities, Customers Bank provides other financial services to its customers, including: mobile phone banking, internet banking, wire transfers, electronic bill payment, lock box services, remote deposit capture services, courier services, merchant processing services, cash vault, controlled disbursements, positive pay and cash management services (including account reconciliation, collections and sweep accounts). In January 2015, the Bank successfully launched BankMobile, America's first mobile platform based full service consumer bank. In June 2016, Customers acquired the Disbursement business of Higher One and subsequently combined that business with the BankMobile platform. The Disbursement business assists higher educational institutions in their distributions of Title IV monies to students. In combining the businesses, Customers serviced over 1.2 million active deposit accounts at December 31, 2016. The combined businesses also have the potential to add in excess of 400,000 new student deposit accounts annually.

Competition

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

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

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

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

Employees

As of December 31, 2016, Customers Bancorp had 739 full-time equivalent employees, including approximately 225 employees dedicated to the BankMobile business segment.

Available Information

Customers Bancorp’s internet website address is www.customersbank.com. Information on Customers Bancorp’s website is not part of this Annual Report on Form 10-K. Investors can obtain copies of Customers Bancorp’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, on Customers Bancorp’s website (accessible under “About Us” – “Investor Relations” – “SEC Filings”) as soon as reasonably practicable after Customers Bancorp has filed such materials with, or furnished them to, the Securities and Exchange

Commission (“SEC”). Customers Bancorp will also furnish a paper copy of such filings free of charge upon request. Investors can also read and copy any materials filed by Customers Bancorp with the SEC at the SEC’s Public Reference Room which is located at 100 F Street, NE, Washington, DC

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20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Customers Bancorp's filings can also be accessed at the SEC's internet website: www.sec.gov.

SUPERVISION AND REGULATION

GENERAL

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

PENNSYLVANIA BANKING LAWS

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

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

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

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

The law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports provided by officers, employees, attorneys, accountants, or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

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

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

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

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

FEDERAL BANKING LAWS

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

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

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

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

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

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

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

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

New Capital Rules. On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Bancorp and the Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012 and implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

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

(i) a common equity Tier 1 risk-based capital ratio of 4.5%;
(ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%);
(iii) a Total risk-based capital ratio of 8% (unchanged from rules in effect prior to January 1, 2015); and
(iv) a Tier 1 leverage ratio of 4% for all institutions.

The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for

2019 and thereafter.

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Effective January 1, 2016, the minimum capital level requirements (including the capital conservation buffer) applicable to the Bancorp and the Bank under the final rules were:
(i) a common equity Tier 1 capital ratio of 5.125%;
(ii) a Tier 1 Risk based capital ratio of 6.625%; and
(iii) a Total Risk based capital ratio of 8.625%.
Effective January 1, 2017, the minimum capital level requirements (including the capital conservation buffer) applicable to the Bancorp and the Bank under the final rules are:
(i) a common equity Tier 1 capital ratio of 5.75%;
(ii) a Tier 1 Risk based capital ratio of 7.25%; and
(iii) a Total Risk based capital ratio of 9.25%.
Considering the capital conservation buffer, to avoid limitations on certain actions or activities, banks will be required to maintain the following ratios beginning January 1, 2019:
(i) a common equity Tier 1 capital ratio of 7.0%;
(ii) a Tier 1 Risk Based capital ratio of 8.5%; and
(iii) a Total Risk based capital ratio of 10.5%.
Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the minimum capital level plus capital conservation buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.
Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Bancorp and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Bancorp) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.
In addition, the final rules provide for smaller banking institutions (less than $250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. Customers Bank selected the opt-out election in its March 31, 2015 Call Report.
The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect on January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized:”
(i) a common equity Tier 1 capital ratio of 6.5%;
(ii) a Tier 1 Risk based capital ratio of 8% (increased from 6%);
(iii) a Total Risk based capital ratio of 10% (unchanged from rules in effect prior to January 1, 2015); and
(iv) a Tier 1 leverage ratio of 5% (increased from 4%).

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The final rules set forth certain changes for the calculation of risk-weighted assets, which were required to be utilized as of January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses:
(i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;
(ii) revisions to recognition of credit risk mitigation;
(iii) rules for risk weighting of equity exposures and past due loans;
(iv) revised capital treatment for derivatives and repo-style transactions; and
(v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than $250 billion in consolidated assets.
As of December 31, 2016 and 2015, management believed that the Bank and Bancorp met all capital adequacy requirements to which they were subject. For additional information on Customers' regulatory capital ratios, refer to “NOTE 19 – REGULATORY MATTERS.”
Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank bill was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. Among many other provisions, the legislation:

- established the Financial Stability Oversight Council, a federal agency acting as the financial system’s systemic risk regulator with the authority to review the activities of significant bank holding companies and non-bank financial firms, to make recommendations and impose standards regarding capital, leverage, conflicts and other requirements for financial firms and to impose regulatory standards on certain financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;
- created a new Consumer Financial Protection Bureau within the U.S. Federal Reserve, which has substantive rule-making authority over a wide variety of consumer financial services and products, including the power to regulate unfair, deceptive, or abusive acts or practices;
- permitted state attorneys general and other state enforcement authorities broader power to enforce consumer protection laws against banks;
- authorized federal regulatory agencies to ban compensation arrangements at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation’s financial system;
- granted the U.S. government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions, such as bank holding companies, that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation;
- gave the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which may result in increased deposit insurance premiums for us in the future;
- increased the deposit insurance coverage limit for insurable deposits to $250,000 generally, and removes the limit entirely for transaction accounts;
- permitted banks to pay interest on business demand deposit accounts;
- extended the national bank lending (or loans-to-one-borrower) limits to other institutions;
- prohibited banks subject to enforcement action such as a memorandum of understanding from changing their charter without the approval of both their existing charter regulator and their proposed new charter regulator; and
- imposed new limits on asset purchase and sale transactions between banks and their insiders.

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

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

On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2011, ranging from 2.5 to 45 basis points of Tier I capital.

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

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

Consumer Protection Laws. Customers Bank is subject to a variety of consumer protection laws, including the Truth in Lending Act, the Truth in Savings Act adopted as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Funds Transfer Act, the Real Estate Settlement Procedures Act and the regulations adopted thereunder. In the aggregate, compliance with these consumer protection laws and regulations involves substantial expense and administrative time on the part of Customers.

Bank Holding Company Regulation

As a bank holding company, Customers Bancorp is also subject to additional regulation.

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

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

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

Item 1A. Risk Factors

Risks Related to the Proposed Sale of BankMobile

Failure to complete the proposed sale of BankMobile could negatively impact our share price, our future business and financial results.

We cannot assure you that our proposed sale of BankMobile to Flagship Bank will be completed in the time frame we currently anticipate or at all. If we do not complete the proposed sale, we will not receive the expected benefits of such proposed sale transaction but will have incurred significant costs in connection with our pursuit of the sale, including our own costs relating to the proposed sale to Flagship Bank and the costs of Flagship Bank relating to the proposed sale and related matters, certain of which we are obligated to pay even if the proposed sale is completed. In addition, we cannot assure you that alternative opportunities to sell BankMobile will be available to us, or, if available, will be on terms at least as favorable to us as the terms of the proposed sale to Flagship Bank. Market conditions, the possible need to secure regulatory, shareholder or other approvals, and other factors will affect our ability to pursue alternative opportunities.

In addition, the value of our common and preferred stock may decline if the proposed sale is not completed, and uncertainty as to whether alternative transactions may be available for the disposition of the BankMobile business, and as to the timing, form and terms of any such alternative disposition may adversely affect analyst and shareholder views as to the value of the BankMobile business, which could further adversely affect the value of our securities.

If we are unable to complete the sale of BankMobile before exceeding the $10 billion total asset threshold our business and potential for future success could be materially adversely effected.

Our business and future prospects may suffer if we are unable to remain under $10 billion in total assets as of December 31 of each year before we sell or otherwise dispose of the BankMobile business. If we are unable to complete the sale or other disposition of BankMobile before exceeding the $10 billion total asset threshold, we would experience a significant reduction in BankMobile interchange fee income. Under federal law and regulation, we must remain under $10 billion in total assets as of December 31 of each year to qualify as a small issuer of debit cards and receive the optimal debit card processing fee. If we were to lose this status, BankMobile would operate unprofitably unless we were able to generate additional fees to replace the lost interchange fee revenue. As a result, our inability to complete the sale of BankMobile to Flagship Bank or otherwise in a timely manner could materially and adversely affect our financial condition and results of operations.

Completion of the proposed sale of BankMobile is subject to a number of important conditions, some of which are not in Customers’ control.

Completion of the proposed sale of BankMobile to Flagship Bank is subject to the fulfillment, or waiver (where permitted) of a variety of conditions to closing. Certain of those conditions to closing are not within our control. If any of these conditions are not fulfilled and the parties refuse to waive, or cannot waive, those conditions, we will be unable to complete the proposed sale. The significant conditions to completing the propose sale include the receipt of all necessary regulatory approvals, the approval by Flagship Bank’s shareholders of certain matters relating to the proposed sale, and Flagship obtaining financing in an amount not less than $260 million.

We have broad discretion in using the net proceeds from the proposed sale of BankMobile and may use the proceeds in ways with which you may not agree and in ways that may not enhance our operating results or the value of our securities.

Our management will retain broad discretion over the use of the net proceeds received on closing of the proposed sale of BankMobile, and we may ultimately use the proceeds in ways that do not improve our results of operations or enhance the value of our common and preferred stock or otherwise in ways with which you do not agree. If we do not invest or apply the proceeds effectively and on a timely basis, it could have a material adverse effect on our business and could cause the value of our securities to decline.

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The proposed sale of BankMobile, whether or not consummated, may adversely affect our business.

Our announcement of the proposed sale of BankMobile and steps we take to complete the sale may adversely affect our relationships with BankMobile's current and potential higher education institutions customers and our BankMobile employees, and could result in the loss of customers and key employees. Further, the actions needed to complete the sale of BankMobile may result in the diversion of our management's attention from Customers' day-to-day operations generally, which could adversely affect Customers' business.

Certain terms of our agreement with Flagship Bank may expose us to significant liabilities.

We have agreed to indemnify Flagship Bank and its directors and officers against losses and liabilities incurred by them in connection with the proposed sale and to indemnify them and certain others in connection with certain additional matters relating to the proposed sale. In addition, we have agreed to obtain, at our expense, director and officer liability insurance for the benefit of Flagship Bank's directors and officers to cover them for similar losses and liabilities. Although our agreement to provide indemnification is subject to certain limitations and exceptions, including limitations on the dollar amount of losses payable by us, significant indemnification claims by Flagship Bank or its directors and officers or other indemnitees could materially and adversely affect our financial condition.

If we are unable to complete the sale of BankMobile in a timely fashion, or at all, we will continue to face the risks and challenges associated with the BankMobile business.

If we do not complete the proposed sale of BankMobile to Flagship Bank in a timely fashion, or at all, we will continue to face the risks and challenges associated with the BankMobile business, including those relating to the integration of the Disbursement business, described in this Risk Factors discussion and elsewhere in this Annual Report on Form 10-K. We cannot assure you that we will be able to address and manage these risks so as to preserve or increase the value of BankMobile, and any failure to preserve or increase the value of BankMobile could adversely affect the business of Customers as a whole and our ability to sell or otherwise dispose of BankMobile in an alternative transaction on favorable terms or at all.

Risks Related to the Bancorp's Banking Operations

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

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

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

At December 31, 2016, the Bancorp's allowance for loan losses totaled $37.3 million, which represents 0.61% of total loans held for investment. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the probability of making payment, as well as the value of real estate and other assets serving as collateral for the repayment of many of our loans.

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

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Management reviews and re-estimates the allowance for loan losses quarterly. Additions to our allowance for loan losses as a result on management's review and estimate could materially decrease net income. Our regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

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

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

As a lender to mortgage banking businesses, we provide financing to mortgage bankers by purchasing, subject to resale under a master repurchase agreement, the underlying residential mortgages on a short-term basis pending the ultimate sale of the mortgages to investors. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and possible default by the borrower, closing agents, and the residential borrower on the underlying mortgage, any of which could result in credit losses. The risk of fraud associated with this type of lending includes, but is not limited to, settlement process risks, the risk of financing nonexistent loans or fictitious mortgage loan transactions, or the risk that collateral delivered is fraudulent or non-existent, creating a risk of loss of the full amount financed on the underlying residential mortgage loan, or in the settlement processes. As discussed in NOTE 22 – LOSS CONTINGENCY, in first quarter 2013, a suspected fraud was discovered in the Bank’s held-for-sale loan portfolio. Additional fraudulent transactions could have a material adverse effect on our financial condition and results of operations.

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

As of December 31, 2016, the Bank had $8.0 billion in commercial loans outstanding, composing approximately 96.4% of its total loan portfolio, which includes loans held for sale.

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

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

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Federal Home Loan Bank of Pittsburgh may not pay dividends or repurchase capital stock in the future.
On December 23, 2008, the Federal Home Loan Bank of Pittsburgh (“FHLB”) announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB announced at that time that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, other than temporary impairment charges, and constrained access to debt markets at attractive rates. While the FHLB resumed payment of dividends and capital stock repurchases in 2012, capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB, and there is no guarantee that such dividends and capital stock repurchases will continue in the future. As of December 31, 2016, the Bank held $51.3 million of FHLB capital stock.
The fair value of our investment securities can fluctuate due to market conditions. Adverse economic performance can lead to adverse security performance and other-than-temporary impairment.
As of December 31, 2016, the fair value of our investment securities portfolio was $493.5 million. We have historically followed a conservative investment strategy, with concentrations in securities that are backed by government sponsored enterprises. In the future, we may seek to increase yields through more aggressive strategies, which may include a greater percentage of corporate securities, structured credit products or non-agency mortgage backed securities. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, such as a change in management's intent to hold the securities until recovery in fair value, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material adverse effect on us. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

At December 31, 2016, management evaluated its equity holdings issued by Religare Enterprises Limited for other-than-temporary impairment. Because management no longer has the intent to hold these securities until a recovery in fair value, Customers recorded an other-than-temporarily impairment loss of $7.3 million in fourth quarter 2016 for the full amount of the decline in fair value below the cost basis. The fair value of the equity securities at December 31, 2016 of $15.2 million became the new cost basis of the securities.

