

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Customers Bancorp, Inc.

Form: 10-K

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

001-35542  
(Commission File Number)



(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**27-2290659**  
(I.R.S. Employer  
Identification Number)

**1015 Penn Avenue  
Suite 103  
Wyomissing PA 19610**  
(Address of principal executive offices)

**(610) 933-2000**  
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$833,232,801 as of June 30, 2018, based upon the closing price quoted on the New York Stock Exchange for such date. Shares of common stock held by each executive officer and director have been excluded because such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

On February 22, 2019, 31,080,573 shares of common stock were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be delivered to shareholders in connection with the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report.

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## FORWARD-LOOKING STATEMENTS

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

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

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

- The businesses of Customers Bank and any acquisition targets or merger partners and subsidiaries not integrating successfully or such integration being more difficult, time-consuming or costly than expected;
- Material differences in the actual financial results of merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame;
- Our ability to successfully implement our growth strategy, increase market share, control expenses and maintain liquidity;
- Customers Bank's ability to pay dividends to Customers Bancorp;
- Risks relating to BankMobile, including:
  - The possibility that the expected benefits of retaining BankMobile for 2 - 3 years may not be achieved;
  - Material variances in the adoption rate of BankMobile's services by new students and/or the usage rate of BankMobile's services by current student customers compared to our expectations;
  - The levels of usage of other BankMobile student customers following graduation of additional product and service offerings of BankMobile or Customers Bank, including mortgages and consumer loans, and the mix of products and services used;
  - Our ability to implement changes to BankMobile's product and service offerings under current and future regulations and governmental policies;
  - Our ability to effectively manage revenue and expense fluctuations that may occur with respect to BankMobile's student-oriented business activities, which result from seasonal factors related to the higher-education academic year;
  - BankMobile's ability to successfully implement its growth strategy, including the successful national launch of its existing white label deposit partnership and the development of other white label relationships, and control expenses.

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

**GLOSSARY OF ABBREVIATIONS AND ACRONYMS**

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

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

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



## CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

### PART I

#### Item 1. Business

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

#### Business Summary

Customers Bancorp, through its wholly owned subsidiary Customers Bank, provides financial products and services to small and middle market businesses, not-for-profits, and consumers through its branches and offices in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; and Chicago, Illinois. Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its loans to mortgage banking businesses. At December 31, 2018, Customers had total assets of \$9.8 billion, including loans, net of the allowance for loan losses (including loans held for sale and loans receivable, mortgage warehouse, at fair value) of \$8.5 billion, total deposits of \$7.1 billion and shareholders' equity of \$1.0 billion.

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

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

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

## **Background and History**

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

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

## **Executive Summary**

### **Customers' Markets**

#### ***Market Criteria***

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

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

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

**Current Markets**

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

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

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

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

**Prospective Markets**

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

**Competitive Strengths**

- *Experienced and respected management team.* An integral element of Customers' business strategy is to capitalize on and leverage the prior experience of its executive management team. The management team is led by Chairman and CEO, Jay Sidhu, who is the former CEO and Chairman of Sovereign Bancorp. In addition to Mr. Sidhu, a number of the members of the current management team of Customers have experience working together at Sovereign with Mr. Sidhu, including Richard Ehst, President and Chief Operating Officer, as well as Jim Collins, Chief Administration Officer. During their tenure at Sovereign, these individuals established a track record of producing strong financial results, integrating acquisitions, managing risk, working with regulators and achieving organic growth and expense control. Team leaders Timothy Romig, Pennsylvania and New Jersey Banking Group Executive Vice President; Steve Issa, New England Marketing President and Chief Lending Officer and Lyle Cunningham, Executive Vice President, Managing Director & Market President - New York Metro, Chicago, and Washington D.C. and Specialty Finance; all with over 30 years of experience. Ken Keiser, Director of Multi-Family and Investment Commercial Real Estate Lending, leads the commercial real estate and multi-family lending group and brings more than 40 years of experience including oversight of the Mid-Atlantic commercial real estate group at Sovereign. In addition, the banking to mortgage companies group, which

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

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

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

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

### **Segments**

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

Management has determined that Customers' operations consist of two reportable segments - Customers Bank Business Banking and BankMobile. Each segment generates revenues, manages risk, and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing and analysis of these segments vary considerably. For more information on Customers' reportable operating segments, see NOTE 22 - BUSINESS SEGMENTS to the consolidated financial statements.

### **Products**

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

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

### **Lending Activities**

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

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

### **Commercial Lending**

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

The commercial lending group focuses primarily on companies with annual revenues ranging from \$1 million to \$100 million, which typically have credit requirements between \$0.5 million and \$10 million.

The small and middle market business banking platform originates loans, including SBA loans, through the branch network sales force and a team of dedicated relationship managers. The support administration of this platform is centralized including risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for Customers' sales force, ensuring that it has small business experts in place providing appropriate financial

solutions to the small business owners in its communities. A division approach focuses on industries that offer high asset quality and are deposit rich to drive profitability.

The goal of Customers' multi-family lending group is to manage a portfolio of high-quality multi-family loans within Customers' covered markets while cross-selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first-lien mortgage on the multi-family property, plus an assignment of all leases related to such property. During the years ended December 31, 2018 and 2017, Customers originated approximately \$355 million and \$1.2 billion, respectively, of multi-family loans. As part of its strategic initiatives, Customers is deemphasizing its lower-yielding multi-family lending activities and focusing on growing relationship-based commercial and industrial lending activities.