Changes to estimates and assumptions made by management in preparing financial statements could adversely affect the Bancorp’s business, operating results, reported assets and liabilities, financial condition, and capital levels.
Changes to estimates and assumptions made by management in connection with the preparation of the Bancorp’s consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of the Bancorp’s consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. Changes to management’s assumptions or estimates could materially and adversely affect Customers' business, operating results, reported assets and liabilities, financial condition, and capital levels.
Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.
Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on

our financial results or net worth. Notably, the FASB recently issued a new framework for estimating the allowance for loan and lease losses which could significantly alter the current estimate as well as other elements of the U.S. banking model.

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

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

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

Although we made a profit for the years of 2011 through 2016, there can be no assurance that we will be able to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent or increase in the future. Our earnings also may be reduced by increased expenses associated with increased assets, such as additional employee compensation expense, and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets. If earnings do not grow proportionately with our assets or equity, our overall profitability may be adversely affected.

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

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

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

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

Additionally, Customers has made a significant investment in commercial real estate loans. Often in a commercial real estate transaction, repayment of the loan is dependent on the property generating sufficient rental income to service the loan. Economic conditions may affect the tenant's ability to make rental payments on a timely basis, and may cause some tenants not to renew their leases, each of which may impact the debtor's ability to make loan payments. Further, if expenses associated with commercial properties increase dramatically, the tenant's ability to repay, and therefore the debtor's ability to make timely loan payments, could be adversely affected. All of these factors could increase the amount of non-performing loans, increase our provision for loan losses and reduce our net income.

Our business is highly susceptible to credit risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect the Bancorp's operations, net income or reputation.

The Bancorp regularly collects, processes, transmits and stores significant amounts of confidential information regarding its customers, employees and others. This information is necessary for the conduct of the Bancorp's business activities, including the ongoing maintenance of deposit, loan, investment management and other account relationships for our customers, and receiving instructions and affecting transactions for those customers and other users of the Bancorp's products and services. In addition to confidential information regarding its customers, employees and others, the Bancorp compiles, processes, transmits and stores proprietary, non-public information concerning its own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on behalf of the Bancorp.

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

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

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

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

As of December 31, 2016, the directors and executive officers of Customers Bancorp as a group owned a total of 2,051,523 shares of Voting Common Stock and exercisable options and warrants to purchase up to an additional 1,086,718 shares of Voting Common Stock, which potentially gives them, as a group, the ability to control approximately 10.00% of the issued and outstanding Voting Common Stock. In addition, a director of Customers Bank who is not a director of Customers Bancorp owns an additional 14,706 shares of Voting Common Stock, which if combined with the directors and officers of Customers Bancorp, potentially gives them, as a group, the ability to control approximately 10.05% of the issued and outstanding Voting Common Stock. We believe ownership of stock causes directors and officers to have the same interests as shareholders, but it also gives them the ability to vote as shareholders for matters that are in their personal interest, which may be contrary to the wishes of other shareholders. Shareholders will not necessarily be provided with an opportunity to evaluate the specific merits or risks of one or more target institutions. Any decision regarding a potential investment or acquisition transaction will be made by our board of directors. Except in limited circumstances as required by applicable law, consummation of an acquisition will not require the approval of holders of Voting Common Stock. Accordingly, the shareholder may not have an opportunity to evaluate and affect the investment decision regarding potential investment or acquisition transactions.

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

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

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

incurring significant problems relating to the conversion of the financial and customer data of the entity being acquired into our financial and customer product systems.

Additionally, in evaluating potential acquisition opportunities we may seek to acquire failed banks through FDIC-assisted acquisitions. While the FDIC may, in such acquisitions, provide assistance to mitigate certain risks, such as sharing in exposure to loan losses, and providing indemnification against certain liabilities, of the failed institution, we may not be able to accurately estimate our potential exposure to loan losses and other potential liabilities, or the difficulty of integration, in acquiring such institutions.
Depending on the condition of any institutions or assets that are acquired, any acquisition may, at least in the near term, materially adversely affect our capital and earnings and, if not successfully integrated following the acquisition, may continue to have such effects. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect on levels of reported net income, return on equity and return on assets, and the ability to achieve our business strategy and maintain market value.

Our business and future success may suffer if we are unable to remain under $10 billion in total assets as of December 31 of each year before we sell or otherwise dispose of the BankMobile business, including the Disbursement business.

Under federal law and regulation, we must remain under $10 billion in total assets as of December 31 of each year to qualify as a small issuer of debit cards and receive the optimal debit card processing fee. Failure to qualify for the small issuer exception would result in a significant reduction in interchange fee income and would mean we would operate unprofitably or additional fees would need to be charged to students to replace the lost revenue. To optimize the value of the Customers franchise to shareholders, we have stated our intention to sell BankMobile before crossing the $10 billion total asset threshold. Market conditions, regulatory and legal conditions, BankMobile’s performance and other factors, some of which are not in our control, may limit, delay or prevent our planned sale, and prevent us from remaining under the $10 billion total asset threshold before the planned disposition. Accordingly, this could materially and adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

Our business will suffer if we fail to successfully integrate the Disbursement businesses and technologies or to appropriately assess the risks associated with that transaction.

The successful integration of the Disbursement business, on a cost-effective basis, may be critical to our future performance. There are a number of risks and uncertainties associated with such integration, including: we may not be able to achieve expected synergies and operating efficiencies regarding the Disbursement business acquisition within the expected time-frames or at all and to successfully integrate the Disbursement business operations; such integration may be more difficult, time-consuming or costly than expected; we may not be successful in converting new clients gained through the acquisition to our own; revenues following the transaction may be lower than expected; operating costs, client and customer loss and business disruption (including, difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater than expected following the acquisition; we may have difficulty retaining certain key employees in the acquired Disbursement business; we may be subject to legal proceedings that may be instituted against the parties and others related to the acquisition agreement; and the amount of the costs, fees, expenses and charges related to the acquisition may be greater than anticipated. If we do not successfully integrate the Disbursement business, or if the benefits of this transaction do not meet the expectations of financial or industry analysts, the market price of our common stock may decline. Even if we successfully integrate the Disbursement business, we may incur substantial expenses and devote significant management time and resources in seeking to complete the integration and the acquired Disbursement business may not perform as we expect or enhance the value of our business as a whole.

Our business and future success may suffer if we are unable to successfully implement our strategy to combine the Disbursement business with BankMobile.

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

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If the integration of the Disbursement business disrupts our business operations and prevents us from realizing intended benefits, our business may be harmed.

The integration of the Disbursement business may disrupt the operation of our business and prevent us from realizing the intended benefits of the Disbursement business as a result of a number of obstacles, such as the loss of key employees, customers or business partners, the failure to adjust or implement our business strategies, additional expenditures required to facilitate the integration and the diversion of management's attention from our day-to-day operations.

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

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

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

In addition, our higher education institution clients and student BankMobile account holders disclose to us certain "personally identifiable" information, including student contact information, identification numbers and the amount of credit balances, which they expect we will maintain in confidence. It is possible that hackers, customers or employees acting unlawfully or contrary to our policies, or other individuals, could improperly access our or our vendors' systems and obtain or disclose data about our customers. Further, because customer data may also be collected, stored, or processed by third-party vendors, it is possible that these vendors could intentionally, negligently or otherwise disclose data about our clients or customers.

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

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

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

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

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

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

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

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

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

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

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

Nonetheless, as previously disclosed, Customers had been in discussions with the Federal Reserve Board regarding these matters from 2013 and in an effort to move forward, on December 6, 2016, Customers agreed to the issuance by the Federal Reserve Board of a combined Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as amended (the "Order") and agreed to a penalty of $960,000.

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

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

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

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

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

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

We intend to complement and expand our business by pursuing strategic acquisitions of community banking franchises and other businesses. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us may require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve, the OCC and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

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

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

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

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

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

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

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

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

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

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

FDIC-assisted acquisition opportunities may not become available and increased competition may make it more difficult for us to bid on failed bank transactions on terms considered to be acceptable.

Our near-term business strategy includes consideration of potential acquisitions of failing banks that the FDIC plans to place in receivership. The FDIC may not place banks that meet our strategic objectives into receivership. Failed bank transactions are attractive opportunities in part because of loss sharing arrangements with the FDIC that limit the acquirer’s downside risk on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the non-deposit liabilities that we assume. In addition, assets purchased from the FDIC are marked to their fair value and in many cases there is little or no addition to goodwill arising from an FDIC-assisted acquisition. The bidding process for failing banks could become very competitive, and the increased competition may make it more difficult for us to bid on terms we consider to be acceptable. Further, all FDIC-assisted acquisitions would require us to obtain applicable regulatory approval.

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

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

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

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

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

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

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

Customers Bank is interested in opening or acquiring four to six new branches annually for the next several years in and around our target markets of southeastern Pennsylvania, New Jersey, New York, Maryland, Connecticut, Virginia and Delaware. Our ability to open or acquire branches is subject to regulatory approvals. We cannot predict whether the banking regulators will agree with our growth plans or if or when they will provide the necessary branch approvals. Numerous factors contribute to the performance of a new branch, such as the ability to select a suitable location, competition, our ability to hire and retain qualified personnel, and the effectiveness of our marketing strategy. It takes time for a new branch to generate significant deposits and loan volume to offset expenses, some of which, like salaries and occupancy expense, are relatively fixed costs. The initial cost, including capital asset purchases, for each new branch to open would be in a range of approximately $200,000 to $250,000. Additionally, there can be no assurance that any of these new branches will ever become profitable. During the period of time before a branch can become profitable, operating a branch will negatively impact net income.

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

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

We may not be able to effectively manage our growth.

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

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

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

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.

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

Customers' system of internal controls, including internal controls over financial reporting, is an important element of our risk
management framework. Management regularly reviews and seeks to improve Customers’ internal controls, including annual review of key policies and procedures, and annual review and testing of key internal controls over financial reporting. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and expectations of employee conduct and can only provide reasonable, not absolute, assurance that the objectives of the internal control structure are met. Any failure or circumvention of Customers’ controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on the Customers’ operations, net income, financial condition, reputation and compliance with laws and regulations.
We may not be able to meet the cash flow requirements of our loan funding obligations, deposit withdrawals, or other business needs and fund our asset growth unless we maintain sufficient liquidity.

Customers Bank must maintain sufficient liquidity to fund its balance sheet growth in order to successfully grow our revenues, make loans and to repay deposit and other liabilities as these mature or are drawn. This liquidity can be gathered in both wholesale and non-wholesale funding markets. Our asset growth over the past few years has been funded with various forms of deposits and wholesale funding, including brokered and wholesale time deposits, FHLB advances, and Federal funds line borrowings. Total wholesale deposits including brokered and municipal deposits were 56.3.% of total deposits at December 31, 2016. Our gross loan to deposit ratio was 120.6% at December 31, 2016 and our loan to deposit ratio excluding the mortgage warehouse portfolio funded by short term FHLB borrowings was 89.7% at December 31, 2016. Wholesale funding can cost more than deposits generated from our traditional branch system and customer relationships and is subject to certain practical limits such as our liquidity policy limits, our available collateral for FHLB borrowings capacity and Federal funds line limits with our lenders. Additionally, regulators consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted. In the absence of appropriate levels and mix of funding, we might need to reduce interest-earning asset growth through the reduction of current production, sales of loans and/or the sale of participation interests in future and current loans. This might reduce our future growth and net income.

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The amount of funds loaned to us is generally dependent on the value of the eligible collateral pledged and our financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, if further disruptions in the capital markets occur. Any change or termination of our borrowings from the FHLB or correspondent banks could have an adverse effect on our profitability and financial condition, including liquidity.
We may not be able to develop and retain a strong core deposit base and other low-cost, stable funding sources.
Customers Bank depends on checking, savings and money market deposit account balances and other forms of customer deposits as a primary source of funding for our lending activities. We expect that our future loan growth will largely depend on our ability to retain and grow a strong, low-cost deposit base. Because 41.4% of our deposit base as of December 31, 2016 was time deposits, it may prove harder to maintain and grow our deposit base than would otherwise be the case, especially since many of these deposits currently pay interest at above-market rates. As of December 31, 2016, $2.0 billion, or 72.3%, of our total time deposits, are scheduled to mature through December 31, 2017. We are working to transition certain of our customers to lower cost traditional bank deposits as higher cost funding, such as time deposits, mature. If interest rates increase, whether due to changes in inflation, monetary policy, competition or other factors, we would expect to pay higher interest rates on deposits, which would increase our funding costs and compress our net interest margin. We may not succeed in moving our deposits to lower yielding savings and transactions products, which could materially and adversely affect us. In addition, with concerns about bank failures over the past several years and the end of the FDIC's non-interest transaction deposit guarantee program on December 31, 2012, customers, particularly those who may maintain deposits in excess of insured limits, have become concerned about the extent to which their deposits are insured by the FDIC. Our customers may withdraw deposits to ensure that their deposits with us are fully insured, and may place excess amounts in other institutions or make investments that are perceived as being more secure and/or higher yielding. Further, even if we are able to maintain and grow our deposit base, deposit balances can decrease when customers perceive alternative investments, such as the stock market, will provide a better risk/return tradeoff. If customers move money out of bank deposits, we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition, including liquidity.

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

We expect to drive organic growth by employing our Concierge Banking® 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.

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

From time to time, we may make or consider making minority investments in other financial institutions or technology companies in the financial services business. If we do so, we may not be able to influence the activities of companies in which we invest, and may suffer losses due to these activities. Investments in foreign companies could pose additional risks as a result of distance, language barriers and potential lack of information (for example, foreign institutions, including foreign financial institutions, may not be obligated to provide as much information regarding their operations as those in the United States). Our investment in Religare Enterprises Limited (or Religare), which is a diversified financial services company in India, represents such an investment. In fourth quarter 2016, we announced our decision to exit our investment in Religare. As a result of that decision, we recorded an impairment loss of $7.3 million in earnings in fourth quarter 2016 and adjusted our cost basis of the

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Religare securities to their estimated fair value of $15.2 million at December 31, 2016. To the extent we are unable to exit the Religare investment as planned, and pursuant to the terms contemplated, further declines in the market price per share of the Religare common stock and adverse changes in foreign currency exchange rates, may have an adverse effect on our financial condition and results of operations.

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

Under the newly adopted U.S. capital adequacy rules, which became effective as of January 1, 2015, we have to hold risk based capital based on the amount of Religare common stock we own. Based upon the implementation of the final U.S. capital adequacy rules, these investments are currently subject to risk weighting of 100% of the amount of the investment; however, to the extent future aggregated carrying value of certain equity exposures exceed 10% of the Bancorp's then total capital, risk weightings of 300% may apply. Any capital that is required to be used to support our Religare investment will not be available to support our United States operations or Customers Bank, if needed.

Risks Relating to the Regulation of Our Industry

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

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

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

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

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

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

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

Additionally, on December 10, 2013, five financial regulatory agencies, including our primary federal regulator, the Federal Reserve, adopted final rules (the "Final Rules") implementing the so-called Volcker Rule embodied in Section 13 of the Bank Holding Company Act, which was added by Section 619 of the Dodd-Frank Act. The Final Rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). The Final Rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The Final Rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Community banks, such as Customers, have been afforded some relief under the Final Rules. If such banks are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The Final Rules were effective April 1, 2014, but the conformance period has been extended from its statutory end date of July 21, 2014 until July 21, 2016, and the Federal Reserve has announced its intention to further extend the conformance period until July 21, 2017. Management continues to evaluate the Final Rules, which are lengthy and detailed.

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

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

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

We regularly use third party vendors as part of our business and have other ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by federal banking regulators. Regulation requires us to perform enhanced due diligence, perform ongoing monitoring and control our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the

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performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

The FDIC insures deposits at FDIC-insured depository institutions up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Market developments have significantly depleted the DIF of the FDIC and reduced the ratio of reserves to insured deposits. As a result of the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit insurance premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially and adversely affect us, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

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

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

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

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

On September 12, 2010, the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. Basel III narrows the definition of capital, introduces requirements for minimum Tier 1 common capital, increases requirements for minimum Tier 1 capital and total risk-based capital, and changes risk-weighting methodologies. Basel III is scheduled to be phased in over time until fully phased in by January 1, 2019.

On July 2, 2013, the Federal Reserve adopted a final rule regarding new capital requirements pursuant to Basel III. These rules, which became effective on January 1, 2015 for community banks, increase the required amount of regulatory capital that we must hold and failure to comply with the capital rules will lead to limitations on the dividend payments to us by Customers Bank and other elective distributions.

Various provisions of the Dodd-Frank Act increase the capital requirements of bank holding companies, such as Customers Bancorp, and non-bank financial companies that are supervised by the Federal Reserve. The leverage and risk-based capital ratios of these entities may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards for the Bank and the Bancorp.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "PATRIOT Act") and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug

Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control (the “OFAC”). If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory

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actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered “predatory.” These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

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

We participate in various U.S. government agency guarantee programs, including programs operated by the 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.

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

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

- Title IV of the Higher Education Act of 1965, or Title IV;
- the Family Educational Rights and Privacy Act of 1975, or FERPA;
- the USA PATRIOT Act and related anti-money laundering requirements; and
- certain federal rules regarding safeguarding personal information, including rules implementing the privacy provisions of Gramm-Leach-Bliley Act of 1999, or GLBA.

Higher Education Regulations

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

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Under ED's regulations, a third party servicer that contracts with a Title IV institution acts in the nature of a fiduciary in the administration of Title IV programs. Among other requirements, the regulations provide that a third-party servicer is jointly and severally liable with its client institution for any liability to ED arising out of the servicer's violation of Title IV or its implementing regulations, which could subject us to material fines related to acts or omissions of entities beyond our control. ED is also empowered to limit, suspend or terminate the violating servicer's eligibility to act as a third-party servicer and to impose significant civil penalties on the violating servicer.

Additionally, on behalf of our higher education institution clients, we are required to comply with ED's cash management regulations regarding payment of financial aid credit balances to students and providing bank accounts to students that may be used for receiving such payments. In the event ED concluded that we had violated Title IV or its implementing regulations and should be subject to one or more of these sanctions, our business and results of operations could be materially and adversely affected. There is limited enforcement and interpretive history of Title IV regulations.

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

FERPA. Our higher education institution clients are subject to FERPA, which provides, with certain exceptions, that an educational institution that receives any federal funding under a program administered by ED may not have a policy or practice of disclosing education records or "personally identifiable information" from education records, other than directory information, to third parties without the student's or parent's written consent. Our higher education institution clients that use the Disbursement business services disclose to us certain non-directory information concerning their students, including contact information, student identification numbers and the amount of students' credit balances. We believe that our higher education institution clients may disclose this information to us without the students' or their parents' consent pursuant to one or more exceptions under FERPA. However, if ED asserts that we do not fall into one of these exceptions or if future changes to legislation or regulations require student consent before our higher education institution clients can disclose this information to us, a sizable number of students may cease using our products and services, which could materially and adversely affect our business, financial condition and results of operations.

Additionally, as we are indirectly subject to FERPA, we may not permit the transfer of any personally identifiable information to another party other than in a manner in which a higher education institution may disclose it. In the event that we re-disclose student information in violation of this requirement, FERPA requires our clients to suspend our access to any such information for a period of five years. Any such suspension could have a material adverse effect on our business, financial condition and results of operations.

State Laws. We may also be subject to similar state laws and regulations, including those that restrict higher education institutions from disclosing certain personally identifiable information of students. State attorneys general and other enforcement agencies may monitor our compliance with state and federal laws and regulations that affect our business, including those pertaining to higher education and banking, and conduct investigations of our business that are time consuming and expensive and could result in fines and penalties that have a material adverse effect on our business, financial condition and results of operations.

Additionally, individual state legislatures may propose and enact new laws that restrict or otherwise affect our ability to offer our products and services as we currently do, which could have a material adverse effect on our business, financial condition and results of operations.
Reviews performed by the Internal Revenue Service and State Taxing Authorities for the fiscal years that remain open for investigation may result in a change to income taxes recorded in our consolidated financial statements and adversely affect our results of operations.

The Bancorp and its subsidiaries are subject to U.S. federal income tax as well as income tax of various states primarily in the mid-Atlantic region of the United States. Years that remain open for potential review by (1) the Internal Revenue Service are 2013 through 2015, and (2) state taxing authorities are 2011 through 2015. The results of these reviews could result in increased recognition of income tax expense in our consolidated financial statements as well as possible fines and penalties.

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Our financial results may be adversely affected by changes in U.S. and non-U.S. tax and other laws and regulations.

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

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 anticipate our bank's total assets will exceed $10 billion in the near future. 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.

Risks Relating to Our Securities

Risks Relating to Our Voting Common Stock

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

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

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

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

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

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

Actual or anticipated issuances or sales of substantial amounts of our common stock in the future could cause the value of our Voting Common Stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance. Actual issuances of our Voting Common Stock could also significantly dilute the voting power of the Voting Common Stock. In 2016, we issued 2,641,677 shares of Voting Common Stock in public offerings.

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

Except for 184,706 warrants held by certain investors at December 31, 2016, we are not required to issue any additional equity securities to existing holders of our Voting Common Stock on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities, warrants or options, will generally dilute the holdings of our existing holders of Voting Common Stock and such issuances or the perception of such issuances may reduce the market price of our Voting Common Stock. Our outstanding preferred stock has preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to holders of our Voting Common Stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Thus, holders of our Voting Common Stock bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the value of our Voting Common Stock.

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

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

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

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

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

We are a bank holding company regulated by the Federal Reserve. Any entity (including a “group” composed of natural persons) owning 25% or more of a class of our outstanding shares of voting stock, or a lesser percentage if such holder or group otherwise exercises a “controlling influence” over us, may be subject to regulation as a “bank holding company” in accordance with the Bank Holding Company Act of 1956, as amended (the “BHCA”). In addition, (1) any bank holding company or foreign bank with a U.S. presence is required to obtain the approval of the Federal Reserve under the BHCA to acquire or retain 5% or more of a class of our outstanding shares of voting stock, and (2) any person other than a bank holding company may be required to obtain prior regulatory approval under the Change in Bank Control Act to acquire or retain 10% or more of our outstanding shares of voting stock. Any shareholder that is deemed to “control” the Company for bank regulatory purposes would become subject to prior approval requirements and ongoing regulation and supervision. Such a holder may be required to divest amounts equal to or exceeding 5% of the voting shares of investments that may be deemed incompatible with bank holding company status, such as an investment in a company engaged in non-financial activities. Regulatory determination of “control” of a depository institution or holding company is based on all of the relevant facts and circumstances. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

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

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

On August 26, 2009, the FDIC issued a policy statement imposing restrictions and criteria on private investors in failed bank acquisitions. The policy statement is broad in scope and both complex and potentially ambiguous in its application. In most cases it would apply to an investor with more than 5% of the total voting power of an acquired depository institution or its holding company, but in certain circumstances it could apply to investors holding fewer voting shares. The policy statement will be applied to us if we make additional failed bank acquisitions from the FDIC or if the FDIC changes its interpretation of the policy statement or determines at some future date that it should be applied because of our circumstances.

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

Under the policy statement, the FDIC also could prohibit investment through ownership structures involving multiple investment vehicles that are owned or controlled by the same parent company. Investors that directly or indirectly hold 10% or more of the equity of a bank or savings association in receivership also would not be eligible to bid to become investors in the deposit liabilities of that failed institution. In addition, an investor using ownership structures with entities that are domiciled in bank secrecy jurisdictions would not be eligible to own a direct or indirect interest in an insured depository institution unless the investor’s parent company is subject to comprehensive consolidated supervision as recognized by the Federal Reserve and the investor enters into certain agreements with the U.S. bank regulators regarding access to information, maintenance of records and compliance with U.S. banking laws and regulations. If the policy statement applies, we (including any failed bank we acquire) could be required to maintain a ratio of Tier 1 common equity to total assets of at least 10% for a period of 3 years, and thereafter maintain a capital level sufficient to be well capitalized under regulatory standards during the remaining period of ownership of the investors. Bank subsidiaries also may be prohibited from extending any new credit to investors that own at least 10% of our equity.

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

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

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

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

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

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

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

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

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

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation or otherwise, and, as a result, the ability of a holder of Series C, Series D, Series E, and Series F Preferred Stock to benefit indirectly from such distribution, will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, shares of the Series C, Series D, Series E, and Series F Preferred Stock are effectively subordinated to all existing and future liabilities and any preferred equity of our subsidiaries.

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

Our Series C, Series D, Series E, and Series F Preferred Stock are perpetual equity securities, meaning that the Series C, Series D, Series E, and Series F Preferred Stock have no maturity date or mandatory redemption date and the shares are not redeemable at the option of the holders thereof. Any determination we make at any time to propose a redemption of the Series

C, Series D, Series E, and Series F Preferred Stock will depend upon a number of factors, including our evaluation of our capital position, the composition of our shareholders' equity and general market conditions at that time. In addition, our right to redeem the Series C, Series D, Series E, and Series F Preferred Stock is subject to any limitations established by the Federal Reserve. Under the Federal Reserve's risk-based capital guidelines applicable to bank holding companies, any redemption of the Series C, Series D, Series E, and Series F Preferred Stock is subject to prior approval of the Federal Reserve. There can be no assurance that the Federal Reserve will approve any such redemption.

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

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

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

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

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

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

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

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

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

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

Our Series C, Series D, Series E, and Series F Preferred Stock rank equally. Although we do not currently have outstanding preferred stock that ranks senior to the Series C, Series D, Series E, and Series F Preferred Stock, the Series C, Series D, Series E, and Series F Preferred Stock may rank junior to other preferred stock we may issue in the future that by its terms is expressly senior in rights and preferences to the Series C, Series D, Series E, and Series F Preferred Stock, although the affirmative vote

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

Risks Relating to Our Debt Securities

Our 6.375% Senior Notes and 4.625% Senior Notes contain limited covenants.

The terms of our 6.375% Senior Notes and 4.625% Senior Notes generally do not prohibit us from incurring additional debt or other liabilities. If we incur additional debt or liabilities, our ability to pay our obligations on the 6.375% Senior Notes and 4.625% Senior Notes could be adversely affected. In addition, the terms of our 6.375% Senior Notes and 4.625% Senior Notes do not require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, do not protect holders of those notes in the event that we experience material adverse changes in our financial condition or results of operations. Holders of the 6.375% Senior Notes and 4.625% Senior Notes also have limited protection in the event of a highly leveraged transaction, reorganization, default under our existing indebtedness, restructuring, merger or similar transaction.

Our ability to make interest and principal payments on the 6.375% Senior Notes and 4.625% Senior Notes is dependent on dividends and distributions we receive from our subsidiaries, which are subject to regulatory and other limitations.

Our principal source of cash flow is dividends from Customers Bank. We cannot assure you that Customers Bank will, in any circumstances, pay dividends to us. If Customers Bank fails to make dividend payments to us, and sufficient cash is not otherwise available, we may not be able to make interest and principal payments on the 6.375% Senior Notes and 4.625% Senior Notes. Various federal and state statutes, regulations and rules limit, directly or indirectly, the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In particular, dividend and other distributions from Customers Bank to us would require notice to or approval of the applicable regulatory authority. There can be no assurances that we would receive such approval.

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary’s liquidation or otherwise, and, as a result, the ability of a holder of 6.375% Senior Notes and 4.625% Senior Notes to benefit indirectly from such distribution, will be subject to the prior claims of preferred equity holders and creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, the 6.375% Senior Notes and 4.625% Senior Notes are effectively subordinated to all existing and future liabilities and any preferred equity of our subsidiaries.

We may not be able to generate sufficient cash to service our debt obligations, including our obligations under the 6.375% Senior Notes and 4.625% Senior Notes.

Our ability to make payments on and to refinance our indebtedness, including the 6.375% Senior Notes and 4.625% Senior Notes, will depend on our financial and operating performance, including dividends payable to us from Customers Bank, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

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

The 6.375% Senior Notes and 4.625% Senior Notes are our unsecured obligations. The 6.375% Senior Notes and 4.625% Senior Notes will rank equal in right of payment with all of our secured and unsecured senior indebtedness and will rank senior in right of payment to all of our subordinated indebtedness. Although the 6.375% Senior Notes and 4.625% Senior Notes are "senior notes," they will be effectively subordinate to all liabilities of our subsidiaries, including secured indebtedness.

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The 6.375% Senior Notes and 4.625% Senior Notes may not have an active trading market.

Although the 6.375% Senior Notes are listed on the New York Stock Exchange, an active trading market may not be established or maintained for those notes and transaction costs could be high. The 4.625% Senior Notes are not listed on any securities exchange and there is no active trading market for these notes. In addition to the other factors described below, the lack of a trading market for the 4.625% Senior Notes may adversely affect the holder's ability to sell the notes and the prices at which the notes may be sold.

The prices realizable from sales of the 6.375% Senior Notes and 4.625% Senior Notes in any secondary market also will be affected by the supply and demand of the notes, the interest rate, the ranking and a number of other factors, including:

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The table below summarizes all Customers' locations. It includes our leased branch, limited purpose and administrative office properties, by county and state, as of December 31, 2016.

Bank Branches

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

County	State	Leased
Berks (3)	PA	3
Bucks (6)	PA	1
Chester (2)	PA	2
Delaware (7)	PA	1
Lancaster (14)	PA	1
Philadelphia (8)	PA	1
Fairfax (9)	VA	1
Mercer (4)	NJ	1
Morris (14)	NJ	1
New Haven (16)	CT	1
New York (10)	NY	2
Westchester (5)	NY	2
Suffolk (13)	NY	1
Providence (11)	RI	1
Rockingham (15)	NH	1
Suffolk (12)	MA	1
		21

(1) Includes the full service branch at 1001 Penn Avenue, Wyomissing, PA as well as three branches acquired through the Berkshire Bancorp, Inc. acquisition. The lease expirations range from 2017 to 2021.

(2) Includes the corporate headquarters of Customers Bank and a full service branch located in a freestanding building at 99 Bridge St., Phoenixville, PA 19460, wherein we lease approximately 31,054 square feet on 4 floors. The lease on this location expires in 2023. Also includes the lease of 5,523 square feet of property at 513 Kimberton Road in Phoenixville, PA where we maintain a full service commercial bank branch and corporate offices. The lease on this location expires in 2019.

(3) Includes the corporate headquarters of Customers Bancorp and a full service branch located at 1015 Penn Avenue, Wyomissing, PA. The leased space covers a total of 23,719 square feet. This lease expires in 2020. Also, includes the leased administrative offices for the corporate lending group which is housed within the Exeter branch location, expiring in 2021, and an administrative office for Customers personnel in Shillington, PA, expiring in 2018.

(4) Includes 7,327 square feet of leased space in Hamilton, NJ from which we conduct our mortgage warehouse activities. The lease on this location expires in 2019.

(5) Represents administrative offices for Customers personnel. The leases at these locations expire in 2019 and 2022.

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

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

(8) Represents limited purpose office for Customers personnel. The lease on this location expires in 2023.

(9) Represents limited purpose office. The space is currently sublet to a third party. The lease on this location expires in 2019.

(10) Represents limited purpose offices. One location is currently sublet to a third party (expires in 2020). Our new location, utilized for Customers personnel, expires in 2027.

(11) Represents limited purpose office for Customers personnel. The lease on this location expires in 2021.

(12) Represents limited purpose office for Customers personnel. The lease on this location expires in 2019.

(13) Represents limited purpose office for Customers personnel. The lease on this location expires in 2025.

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

(15) Represents limited purpose office for Customers personnel. The lease on this location expires in 2018.

(16) Includes facilities utilized by BankMobile for the acquired Disbursement business. Usage of the facility through June 30, 2017 is included in the Transition Services Agreement. See NOTE 2 - ACQUISITION ACTIVITY for

more information.

The Bank branch locations, which range in size from approximately 1,500 to 6,100 square feet, have leases on these locations which expire between 2017 and 2025.

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The total minimum net cash lease payments for our current branches, administrative offices and mortgage warehouse lending locations amount to approximately $325,000 per month.

Item 3. Legal Proceedings

Halbreiner Matter

On December 16, 2016, Elizabeth Halbreiner and Robert Halbreiner (“Plaintiffs”) filed a Second Amended Complaint captioned Elizabeth Halbreiner and Robert Halbriener, v. Customers Bank, Robert B.White, Richard A. Ehst, Thomas Jastrem, Timothy D. Romig, Andrew Bowman, Michael Fuoco, Saldutti Law Group f/k/a Saldutti, LLC a/k/a Saldutti Law, LLC, Robert L. Saldutti, LLC, Robert L. Saldutti, Esquire, Brian J. Schaffer, Esquire, Robert Lieber, Jr., Esquire, Jay Sidhu, James Zardecki, Zardecki Associates LLC, No. 01419 in the First Judicial District of Pennsylvania, Court of Common Pleas of Philadelphia, Trial Division. In this Second Amended Complaint, the Plaintiffs generally allege that Customers Bank, and the other named defendants, conspired to misuse the legal system for improper purposes and it also alleges defamation, false light, tortious interference with contractual relations, infliction of emotional distress, negligent infliction of emotional distress and loss of consortium. On January 6, 2017, Customers Bank filed Preliminary Objections to the Complaint seeking dismissal of Plaintiff’s claims against Customers Bank and the employees of Customers Bank named as co-defendants. Customers Bank intends to vigorously defend itself against these allegations but is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

Lifestyle Healthcare Group, Inc. Matter

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

Civil Money Penalty Resolution

As previously disclosed, Customers Bank had been in discussions with the Board of Governors of the Federal Reserve (the "Federal Reserve Board") staff regarding certain compliance matters relating to certain past activities of Higher One Holdings, Inc. To settle these matters from 2013 and to move forward, on December 6, 2016, Customers Bank agreed to the issuance by the Federal Reserve Board of a combined Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as amended (the "Order") with respect to these matters. Pursuant to the terms of the Order, Customers Bank was, among other things, assessed a civil money penalty of $960,000. Customers had previously set aside a reserve for the civil money penalty and made payment in 2016. Therefore, the civil money penalty, and other provisions of the Order, will not have a material adverse effect on Customers' results of operations or the conduct of Customers' business prospectively.

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II

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

Trading Market for Voting Common Stock

Our common stock is traded on the New York Stock Exchange under the symbol "CUBI."

Market Price of Voting Common Stock

The chart below displays the high and low closing sale prices of the common stock of Customers Bancorp as reported on the New York Stock Exchange for each of the four quarters of 2016 and 2015.

	High	Low
2017		
First quarter (through February 28, 2017)	$36.21	$33.83
2016		
Fourth quarter	$36.68	$24.49
Third quarter	26.24	23.99
Second quarter	27.27	22.34
First quarter	26.50	21.78
2015		
Fourth quarter	$31.00	$24.30
Third quarter	29.02	22.51
Second quarter	27.49	24.05
First quarter	24.65	17.96

As of February 28, 2017, there were 449 shareholders of record and 30,469,997 shares outstanding of Customers Bancorp's Voting Common Stock.

Dividends on Voting Common Stock

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

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

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

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

Issuer Purchases of Equity Securities

On November 26, 2013, the Bancorp’s Board of Directors authorized a stock repurchase plan in which the Bancorp could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. The repurchase program has no expiration date but may be suspended, modified or discontinued at any time, and the Bancorp has no obligation to repurchase any amount of its common stock under the program. There were no common stock repurchases during 2016.

EQUITY COMPENSATION PLANS

The following table provides certain summary information as of December 31, 2016 concerning our compensation plans (including individual compensation arrangements) under which shares of our common stock may be issued.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights (#)	Weighted-Average Exercise Price of Outstanding Options ($) (2)	Number of Securities Remaining Available for Future Issuance Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) (#)
Equity Compensation Plans Approved by Security Holders (1)	4,605,545	$ 15.25	1,360,280 (3)
Equity Compensation Plans Not Approved by Security Holders	N/A	N/A	N/A

(1) Includes shares of common stock that may be issued upon the exercise of awards granted or rights accrued under the Amended and Restated Customers Bancorp, Inc. 2004 Incentive Equity and Deferred Compensation Plan, Customers Bancorp, Inc. 2010 Stock Option Plan, the Bonus Recognition and Retention Program ("BRRP"), and Customers Bancorp, Inc. Amended and Restated 2014 Employee Stock Purchase Plan.

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

(3) Does not include securities available for future issuance under the BRRP as there is no specific number of shares reserved under this plan. By its terms, the plan limits the award of restricted stock units to the amount of the cash bonuses paid to the participants in the BRRP.

Common Stock Performance Graph

The following graph compares the performance of our common stock over the period from December 31, 2012 to December 31, 2016, to that of the total return index for the SNL Mid-Atlantic Bank Index, SNL U.S. Bank NASDAQ Index and SNL U.S. Bank NYSE Index, assuming an investment of $100 on December 31, 2012. The SNL U.S. Bank NYSE Index was added to the performance graph because the Bancorp changed the listing of its Voting Common Stock to the NYSE from NASDAQ in December 2014. In calculating total annual shareholder return, reinvestment of dividends, if any, is assumed. Customers Bancorp obtained the information contained in the performance graph from

SNL Financial.

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

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Item 6. Selected Financial Data

Customers Bancorp, Inc. and Subsidiaries

The following table presents Customers Bancorp's summary consolidated financial data. Customers Bancorp derived the balance sheet and income statement data for the years ended December 31, 2016, 2015, 2014, 2013, and 2012 from its audited financial statements. The summary consolidated financial data should be read in conjunction with, and is qualified in their entirety by, Customers Bancorp's financial statements and the accompanying notes and the other information included elsewhere in this Annual Report on Form 10-K. Certain amounts reported below have been reclassified to conform to the 2016 presentation, including the presentation of BankMobile as discontinued operations.

	2016	2015	2014	2013	2012
(dollars in thousands, except per share information)					
For the Years Ended December 31,					
Interest income	$322,539	$249,850	$190,427	$128,156	$93,814
Interest expense	73,023	53,551	38,504	24,301	21,761
Net interest income	249,516	196,299	151,923	103,855	72,053
Provision for loan losses	2,345	20,566	14,747	2,236	14,270
Total non-interest income	23,165	27,572	25,126	22,703	28,958
Total non-interest expense	131,217	107,568	96,788	73,676	50,651
Income from continuing operations before income tax expense	139,119	95,737	65,514	50,646	36,090
Income tax expense	51,412	32,664	20,982	17,736	12,272
Net income from continuing operations	87,707	63,073	44,532	32,910	23,818
Loss from discontinued operations before income taxes (1)	(14,524)	(7,242)	(2,126)	(348)	—
Income tax benefit from discontinued operations	(5,519)	(2,752)	(808)	(132)	—
Net loss from discontinued operations	(9,005)	(4,490)	(1,318)	(216)	—
Net income	78,702	58,583	43,214	32,694	23,818
Preferred stock dividends	9,515	2,493	—	—	—
Net income attributable to common shareholders	$69,187	$56,090	$43,214	$32,694	$23,818
Earnings per common share:					
Basic earnings per common share from continuing operations	$2.83	$2.26	$1.67	$1.34	$1.61
Basic earnings per common share	$2.51	$2.09	$1.62	$1.34	$1.61
Diluted earnings per common share from continuing operations	$2.61	$2.11	$1.59	$1.31	$1.57
Diluted earnings per common share	$2.31	$1.96	$1.55	$1.30	$1.57
At Period End					
Total assets	$9,382,736	$8,398,205	$6,821,500	$4,150,493	$3,201,234
Cash and cash equivalents	244,709	264,593	371,023	233,068	186,016
Investment securities	493,474	560,253	416,685	497,573	129,093
Loans held for sale (2)	2,117,510	1,797,064	1,435,459	747,593	1,439,889
Loans receivable	6,142,390	5,452,895	4,311,374	2,464,158	1,324,467
Allowance for loan losses	37,315	35,647	30,932	23,998	25,837
FDIC loss sharing receivable (3)	—	—	2,320	10,046	12,343
Deposits	6,846,980	5,662,433	4,296,242	2,959,922	2,440,818
Deposits (classified in liabilities held for sale)	456,795	247,068	236,297	236,481	—
Borrowings (4)	1,147,706	1,890,442	1,812,380	782,070	478,000
Liabilities held for sale	484,797	247,139	236,297	236,481	—

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Shareholders’ equity	855,872		553,902		443,145		386,623		269,475	
Tangible common equity (5)	620,780		494,682		439,481		382,947		265,786	
Selected Ratios and Share Data										
Return on average assets	0.86	%	0.81	%	0.78	%	0.95	%	1.02	%
Return on average common equity	12.41	%	11.82	%	10.39	%	9.49	%	12.69	%
Common book value per share	$21.08		$18.52		$16.57		$14.51		$13.27	
Tangible book value per common share (5)	$20.49		$18.39		$16.43		$14.37		$13.09	
Common shares outstanding	30,289,917		26,901,801		26,745,529		26,646,566		20,305,452	
Net interest margin	2.84	%	2.81	%	2.86	%	3.13	%	3.21	%
Equity to assets	9.12	%	6.60	%	6.50	%	9.32	%	8.42	%
Tangible common equity to tangible assets (5)	6.63	%	5.89	%	6.45	%	9.23	%	8.31	%
Tier 1 leverage ratio – Customers Bank	9.23	%	7.30	%	7.39	%	10.81	%	7.74	%
Tier 1 leverage ratio – Customers Bancorp	9.07	%	7.16	%	6.69	%	10.11	%	9.30	%
Tier 1 risk-based capital ratio – Customers Bank	11.63	%	8.62	%	9.27	%	13.33	%	8.50	%
Tier 1 risk-based capital ratio – Customers Bancorp	11.41	%	8.46	%	8.39	%	12.44	%	10.23	%
Total risk-based capital ratio – Customers Bank	13.61	%	10.85	%	11.98	%	14.11	%	9.53	%
Total risk-based capital ratio – Customers Bancorp	13.05	%	10.62	%	11.09	%	13.21	%	11.26	%
Asset Quality										
Non-performing loans	$17,792		$10,771		$11,733		$19,163		$32,851	
Non-performing loans to total loans receivable	0.29	%	0.20	%	0.27	%	0.78	%	2.48	%
Non-performing loans to total loans	0.22	%	0.15	%	0.20	%	0.60	%	1.19	%
Other real estate owned	$3,108		$5,057		$15,371		$12,265		$8,114	
Non-performing assets	20,900		15,828		27,104		31,428		40,965	
Non-performing assets to total assets	0.22	%	0.19	%	0.40	%	0.76	%	1.28	%
Allowance for loan losses to total loans receivable	0.61	%	0.65	%	0.72	%	0.97	%	1.95	%
Allowance for loan losses to non-performing loans	209.73	%	330.95	%	263.63	%	125.23	%	78.65	%
Net charge-offs	$1,662		$11,979		$3,124		$6,894		$5,466	
Net charge-offs to average total loans receivable	0.03	%	0.26	%	0.09	%	0.37	%	0.38	%

1. BankMobile's results are reflected in discontinued operations.
2. In 2016, 2015 and 2014, loans held for sale included $2,116,815, $1,754,950 and $1,332,019 of mortgage warehouse loans at fair value, respectively
3. The FDIC loss sharing receivable, as of December 2015, is included in "Accrued interest payable and other liabilities" net of the clawback liability.
4. Borrowings includes FHLB advances, Federal funds purchased, Subordinated debt, and other borrowings
5. Customers’ selected financial data contains non-GAAP financial measures calculated using non-GAAP amounts. These measures include tangible common equity and tangible book value per common share and tangible common equity to tangible assets. Management uses these non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing the Bancorp’s financial results and use of equity. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Customers Bancorp calculates tangible common equity by excluding intangible assets from total shareholders’ equity. Tangible book value per common share equals tangible common equity divided by common shares outstanding.

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

(in thousands, except per share data)	2016	2015	2014	2013	2012
Shareholders' equity	$855,872	$553,902	$443,145	$386,623	$269,475
Less: intangible assets	(17,621)	(3,651)	(3,664)	(3,676)	(3,689)
Less: preferred stock	(217,471)	(55,569)	—	—	—
Tangible common equity	$620,780	$494,682	$439,481	$382,947	$265,786
Shares outstanding	30,290	26,902	26,746	26,647	20,305
Common book value per share	$21.08	$18.52	$16.57	$14.51	$13.27
Less: effect of excluding intangible assets	(0.59)	(0.13)	(0.14)	(0.14)	(0.18)
Common tangible book value per share	$20.49	$18.39	$16.43	$14.37	$13.09
Total assets	$9,382,736	$8,398,205	$6,821,500	$4,150,493	$3,201,234
Less: intangible assets	(17,621)	(3,651)	(3,664)	(3,676)	(3,689)
Total tangible assets	$9,365,115	$8,394,554	$6,817,836	$4,146,817	$3,197,545
Equity to assets	9.12 %	6.60 %	6.50 %	9.32 %	8.42 %
Tangible common equity to tangible assets	6.63 %	5.89 %	6.45 %	9.23 %	8.31 %

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

This Management's Discussion and Analysis should be read in conjunction with “Business – Executive Summary” and the Bancorp’s consolidated financial statements and related notes for the year ended December 31, 2016. Certain amounts reported in the 2015 and 2014 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications did not significantly impact Customers' financial position or results of operations.

Critical Accounting Policies

Customers has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America (U.S. GAAP) and that are consistent with general practices within the banking industry in the preparation of its financial statements. Customers' significant accounting policies are described in NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to its audited financial statements.

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

The following is a summary of the policies Customers recognizes as involving critical accounting estimates: Allowance for Loan Losses, Stock-Based Compensation, Unrealized Gains and Losses on Available-for-Sale Securities and Other-Than-Temporary Impairment Analysis, Fair Values of Financial Instruments, Accounting for Purchased-Credit-Impaired (PCI) Loans, Deferred Income Taxes, and Goodwill and Other Intangible Assets.

Allowance for Loan Losses

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

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

Stock-Based Compensation

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

Unrealized Gains and Losses on Securities Available for Sale and Other-Than-Temporary Impairment Analysis
Customers receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Debt securities available for sale consist primarily of mortgage-backed securities issued by U.S. government-sponsored agencies. Customers uses various indicators in determining whether a security is other-than-temporarily impaired including, for debt securities, when it is probable that the contractual interest and principal will not be collected, or for equity securities, whether the market value is below its cost for an extended period of time with low expectation of recovery. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer.
For marketable equity securities, Customers considers the issuer's financial condition, capital strength and near term prospects to determine whether an impairment is temporary or other-than-temporary. Customers also considers the volatility of a security's price in comparison to the market as a whole and any recoveries or declines in fair value subsequent to the balance sheet date. If management determines that the impairment is other-than-temporary, the entire amount of the impairment as of the balance sheet date is recognized in earnings even if the decision to sell the security has not been made. The fair value of the security becomes the new amortized cost basis of the investment and is not adjusted for subsequent recoveries in fair value.
At December 31, 2016, management evaluated its available-for-sale debt securities for other-than-temporary impairment. The unrealized losses associated with the available-for-sale debt securities were not considered to be other-than-temporarily impaired at December 31, 2016 because the losses were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or issuer. Customers does not intend to sell these securities and it is not more likely than not that Customers will be required to sell the securities before recovery of the amortized cost basis.
At December 31, 2016, management evaluated its equity holdings issued by a foreign entity for other-than-temporary impairment. Management determined it no longer had the intent to hold the securities until a recovery in fair value. Accordingly, Customers recognized an other-than-temporarily impairment loss of $7.3 million on these securities for the year ended December 31, 2016.
Fair Value
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, other than in a forced or liquidation sale as of the measurement date (also referred to as an exit price). Management estimates the fair values of financial instruments using a variety of valuation methods. When financial instruments are actively traded and have quoted market prices, the quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, Customers estimates fair value using unobservable data. The valuation methods and inputs consider factors such as types of underlying assets or liabilities, rates of estimated credit losses, interest rates or discount rates, and collateral. The best estimate of fair value involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor refinancing. U.S. GAAP requires the use of fair values in determining the carrying values of certain assets and liabilities, as well as for specific disclosures. The most significant uses of fair values include residential mortgage loans acquired subject to an agreement to resell, residential mortgage loans originated with an intent to sell, available-for-sale investment securities, derivative assets and liabilities, impaired loans and foreclosed property and the net assets acquired in business combinations. For additional information, refer to NOTE 20 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS.
Purchased Credit-Impaired Loans
For certain acquired loans that have experienced a deterioration of credit quality, Customers follows the guidance contained in ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired loans are loans that were acquired in business combinations or asset purchases with evidence of credit deterioration since origination to the date acquired and for which it is probable that all contractually required

payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and non-accrual status, borrower credit scores and recent loan to value percentages.
The fair value of loans with evidence of credit deterioration is recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is not included in the carrying amount of acquired loans.

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Subsequent to acquisition, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions. Subsequent decreases in the estimated cash flows of the loan will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on accretion of interest income in future periods. Further, any excess of cash flows expected at the time of acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of those cash flows.
Purchased-credit-impaired loans acquired may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. On a quarterly basis, the Bank re-estimates the total cash flows (both principal and interest) expected to be collected over the remaining life of each pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions. If the timing and/or amounts of expected cash flows on purchased-credit-impaired loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as non-accrual loans; however, when the timing and amounts of expected cash flows for purchased-credit-impaired loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans. Charge-offs are not recorded on purchased-credit-impaired loans until actual losses exceed the estimated losses that were recorded as purchase accounting adjustments at acquisition date.

Deferred Income Taxes

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the identifiable net assets of businesses acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer and university relationship intangibles and non-compete agreements, are amortized over their estimated useful lives and subject to periodic impairment testing. Goodwill and other intangible assets recognized as part of the Disbursement business acquisition were based on a preliminary allocation of the purchase price. In fourth quarter 2016, Customers recorded adjustments to the estimated fair values of the net assets acquired, which resulted in a $1.0 million increase in goodwill. For more information regarding the net assets acquired and goodwill recorded upon acquisition of the Disbursement business, see NOTE 2 - ACQUISITION ACTIVITY.
Goodwill and other intangible assets are reviewed for impairment annually as of October 31 and between annual tests when events and circumstances indicate that impairment may have occurred. Impairment of goodwill is a condition that exists when the carrying amount exceeds its implied fair value. A qualitative factor test can be performed to determine whether it is necessary to perform the two-step quantitative impairment test. If the results of the qualitative review indicate that it is unlikely (less than 50% probability) that the carrying value of the reporting unit exceeds its fair value, no further evaluation needs to be performed.
Intangible assets subject to amortization are reviewed for impairment under ASC 360 which requires that a long-lived asset or asset group be tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the

undiscounted cash flows expected to result from the use and eventual disposition of the asset.

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Overview

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

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

BankMobile, a division of Customers Bank, derives the majority of its revenue from interchange and card revenue earned from the Disbursement business acquired from Higher One. In fourth quarter 2016, Customers decided to sell BankMobile and anticipates the sale to close in third quarter 2017. Accordingly, BankMobile has been classified as "held for sale" on the consolidated balance sheets and BankMobile's operating results have been presented as discontinued operations in the accompanying consolidated financial statements.

2017 Economic Outlook

U.S. Real GDP is forecast to grow 2.0% to 3.0% during 2017. Additionally, a dichotomy could develop between the U.S. and global economies as a result of President Trump’s policies (e.g., higher tariffs on trade, curbing illegal immigration, increased federal stimulus, and tax cuts for corporations and Americans), with the U.S. getting a short-term pickup in GDP growth while global growth is dampened by U.S. economic policy. Sectors tied closely to the domestic economy should fare better than those sectors that are more closely tied to the global economy. The U.S. economy is forecast to expand 2.2% in 2017 from around 1.6% in 2016, as consumer spending is bolstered by healthy employment and wage prospects, despite continued weak business investment.

While inflation has remained below the Federal Reserve's target of 2% (1.7% through the 12 months ended November 30, 2016 as published by the U.S. government on December 15, 2016), it is expected to climb to 2.2% in 2017 and 2.4% in 2018. If current projections are correct, it would be the first stretch of sustained inflation above 2% since before the recession of 2007 to 2009.

Since “lift off” in mid-December 2015 and an additional 25 basis points interest rate increase in mid-December 2016, it is expected that the Federal Reserve will continue to raise the overnight rate, increasing it three times during 2017. For these interest rate hikes to occur, the CPI and PCE deflators will need to continue to approach the Federal Reserve's 2% target and employment will need to improve or at least retain recent positive trends.

While the outlook in the U.S. remains optimistic in the short run, the Trump administration’s policies are likely to result in higher U.S. interest rates and a stronger dollar, which could have a significantly adverse impact on the global economy. In the longer run, however, these policies could also have a negative impact on U.S. growth as the boost from the fiscal stimulus diminishes and President Trump’s other policies (e.g., higher tariffs, curtailed immigration, and tighter monetary policy by the Federal Reserve) ultimately begin to weigh on domestic growth. In Customers Bancorp's market area, management sees continued moderate (2.0% to 3.0%) growth in 2017, the housing market continuing to improve, and unemployment improving or at least remaining at current levels during the year. Management is seeing improvement in loan demand in the Bank's commercial and industrial, multi-family and commercial real estate loan portfolios, although the market for multi-family loans is expected to be down by 25% to 30% in 2017 (with the Bank being down approximately 20% because it is better positioned than the large banks with exposure to a lot of potential refinance activity). As the Trump administration is only beginning to take shape, the political uncertainty in the U.S. and the challenges associated with that uncertainty will continue over the next few years. Overall, management is optimistic that 2017 will show a continuation of the improving economic environment experienced in 2016, providing the caveat that the political uncertainty surrounding the Trump administration’s ability to execute its policies could have a significant impact on the continued economic recovery.

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Results of Operations

The following discussion of Customers Bancorp's consolidated results of operations should be read in conjunction with its consolidated financial statements, including the accompanying notes. Also see "CRITICAL ACCOUNTING POLICIES" and "NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION" for information concerning certain significant accounting policies and estimates applied in determining reported results of operations.

For the years ended December 31, 2016 and 2015

Net income available to common shareholders increased $13.1 million, or 23.3%, to $69.2 million for the year ended December 31, 2016, compared to $56.1 million for the year ended December 31, 2015. The increased net income available to common shareholders resulted from an increase in net interest income of $53.2 million and a decrease in provision for loan losses of $18.2 million, partly offset by a decrease in non-interest income of $4.4 million and increases in non-interest expense of $23.6 million, tax expense of $18.7 million, net loss from discontinued operations of $4.5 million, and preferred stock dividends of $7.0 million.

Net interest income from continuing operations increased $53.2 million, or 27.1%, for the year ended December 31, 2016 to $249.5 million, compared to $196.3 million for the year ended December 31, 2015. The increase in net interest income was driven by an increase in the average balance of loans and securities of $1.8 billion, from $6.7 billion in 2015 to $8.5 billion in 2016, as well as the expansion of net interest margin (tax equivalent) by 3 basis points (from 2.81% in 2015 to 2.84% in 2016).

The provision for loan losses from continuing operations declined $18.2 million to $2.3 million for the year ended December 31, 2016, compared to $20.6 million for the same period in 2015. The decrease in the provision for loan losses during 2016 was primarily attributable to a provision expense of $9.0 million recorded in 2015 for a fraudulent loan that was charged off in its entirety during 2015, greater growth in loans held for investment in 2015 as compared to 2016, a benefit of $0.3 million in 2016 attributable to FDIC loss sharing arrangements versus expense of $3.9 million in 2015, and recoveries totaling $2.7 million in 2016 compared to recoveries of $1.4 million in 2015.

Non-interest income from continuing operations declined $4.4 million, or 16.0%, for the year ended December 31, 2016 to $23.2 million, compared to $27.6 million for the year ended December 31, 2015. The decrease resulted primarily from an impairment charge of $7.3 million recorded in 2016 due to Customers' change in intent to hold certain equity securities until the market price of the securities recovered and a decrease in bank-owned life insurance income of $2.3 million as a result of a $2.4 million benefit received on a bank-owned life insurance policy in 2015. These decreases were offset in part by increased mortgage warehouse transactional fees of $1.2 million resulting from higher transaction volumes in 2016 as compared to 2015 and a $2.2 million recovery of a previously recorded loss during 2016.

Non-interest expense from continuing operations increased $23.6 million, or 22.0%, during the year ended December 31, 2016 to $131.2 million, compared to $107.6 million during the year ended December 31, 2015. The increase was primarily driven by increases in salaries and employee benefits of $11.5 million, technology, communications and bank operations of $3.5 million, FDIC assessments, non-income taxes, and regulatory fees of $2.5 million, professional services of $1.6 million, occupancy expenses of $1.4 million, and one-time charges of $1.4 million associated with legal matters. Much of the increased non-interest expense was attributable to the increased level of staff and other operating expenses necessary to support and operate a $9.4 billion bank.

Income tax expense from continuing operations increased $18.7 million for the year ended December 31, 2016 to $51.4 million, compared to $32.7 million in the same period in 2015. The increase in income tax expense was driven primarily from increased pre-tax income of $43.4 million in 2016 and an increase in our effective tax rate of 2.84%, partially offset by the early adoption of ASU 2016-09, Improvements to Employee Share Based Accounting, which decreased income tax expense by $4.1 million for the year ended December 31, 2016.

The loss from discontinued operations increased $7.3 million for the year ended December 31, 2016 to $14.5 million, compared to $7.2 million in the same period in 2015. The increase was primarily driven by additional expenses realized as a result of the acquisition of the Disbursement business in June 2016. The loss from discontinued operations provided a tax benefit of $5.5 million for the year ended December 31, 2016, compared to $2.8 million for the same period of 2015.

Preferred stock dividends increased $7.0 million for 2016 due to the issuance of the Series D, Series E and Series F Preferred Stock during 2016 with an aggregate principal balance of $167.5 million and an average dividend yield of 6.23%.

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For the years ended December 31, 2015 and 2014

Net income available to common shareholders increased $12.9 million, or 29.8%, to $56.1 million for the year ended December 31, 2015, compared to $43.2 million for the year ended December 31, 2014. The increased net income available to common shareholders resulted from increases in net interest income of $44.4 million and non-interest income of $2.4 million, partly offset by increases in the provision for loan losses of $5.8 million, non-interest expense of $10.8 million, tax expense of $11.7 million, net loss from discontinued operations of $3.2 million, and preferred stock dividends of $2.5 million.

Net interest income from continuing operations increased $44.4 million, or 29.2%, for the year ended December 31, 2015 to $196.3 million, compared to $151.9 million for the year ended December 31, 2014. The increase in net interest income was driven by an increase in the average balance of loans and securities of $1.6 billion, from $5.0 billion in 2014 to $6.7 billion in 2015, offset in part by a decline in the net interest margin (tax equivalent) of 6 basis points (from 2.87% in 2014 to 2.81% in 2015). The net margin decrease was largely a result of the growth in the lower yielding mortgage warehouse portfolio.

The provision for loan losses increased $5.8 million to $20.6 million for the year ended December 31, 2015, compared to $14.7 million for the same period in 2014. The increase in the provision for loan losses during 2015 was primarily attributable to a provision expense of $9.0 million for a fraudulent loan identified by Customers in third quarter 2015 that was charged off in its entirety during 2015.

Non-interest income from continuing operations increased $2.4 million, or 9.7%, during the year ended December 31, 2015 to $27.6 million, compared to $25.1 million for the year ended December 31, 2014. The increase resulted primarily from a benefit received on a bank-owned life insurance policy of $2.4 million, higher mortgage warehouse transactional fees driven by increased transaction volume and an increase in the gain on sale of loans, offset in part by gains realized from sales of investment securities of $3.2 million in 2014 compared to a loss of $0.1 million in 2015.

Non-interest expense from continuing operations increased $10.8 million, or 11.1%, during the year ended December 31, 2015 to $107.6 million, compared to $96.8 million during the year ended December 31, 2014. The increases in salaries and employee benefits of $10.3 million, professional services of $2.2 million, and technology of $0.9 million resulted from growth of Customers' business, which required additional team members, services, and support. These increases were offset in part by decreased assessments and regulatory fees of $1.0 million related primarily to an adjustment in the Pennsylvania shares tax expense and reduced loan workout expenses of $0.6 million resulting from lower levels of non-performing loans and recoveries of prior expenses on resolved loans during the year.

Income tax expense from continuing operations increased $11.7 million for the year ended December 31, 2015 to $32.7 million, compared to $21.0 million in the same period in 2014. The increase in income tax expense was driven primarily from increased pre-tax income of $30.2 million in 2015, offset in part by the benefit received on a bank-owned life insurance policy of $2.4 million, which was not taxable.

The loss from discontinued operations increased $5.1 million for the year ended December 31, 2015 to $7.2 million, compared to $2.1 million in the same period of 2014. The increase was driven by additional expenses incurred due to the launch of BankMobile in January 2015. The loss from discontinued operations provided a tax benefit of $2.8 million for the year ended December 31, 2015, compared to $0.8 million for the same period in 2014.

Preferred stock dividends increased $2.5 million for 2015 due to the accrual of dividends on Customers' Series C Preferred Stock issued in second quarter 2015.

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NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings. The following table summarizes Customers' net interest income and related spread and margin for the periods indicated.

	For the Years Ended December 31,								
	2016			2015			2014		
	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost
(amounts in thousands)									
Assets									
Interest-earning deposits	$225,409	$1,218	0.54 %	$271,201	$718	0.26 %	$228,668	$577	0.25 %
Investment securities (A)	540,532	14,293	2.64 %	427,638	10,405	2.43 %	451,932	10,386	2.30 %
Loans held for sale	1,967,436	69,469	3.53 %	1,589,176	51,553	3.24 %	911,506	30,801	3.38 %
Loans receivable (B)	5,971,530	233,349	3.91 %	4,635,136	182,280	3.93 %	3,655,938	146,388	4.00 %
Other interest earning assets	84,797	4,210	4.96 %	72,693	4,894	6.73 %	66,669	2,275	3.41 %
Total interest-earning assets	8,789,704	322,539	3.67 %	6,995,844	249,850	3.57 %	5,314,713	190,427	3.58 %
Non-interest-earning assets	272,253			263,997			223,404		
Assets held for sale	40,160			2,690			1,337		
Total assets	$9,102,117			$7,262,531			$5,539,454		
Liabilities									
Interest checking accounts	$190,279	1,069	0.56 %	$123,527	686	0.56 %	62,840	361	0.57 %
Money market deposit accounts	3,085,140	19,233	0.62 %	2,412,958	12,548	0.52 %	1,712,896	10,391	0.61 %
Other savings accounts	36,548	76	0.21 %	35,659	102	0.29 %	40,795	172	0.42 %
Certificates of deposit	2,633,425	27,871	1.06 %	2,087,641	20,637	0.99 %	1,403,774	13,530	0.96 %
Total interest-bearing deposits	5,945,392	48,249	0.81 %	4,659,785	33,973	0.73 %	3,220,305	24,454	0.76 %
Borrowings	1,498,899	24,774	1.65 %	1,369,841	19,578	1.43 %	1,264,860	14,050	1.11 %
Total interest-bearing liabilities	7,444,291	73,023	0.98 %	6,029,626	53,551	0.89 %	4,485,165	38,504	0.86 %
Non-interest-bearing deposits	496,571			379,196			288,565		
Non-interest-bearing deposits held for sale	377,028			312,963			331,820		
Total deposits and borrowings	8,317,890		0.88 %	6,721,785		0.80 %	5,105,550		0.75 %
Other non-interest-bearing liabilities	69,442			30,348			17,905		
Liabilities held for sale	17,884			1,207			—		
Total liabilities	8,405,216			6,753,340			5,123,455		

Shareholders’ equity	696,901			509,191			415,999		
Total liabilities and shareholders’ equity	$9,102,117			$7,262,531			$5,539,454		
Net interest earnings		249,516			196,299			151,923	
Tax-equivalent adjustment (C)		390			449			405	
Net interest earnings		$249,906			$196,748			$152,328	
Interest spread			2.79 %			2.77 %			2.83 %
Net interest margin			2.84 %			2.81 %			2.86 %
Net interest margin tax equivalent (C)			2.84 %			2.81 %			2.87 %

(A) For presentation in this table, balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for other than temporary impairment and 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.

	2016 vs. 2015 Increase (decrease) due to change in			2015 vs. 2014 Increase (decrease) due to change in		
	Rate	Volume	Total	Rate	Volume	Total
(amounts in thousands)						
Interest income:						
Interest-earning deposits	$639	$(139)	$500	$29	$112	$141
Investment securities	961	2,927	3,888	594	(575)	19
Loans held for sale	4,854	13,062	17,916	(1,279)	22,031	20,752
Loans receivable	(1,160)	52,229	51,069	(2,659)	38,551	35,892
Other interest-earning assets	(1,416)	732	(684)	2,396	223	2,619
Total interest income	3,878	68,811	72,689	(919)	60,342	59,423
Interest expense:						
Interest checking accounts	8	375	383	(12)	337	325
Money market deposit accounts	2,784	3,901	6,685	(1,640)	3,797	2,157
Other savings accounts	(29)	3	(26)	(49)	(21)	(70)
Certificates of deposit	1,539	5,695	7,234	355	6,752	7,107
Total interest-bearing deposits	4,302	9,974	14,276	(1,346)	10,865	9,519
Borrowings	3,243	1,953	5,196	4,288	1,240	5,528
Total interest expense	7,545	11,927	19,472	2,942	12,105	15,047
Net interest income	$(3,667)	$56,884	$53,217	$(3,861)	$48,237	$44,376

For the years ended December 31, 2016 and 2015

Net interest income from continuing operations was $249.5 million for the year ended December 31, 2016, an increase of $53.2 million, or 27.1%, when compared to net interest income for the year ended December 31, 2015 of $196.3 million. The increase in net interest income in 2016 was primarily attributable to an increase of $1.8 billion in the average balance of interest-earning assets. Customers' net interest margin also expanded to 2.84% for the year ended December 31, 2016 from 2.81% for the year ended December 31, 2015.

For the years ended December 31, 2015 and 2014

Net interest income from continuing operations was $196.3 million for the year ended December 31, 2015, an increase of $44.4 million, or 29.2%, when compared to net interest income for the year ended December 31, 2014 of $151.9 million. The increase in net interest income was primarily attributable to an increase of $1.6 billion in the average balance of loans and securities. While Customers' net interest margin decreased to 2.81% for the year ended December 31, 2015 from 2.87% for the year ended December 31, 2014, the impact on net interest income was secondary to the significant increase in loan volume.

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PROVISION FOR LOAN LOSSES

For more information about our provision and allowance for loan losses methodology and our loss experience, see "Critical Accounting Policies," "Credit Risk" and "Asset Quality" herein and "NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION."

Customers maintains its allowance for loan losses through a provision for loan losses charged as an expense on the consolidated statements of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. The allowance for loan losses is estimated as of the end of each quarter and compared to the balance recorded in the general ledger net of charge-offs and recoveries. The allowance is adjusted to the estimated allowance for loan losses balance via a charge (or debit) to the provision for loan losses.

For the years ended December 31, 2016 and 2015

During 2016, the provision for loan losses from continuing operations was $2.3 million, a decrease of $18.2 million from a provision of $20.6 million in 2015. The 2015 provision for loan losses included $9.0 million for a fraudulent loan that was charged off in its entirety and reflected greater growth in loans held for investment. The held-for-investment loan portfolio grew approximately $0.7 billion in 2016 compared to $1.1 billion in 2015, resulting in less provision for new loans of approximately $2.5 million. The 2016 provision included a benefit of $0.3 million attributable to FDIC loss share arrangements versus expense of $3.9 million in 2015. Recoveries in 2016 totaled $2.7 million compared to recoveries of $1.4 million in 2015. There were no significant changes in Customers' methodology for estimating its allowance for loan losses and the provision for loan losses in 2016.

For the years ended December 31, 2015 and 2014

During 2015, the provision for loan losses was $20.6 million, an increase of $5.8 million from a provision of $14.7 million in 2014. The 2015 provision for loan losses included $9.0 million for a fraudulent loan identified by Customers in third quarter 2015. The increase in the provision for loan losses resulting from this loan was offset in part by a $2.4 million reduction to the provision for loan losses resulting primarily from Customers' low level of historical losses on loans originated after 2009 and updating the estimated loss ratios to reflect actual industry performance rather than qualitative estimates. $5.3 million of the fraudulent loan was charged off in third quarter 2015 and the residual balance of $3.7 million was charged off in fourth quarter 2015.

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NON-INTEREST INCOME

The chart below shows the various components of non-interest income for the years ended December 31, 2016, 2015 and 2014.

	For the Years Ended December 31,		
	2016	2015	2014
(amounts in thousands)			
Mortgage warehouse transactional fees	$11,547	$10,394	$8,233
Bank-owned life insurance	4,736	7,006	3,702
Gains on sales of loans	3,685	4,047	3,125
Deposit fees	1,140	943	801
Mortgage loan and banking income	969	741	2,048
Interchange and card revenue	620	536	532
Gain (loss) on sales of investment securities	25	(85)	3,191
Impairment loss on investment securities	(7,262)	—	—
Other	7,705	3,990	3,494
Total non-interest income	$23,165	$27,572	$25,126

For the years ended December 31, 2016 and 2015

Non-interest income from continuing operations declined $4.4 million, or 16.0%, for the year ended December 31, 2016 to $23.2 million, compared to $27.6 million for the year ended December 31, 2015. The decrease resulted primarily from an impairment charge of $7.3 million recorded in 2016 due to Customers' change in intent to hold certain equity securities until the market price of the securities recovered, and a decrease in bank-owned life insurance income of $2.3 million as a result of a $2.4 million benefit received on a bank-owned life insurance policy in 2015. These decreases were offset in part by increased mortgage warehouse transactional fees of $1.2 million resulting from higher transaction volumes in 2016 as compared to 2015 and a $2.2 million recovery of a previously recorded loss during 2016.

For the years ended December 31, 2015 and 2014

Non-interest income from continuing operations increased $2.4 million, or 9.7%, for the year ended December 31, 2015 to $27.6 million, compared to $25.1 million for the year ended December 31, 2014. The increase resulted primarily from a benefit received on a bank-owned life insurance policy of $2.4 million, higher mortgage warehouse transactional fees driven by increased transaction volume and an increase in the gain on sale of loans, offset in part by gains realized from sales of investment securities of $3.2 million in 2014 compared to a loss of $0.1 million in 2015.

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NON-INTEREST EXPENSE

The below chart shows the various components of non-interest expense for the years ended December 31, 2016, 2015, and 2014.

	For the Years Ended December 31,		
	2016	2015	2014
(amounts in thousands)			
Salaries and employee benefits	$67,877	$56,341	$46,083
Technology, communication and bank operations	12,888	9,379	8,466
FDIC assessments, taxes, and regulatory fees	12,568	10,110	11,116
Professional services	11,017	9,386	7,218
Occupancy	9,846	8,467	8,063
Loan workout	2,063	1,127	1,706
Other real estate owned	1,953	2,516	3,601
Advertising and promotion	576	697	1,180
Other	12,429	9,545	9,355
Total non-interest expense	$131,217	$107,568	$96,788

For the years ended December 31, 2016 and 2015

Non-interest expense from continuing operations was $131.2 million for the year ended December 31, 2016, which was an increase of $23.6 million over non-interest expense of $107.6 million for the year ended December 31, 2015.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $11.5 million, or 20.5%, to $67.9 million for the year ended December 31, 2016 from $56.3 million for the year ended December 31, 2015. The increase was primarily related to headcount growth to support the larger multi-family, commercial real estate and commercial and industrial loan portfolios, and the increased deposits.

Technology, communication and bank operations expense increased $3.5 million to $12.9 million for the year ended December 31, 2016 from $9.4 million for the year ended December 31, 2015, primarily attributable to the organic growth of the Bank.

FDIC assessments, taxes, and regulatory fees increased $2.5 million to $12.6 million for the year ended December 31, 2016 from $10.1 million for the year ended December 31, 2015. The primary reason for the 2016 increase was an adjustment in 2015 that reduced the Pennsylvania shares tax expense by $2.3 million.

Professional services expense increased by $1.6 million to $11.0 million for the year ended December 31, 2016 from $9.4 million for the year ended December 31, 2015, primarily attributable to increases in consulting, lending service fees, and other professional services expenses to support a $9.4 billion bank.

Occupancy expense increased by $1.4 million to $9.8 million for the year ended December 31, 2016 from $8.5 million for the year ended December 31, 2015. This increase was driven by increased business activity in existing and new markets which required additional team members and facilities.

Other expense increased by $2.9 million to $12.4 million for the year ended December 31, 2016 from $9.5 million for the year ended December 31, 2015. The increase was primarily attributable to one-time charges of $1.4 million associated with legal matters. In addition, Customers experienced higher levels of miscellaneous expenses resulting from the organic growth experienced over the past year, increased staffing, and other activities associated with business development.

For the years ended December 31, 2015 and 2014

Non-interest expense from continuing operations was $107.6 million for the year ended December 31, 2015, which was an increase of $10.8 million over non-interest expense of $96.8 million for the year ended December 31, 2014.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased $10.3 million, or 22.3%, to $56.3 million for the year ended December 31, 2015 from $46.1 million for the year ended

December 31, 2014. Most

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of the increased expense is attributable to increased salaries and other compensation costs, as well as increased level of staff necessary to run a larger bank. More specifically, the increased headcount was needed to support the growing multi-family, commercial real estate and commercial and industrial loan portfolios, and the increased deposits.

Professional services expense increased by $2.2 million to $9.4 million for the year ended December 31, 2015 from $7.2 million for the year ended December 31, 2014 due to increased professional services expense related to fees paid for the FHLB letter of credit used to collateralize municipal deposits, and other professional service expenses driven by the organic growth of the Bank.

FDIC assessments, taxes, and regulatory fees declined $1.0 million to $10.1 million for the year ended December 31, 2015 from $11.1 million for the year ended December 31, 2014. The primary reason for this decrease was due to an adjustment that reduced the Pennsylvania shares tax expense by $2.3 million recorded in second quarter 2015 offset in part by increased deposit premiums and other regulatory and filing fees largely as a result of the Bank's organic growth.

Technology, communication and bank operations expense increased $0.9 million to $9.4 million for the year ended December 31, 2015 from $8.5 million for the year ended December 31, 2014. This increase was primarily attributable to technology related expenses driven by the organic growth of the Bank.

Occupancy expense increased by $0.4 million to $8.5 million for the year ended December 31, 2015 from $8.1 million for the year ended December 31, 2014. This increase was driven by increased business activity in existing and new markets which required additional team members and facilities.

Other real estate owned expense declined $1.1 million to $2.5 million for the year ended December 31, 2015 from $3.6 million for the year ended December 31, 2014 as the level of other real estate owned declined from 2014. The decrease primarily resulted from lower valuation adjustments, reduced holding expenses, and decreased losses realized from the sale of other real estate owned.

Loan workout expense decreased by $0.6 million to $1.1 million for the year ended December 31, 2015 from $1.7 million for the year ended December 31, 2014. The decrease was attributable to lower workout costs driven by reduced levels of non-performing loans and recoveries of prior expenses incurred on two resolved loans during the year.

INCOME TAXES

For the years ended December 31, 2016 and 2015

The income tax expense and effective tax rate include both federal and state income taxes. In 2016, income tax expense from continuing operations was $51.4 million with an effective tax rate of 36.96%, compared to an expense of $32.7 million and an effective tax rate of 34.12% for 2015. Income tax expense was driven primarily by net income before taxes of $139.1 million and $95.7 million, for the years ended December 31, 2016 and 2015, respectively. In 2016, the effective tax rate was higher due to state income tax items totaling $5.0 million, or a 3.58% effective tax rate increase, driven by a greater proportion of income producing assets domiciled in New York, particularly in New York City, an unrecorded basis difference in a foreign subsidiary of $2.8 million, or 2.03%, related to an other-than-temporary impairment charge recorded on a equity investment in fourth quarter 2016, partially offset by an equity-based compensation benefit of $3.7 million or a 2.67% effective tax rate reduction, from the early adoption of Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Accounting, and a reduction of $1.7 million, or a 1.23% effective tax rate reduction, due to a tax benefit resulting from bank-owned life insurance income. In 2015, the effective tax rate was reduced due to a tax benefit resulting from bank-owned life insurance income of $2.4 million, or 2.53%.

For the years ended December 31, 2015 and 2014

The income tax expense and effective tax rate include both federal and state income taxes. In 2015, income tax expense from continuing operations was $32.7 million with an effective tax rate of 34.12%, compared to an expense of $21.0 million and an effective tax rate of 32.03% for 2014. Income tax expense was driven primarily by net income before taxes of $95.7 million and $65.5 million, for the years ended December 31, 2015 and 2014, respectively. n 2015, the effective tax rate was lower due to non-taxable bank-owned life income and a non-taxable death benefit received totaling $2.4 million, or a 2.53% effective tax rate reduction. In 2014, the effective tax rate was reduced due to a tax benefit resulting from bank-owned life insurance income of $1.3 million, or a 1.98% effective tax rate reduction, and a benefit of $1.8 million, or a 2.77% effective tax rate reduction, resulting primarily from recording a $1.5 million benefit from a return to provision and deferred tax analysis completed in third quarter 2014.

DISCONTINUED OPERATIONS

For the years ended December 31, 2016 and 2015

The loss from discontinued operations before income taxes increased $7.3 million for the year ended December 31, 2016 to $14.5 million, compared to $7.2 million in the same period in 2015. The increase was primarily driven by additional net expense incurred as a result of the acquisition of the Disbursement business in June 2016. The loss from discontinued operations provided a tax benefit of $5.5 million for the year ended December 31, 2016, compared to $2.8 million for the same period in 2015, due to the larger operating loss from the business.

For the years ended December 31, 2015 and 2014

The loss from discontinued operations before income taxes increased $5.1 million for the year ended December 31, 2015 to $7.2 million, compared to $2.1 million in the same period in 2014. The increase was driven by increased expenses for salaries and employee benefits, technology-related expenses and professional services due to the growth of BankMobile as Customers invested in a new business. The loss from discontinued operations provided a tax benefit of $2.8 million for the year ended December 31, 2015, compared to $0.8 million for the same period in 2014.

FINANCIAL CONDITION

GENERAL

Total assets were $9.4 billion at December 31, 2016. This represented a $1.0 billion, or 11.7%, increase from total assets of $8.4 billion at December 31, 2015. The major change in our financial position occurred as a result of organic growth in loans receivable, which increased by $0.7 billion, or 12.6%, to $6.1 billion at December 31, 2016, from $5.5 billion at December 31, 2015.

In 2016, Customers moderated its efforts to increase loan balances in order to focus on building a stronger balance sheet, capital base, and risk management infrastructure, and build BankMobile into a successful company that could be divested so both Customers and BankMobile can grow and thrive, without Durbin Amendment restrictions. Multi-family loans increased by $0.3 billion to $3.2 billion at December 31, 2016. Commercial loans and lines of credit to mortgage companies increased by $0.4 billion to $2.2 billion at December 31, 2016. Additionally, commercial and industrial loans, including owner-occupied commercial real estate, increased by $0.3 billion to $1.3 billion at December 31, 2016.

Total liabilities were $8.5 billion at December 31, 2016. This represented a $0.7 billion, or 8.7%, increase from total liabilities of $7.8 billion at December 31, 2015. The increase in total liabilities resulted primarily from a higher level of deposits in 2016 compared to 2015. Total deposits grew by $1.2 billion, or 20.9%, to $6.8 billion at December 31, 2016 from $5.7 billion at December 31, 2015. Transaction deposits increased by $0.7 billion, or 21.1%, to $4.0 billion at December 31, 2016 from $3.3 billion at December 31, 2015, with non-interest bearing deposits increasing by $104 million. Certificates of deposit accounts increased by $0.5 billion, or 20.6%, to $2.8 billion at December 31, 2016 from $2.3 billion at December 31, 2015.

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

	December 31, 2016	2015
(amounts in thousands)		
Cash and cash equivalents	$ 244,709	$ 264,593
Investment securities available for sale, at fair value	493,474	560,253
Loans held for sale (includes $2,117,510 and $1,757,807 respectively at fair value)	2,117,510	1,797,064
Loans receivable	6,142,390	5,452,895
Total loans receivable, net of allowance for loan losses	6,105,075	5,417,248
Total assets	9,382,736	8,398,205
Total deposits	6,846,980	5,662,433
Federal funds purchased	83,000	70,000
FHLB advances	868,800	1,625,300
Other borrowings	87,123	86,457
Subordinated debt	108,783	108,685
Liabilities held for sale	484,797	247,139
Total liabilities	8,526,864	7,844,303
Total shareholders' equity	855,872	553,902
Total liabilities and shareholders' equity	9,382,736	8,398,205

CASH AND CASH EQIVALENTS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled $17.5 million at December 31, 2016. This represents a $36.1 million decrease from $53.6 million at December 31, 2015. These balances vary from day to day, primarily due to variations in customers' deposits with the Bank.

Interest earning deposits consist mainly of deposits at the Federal Reserve Bank of Philadelphia. These deposits totaled $227.2 million at December 31, 2016, which was a $16.2 million increase from $211.0 million at December 31, 2015. This balance varies from day to day, depending on several factors, such as variations in customers' deposits with the Bank, payment of checks drawn on customers' accounts, and strategic investment decisions made to maximize net interest income, while effectively managing interest-rate risk and liquidity.

INVESTMENT SECURITIES

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

At December 31, 2016, investment securities were $493.5 million compared to $560.3 million at December 31, 2015. The decrease was primarily the result of principal payments received on agency-guaranteed residential mortgage-backed securities and a decision to use the net proceeds from payments to invest in higher yielding loans. 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.

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

	December 31, 2016	2015
(amounts in thousands)		
Available for Sale:		
Residential mortgage-backed securities	$233,002	$299,392
Commercial real estate mortgage-backed securities	204,689	206,719
Corporate notes (1)	44,932	39,925
Equity securities (2)	15,246	22,514
	$497,869	$568,550

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

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

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

	December 31, 2016 Amortized Cost						Fair Value
	< 1yr	1 -5 years	5 -10 years	After 10 years	No Specific Maturity	Total	Total
(amounts in thousands)							
Available for Sale							
Residential mortgage-backed securities	$—	$ —	$—	$—	$233,002	$233,002	$231,263
Yield					2.65 %	2.65 %	—
Commercial real estate mortgage-backed securities					204,689	$204,689	201,817
Yield	—	—	—	—	2.80 %	2.80 %	—
Corporate notes	—	—	37,932	7,000	—	44,932	45,148
Yield	—	—	5.58 %	5.54 %	—	5.57 %	—
Equity securities	—	—	—	—	15,246	15,246	15,246
Yield	—	—	—	—	— %	— %	—
Total	$—	$ —	$37,932	$7,000	$452,937	$497,869	$493,474
Weighted Average Yield	—%	—%	5.58 %	5.54 %	2.63 %	2.89 %	

The mortgage-backed securities in the portfolio were issued by Fannie Mae, Freddie Mac, and Ginnie Mae and contain guarantees for the collection of principal and interest on the underlying mortgages. The corporate notes in the portfolio include subordinated notes issued by other bank holding companies.

LOANS

Existing lending relationships are primarily with small and middle market 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 consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate, and commercial and industrial loans. The Bank continues to focus on small and middle market business loans to grow its commercial lending efforts, expand its specialty mortgage warehouse lending business, and expand its multi-family/commercial real estate lending business, and maintain its consumer portfolio.

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Commercial Lending
Customers' commercial lending is divided into four groups: Business Banking, Small and Middle Market Business Banking, Multi-family and Commercial Real Estate Lending, and Mortgage Banking Lending. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest rate risk and higher productivity levels.
The commercial lending group focuses on companies with annual revenues ranging from $1 million to $100 million, which typically have credit requirements between $0.5 million and $10 million.
The small and middle market business banking platform originates loans, including Small Business Administration loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial solutions to the small business owners in its communities. A division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.
In 2009, Customers launched its lending to mortgage banking businesses products, which primarily provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business in 2009 during a period of market turmoil. Customers saw an opportunity to provide liquidity to this business segment at attractive spreads. There was also the opportunity to attract escrow deposits and to generate fee income in this business.
The goal of the mortgage banking business lending group is to 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 underlying residential loans are taken as collateral for Customers' loans. As of December 31, 2016, loans in the warehouse lending portfolio totaled $2.1 billion and are designated as held for sale.
The goal of the multi-family lending product is to build a portfolio of high-quality multi-family loans within Customers' covered markets, while cross selling other products and services. This product primarily targets refinancing existing loans with other banks using conservative underwriting and provides purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first lien mortgage on the multi-family property, plus an assignment of all leases related to such property. As of December 31, 2016, Customers had multi-family loans of $3.2 billion outstanding, comprising approximately 39.0% of the total loan portfolio, compared to $2.9 billion, or approximately 40.7% of the total loan portfolio, at December 31, 2015.
As of December 31, 2016, Customers had $8.0 billion in commercial loans outstanding, composing approximately 96.4% of its total loan portfolio, which includes loans held for sale, compared to $6.9 billion, composing approximately 94.6% at December 31, 2015.
Consumer Lending
Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. As of December 31, 2016, Customers had $298.7 million in consumer loans outstanding, or 3.6% of the 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.

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The composition of loans held for sale was as follows:

	December 31, 2016	2015	2014	2013	2012
(amounts in thousands)					
Commercial Loans:					
Mortgage warehouse loans at fair value	$2,116,815	$1,754,950	$1,332,019	$740,694	$1,439,889
Multi-family loans at lower of cost or fair value	—	39,257	99,791	—	—
Total commercial loans held for sale	2,116,815	1,794,207	1,431,810	740,694	1,439,889
Consumer Loans:					
Residential mortgage loans at fair value	695	2,857	3,649	6,899	—
Loans held for sale	$2,117,510	$1,797,064	$1,435,459	$747,593	$1,439,889

Because the FDIC loss sharing agreements were terminated in 2016, and the balance of covered loans was not significant to Customers' total loan portfolio, the disaggregation between covered and non-covered loans is no longer presented in the disclosures that follow. Additional disaggregation of the commercial real estate loan portfolio between owner occupied and non-owner occupied is presented for 2016, 2015 and 2014. For years prior, owner occupied and non-owner occupied are presented collectively as commercial real estate loans.

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

	December 31, 2016	2015	2014	2013	2012
(amounts in thousands)					
Commercial:					
Multi-family	$3,214,999	$2,909,439	$2,208,405	$1,064,059	$363,336
Commercial and industrial (a)	1,370,853	1,111,400	785,669	296,595	126,333
Commercial real estate (b)	1,193,715	956,255	839,310	753,591	489,332
Construction	64,789	87,240	49,718	42,917	45,554
Mortgage warehouse (c)	—	—	—	—	9,565
Total commercial loans	5,844,356	5,064,334	3,883,102	2,157,162	1,034,120
Consumer:					
Residential real estate	193,502	271,613	297,395	163,920	129,960
Manufactured housing	101,730	113,490	126,731	139,471	153,429
Other	2,726	3,124	3,634	4,517	5,801
Total consumer loans	297,958	388,227	427,760	307,908	289,190
Total loans receivable	6,142,314	5,452,561	4,310,862	2,465,070	1,323,310
Deferred costs (fees) and unamortized premiums (discounts), net	76	334	512	(912)	1,157
Allowance for loan losses	(37,315)	(35,647)	(30,932)	(23,998)	(25,837)
Loans receivable, net of allowance	$6,105,075	$5,417,248	$4,280,442	$2,440,160	$1,298,630

(a) Includes owner occupied commercial real estate loans for 2016, 2015 and 2014.

(b) Includes non-owner occupied commercial real estate loans for 2016, 2015 and 2014. For 2013 and 2012, includes owner occupied and non-owner occupied commercial real estate loans.

(c) Beginning in third quarter 2012, certain mortgage warehouse lending transactions were documented under master repurchase agreements and classified as held for sale.

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Loans to mortgage banking businesses and certain residential mortgage and multi-family loans expected to be sold are classified as loans held for sale. Loans held for sale totaled $2.1 billion and $1.8 billion at December 31, 2016 and 2015, respectively. The mortgage warehouse product line provides financing to mortgage companies nationwide from the time of loan origination until the loans are sold into the secondary market. As a mortgage warehouse lender, we provide a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short-term basis under a master repurchase agreement. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the mortgage banker or of the underlying residential borrower, any of which could result in credit losses. The mortgage warehouse lending employees monitor these mortgage originators by obtaining financial and other relevant information to reduce these risks during the lending period.

Loans receivable, net of the allowance for loan losses, increased by $0.7 billion to $6.1 billion at December 31, 2016 from $5.4 billion at December 31, 2015. The increase in loans receivable, net of the allowance for loan losses, was attributable to higher balances in multi-family, commercial and industrial (including owner occupied commercial real estate) and non-owner occupied commercial real estate loans, which increased $0.3 billion, $0.3 billion, and $0.2 billion, respectively, from December 31, 2015. The increase in these loan balances are the result of the Bank's successful execution of its organic growth strategy.

The following table sets forth Customers' commercial loans receivable as of December 31, 2016, in terms of contractual maturity date and interest rate characteristics:

(amounts in thousands)	Within one year	After one but within five years	After five years	Total
Commercial Loans:				
Multi-family	$96,048	$2,404,520	$714,431	$3,214,999
Commercial and industrial (including owner occupied commercial real estate)	145,407	711,928	513,518	1,370,853
Commercial real estate non-owner occupied	82,669	740,261	370,785	1,193,715
Construction	14,625	18,050	32,114	64,789
Total commercial loans	$338,749	$3,874,759	$1,630,848	$5,844,356
Amount of such loans with:				
Predetermined rates	$177,131	$3,223,407	$617,275	$4,017,813
Floating or adjustable rates	161,618	651,352	1,013,573	1,826,543
Total commercial loans	$338,749	$3,874,759	$1,630,848	$5,844,356

CREDIT RISK

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

The provision for loan losses was $2.3 million, $20.6 million, and $14.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. The allowance for loan losses maintained for loans receivable (excludes loans held for sale as estimable credit losses are embedded in the fair values at which the loans are reported) was $37.3 million, or 0.61% of total loans receivable, at December 31, 2016 and $35.7 million, or 0.65% of total loans receivable, at December 31, 2015. The percentage of the allowance of loan losses to total loans receivable declined during 2016 primarily due to continued growth of the multi-family and commercial real estate portfolios, which have lower reserving factors due to their notably better historical loss experience than other commercial loans. Net charge-offs were $1.7 million for the year ended December 31, 2016, a decrease of $10.3 million compared to $12.0 million for the year ending December 31, 2015. The decrease in net charge offs was driven by the identification of a $9.0 million fraudulent loan that was charged-off in its entirety during 2015.

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Customers had no loans that were covered under loss share arrangements with the FDIC as of December 31, 2016. Customers had approximately $13.8 million in loans that were covered under loss share arrangements with the FDIC as of December 31, 2015. On July 11, 2016, Customers entered into an agreement to terminate all existing rights and obligations pursuant to the loss sharing agreements with the FDIC. In connection with the termination agreement, Customers paid the FDIC $1.4 million as final payment under these agreements. The negotiated settlement amount was based on net losses incurred on the covered assets through September 30, 2015, adjusted for cash payments to and receipts from the FDIC as part of the December 31, 2015 and March 31, 2016 certifications. Consequently, loans and other real estate owned previously reported as covered assets pursuant to the loss sharing agreements were no longer presented as covered assets as of June 30, 2016.

Customers Bank considered the covered loans in estimating the allowance for loan losses and considered recovery of estimated credit losses from the FDIC in the FDIC indemnification asset. Refer to “NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION” for further discussion on the accounting for the FDIC loss sharing receivable balance.

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

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
(amounts in thousands)					
Beginning Balance	$35,647	$30,932	$23,998	$25,837	$15,032
Loan charge-offs: (1)					
Construction	—	1,064	895	2,096	2,507
Commercial and industrial (2)	2,947	11,709	1,637	1,387	522
Commercial real estate (3)	140	327	1,715	3,358	2,462
Residential real estate	493	276	667	410	649
Other consumer	129	36	33	87	26
Charge-offs for BankMobile loans (4)	696	—	—	—	—
Total Loan Charge-offs	4,405	13,412	4,947	7,338	6,166
Loan recoveries (1):					
Construction	1,854	204	13	—	4
Commercial and industrial (2)	381	562	736	391	514
Commercial real estate (3)	130		801	42	63
Residential real estate	367	575	265	2	5
Other consumer	11	92	8	9	114
Total Recoveries	2,743	1,433	1,823	444	700
Total net charge-offs	1,662	11,979	3,124	6,894	5,466
Provision for loan losses (5)	2,634	16,694	10,058	5,055	16,271
Provision for BankMobile loans (4)	696	—	—	—	—
Ending Balance	$37,315	$35,647	$30,932	$23,998	$25,837
Net charge-offs as a percentage of average loans receivable	0.03 %	0.26 %	0.09 %	0.37 %	0.38 %

(1) Charge-offs and recoveries on purchased-credit-impaired loans that are accounted for in pools are recognized on a net basis when the pool matures.
(2) Includes owner occupied commercial real estate loans for 2016, 2015 and 2014.
(3) Includes non-owner occupied commercial real estate loans for 2016, 2015 and 2014. For 2013 and 2012, includes owner occupied and non-owner occupied commercial real estate loans.
(4) Includes activities for BankMobile related loans, primarily overdrawn deposit accounts.
(5) The provision amounts exclude the (cost)/benefit of the FDIC loss share arrangements of $0.3 million, $(3.9) million, $(4.7) million, $2.8 million, and $2.0 million, respectively.

The allowance for loan losses is based on a quarterly evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb probable losses incurred as of the balance sheet date. All commercial loans 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 an appropriate level of allowance for loan losses. Refer to “Critical Accounting Policies” herein and “NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION” for further discussion on management's methodology for estimating the allowance for loan losses.

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Approximately 80% of the Bank's commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, "the real estate portfolio"). The Bank's lien position on the real estate collateral will vary on a loan-by-loan basis and will change as a result of changes in the value of the collateral. Current appraisals providing current value estimates of the property are received when the Bank's credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal, including that real estate values have deteriorated. The credit committee and loan officers review loans that are fifteen or more days delinquent and all non-accrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographic area and other factors that may affect the cash flow of the loan. If a loan is individually evaluated for impairment, the collateral value or discounted cash flow analysis is used to determine the estimated fair value of the underlying collateral and compared, net of estimated selling costs, to the outstanding loan balance to measure a specific reserve. Appraisals used in this evaluation process are typically less than two years aged. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to estimate the fair value of the loan and compared, net of estimated selling costs, to the outstanding loan balance to estimate the required reserve.

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

The following table shows the allowance for loan losses by various loan portfolios:

	December 31, 2016			2015			2014			2013			2012		
(amounts in thousands)	Allowance for loan losses	Percent of Loans in each category to total loans		Allowance for loan losses	Percent of Loans in each category to total loans		Allowance for loan losses	Percent of Loans in each category to total loans		Allowance for loan losses	Percent of Loans in each category to total loans		Allowance for loan losses	Percent of Loans in each category to total loans	
Construction	$840	2.3	%	$1,074	3.0	%	$1,047	3.4	%	$2,385	9.9	%	$3,991	15.4	%
Commercial and industrial (a)	13,233	35.4	%	10,212	28.6	%	9,120	29.5	%	2,674	11.2	%	1,477	5.7	%
Commercial real estate (b)	7,894	21.2	%	8,420	23.6	%	9,198	29.7	%	11,478	47.8	%	13,645	52.9	%
Multi-family	11,602	31.0	%	12,016	33.7	%	8,493	27.5	%	4,227	17.6	%	1,794	6.9	%
Residential real estate	3,342	9.0	%	3,298	9.3	%	2,698	8.7	%	2,490	10.4	%	3,233	12.5	%
Other consumer	118	0.3	%	133	0.4	%	114	0.4	%	130	0.5	%	154	0.6	%

Manufactured housing	286	0.8	%	494	1.4	%	262	0.8	%	614	2.6	%	750	2.9	%
Mortgage warehouse	—	—	%	—	—	%	—	—	%	—	—	%	71	0.3	%
Residual reserve	—	—	%	—	—	%	—	—	%	—	—	%	722	2.8	%
	$37,315	100.0	%	$35,647	100.0	%	$30,932	100.0	%	$23,998	100.0	%	$25,837	100.0	%

(a) Includes owner occupied commercial real estate loans for 2016, 2015 and 2014.
(b) Includes non-owner occupied commercial real estate loans for 2016, 2015 and 2014. For 2013 and 2012, includes owner occupied and non-owner occupied commercial real estate loans.

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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' originated loans were subject to the current underwriting standards that were put in place in 2009. Management believes this additional information provides a better understanding of the risk in the portfolio and the various types of reserves that are available to absorb loan losses that may arise in future periods. Credit losses from originated loans are absorbed by the allowance for loan loss reserves. Credit losses from acquired loans are absorbed by the allowance for loan losses, nonaccretable difference fair value marks, and cash reserves, as described below. The allowance for loan losses is to absorb only those losses estimated to have been incurred after acquisition, whereas the fair value mark and cash reserves absorb losses estimated to have been embedded in the acquired loans at acquisition. This schedule includes both loans held for sale and loans held for investment.

Asset Quality at December 31, 2016

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)									
Originated Loans									
Multi-Family									