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

The equipment finance group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of December 31, 2018 and 2017, Customers had \$172.9 million and \$152.5 million, respectively, of equipment finance loans outstanding. As of December 31, 2018 and 2017, Customers had \$54.5 million and \$26.6 million of equipment finance leases, respectively. As of December 31, 2018 and 2017, Customers had \$54.5 million and \$21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of \$4.8 million and \$0.5 million, respectively.

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

### ***Consumer Lending***

Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative, and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. These areas also support Customers' commitment to lower-and-moderate-income families in its market area. Customers plans to expand its product offerings in real estate secured consumer lending, as well as other consumer lending activities, and has announced its entry into the non-QM residential mortgage market.

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

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

### ***Private Banking***

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

private bankers. Acting as a single-point-of-contact for all the banking needs of Customers' commercial clients, these private bankers deliver the whole bank – not only to its clients, but to their families, their management teams and their employees, as well. With a world-class suite of sophisticated cash management products, these private bankers deliver on Customers' "high-tech, high-touch" strategy and provide real value to its mid-market commercial clients.

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

### ***Deposit Products and Other Funding Sources***

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

### ***Financial Products and Services***

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

### ***Competition***

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

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

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

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



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

### **Employees**

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

### **Available Information**

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

## **SUPERVISION AND REGULATION**

### **GENERAL**

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

### **PENNSYLVANIA BANKING LAWS**

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

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

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

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

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



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

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

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

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

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

## FEDERAL BANKING LAWS

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

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

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

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

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

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

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

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

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

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

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

- (i) a common equity Tier 1 risk-based capital ratio of 4.5%;
- (ii) a Tier 1 risk-based capital ratio of 6%;
- (iii) a total risk-based capital ratio of 8% and
- (iv) a Tier 1 leverage ratio of 4% for all institutions.

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

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

Effective January 1, 2018, the minimum capital level requirements (including the capital conservation buffer) applicable to the Bancorp and Customers Bank under the final rules are:

- (i) a common equity Tier 1 capital ratio of 6.375%;
- (ii) a Tier 1 risk-based capital ratio of 7.875%; and
- (iii) a total risk-based capital ratio of 9.875%.

Considering the capital conservation buffer, to avoid limitations on certain actions or activities, banks will be required to maintain the following ratios beginning January 1, 2019:

- (i) a common equity Tier 1 capital ratio of 7.0%;
- (ii) a Tier 1 risk-based capital ratio of 8.5%; and
- (iii) a total risk-based capital ratio of 10.5%.

Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if their capital levels fall below the minimum capital level plus capital conservation buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the “countercyclical buffer,” of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to “advanced approach banks” (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes the Bancorp and Customers Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009, (which includes the Bancorp) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010, as additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

In addition, the final rules provide for smaller banking institutions (less than \$250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of AOCI in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. Customers Bank selected the opt-out election in its March 31, 2015 Call Report.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including Customers Bank, if their capital levels begin to show signs of weakness. These revisions took effect on January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized:”

- (i) a common equity Tier 1 capital ratio of 6.5%;
- (ii) a Tier 1 risk-based capital ratio of 8%;
- (iii) a total risk-based capital ratio of 10%; and
- (iv) a Tier 1 leverage ratio of 5%.

The final rules set forth certain changes for the calculation of risk-weighted assets, which were required to be utilized as of January 1, 2015. The standardized approach final rule utilizes an increased number of credit-risk exposure categories and risk weights and also addresses:

- (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;
- (ii) revisions to recognition of credit-risk mitigation;
- (iii) rules for risk weighting of equity exposures and past-due loans;
- (iv) revised capital treatment for derivatives and repo-style transactions and
- (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Bank Holding Company Regulation**

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

The Bank Holding Company Act requires the Bancorp to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank.

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

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

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

## **Item 1A. Risk Factors**

### **Risks Related to the Bancorp's Banking Operations**

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

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

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

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

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

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



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

***Planned changes in the composition of our loan portfolio may expose us to increased lending risks.***

As we continue to maintain our assets at \$10 billion or less, we intend to continue emphasizing the origination of commercial loans, including specialty loans and loans to mortgage banking businesses while deemphasizing our multi-family loan portfolio. Our focus will be on funding commercial and industrial and consumer loan growth with the run-off of our multi-family loan portfolio. Changes in the composition of our loan portfolio could have a significant adverse effect on our overall credit profile, which could result in a higher percentage of non-accrual loans, increased provision for loan losses, and an increased level of net charge-offs, all of which could have a material and adverse effect on our financial condition and results of operations. Consumer loans are particularly affected by economic conditions, including interest rates, the rate of unemployment, housing prices, the level of consumer confidence, changes in consumer spending, and the number of personal bankruptcies. A weakening in business or economic conditions, including higher unemployment levels or declines in home prices could adversely affect borrowers' ability to repay their loans, which could negatively impact our credit performance.

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

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

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

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

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

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

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



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

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

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

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

During the year ended December 31, 2017, Customers recorded OTTI losses of \$12.9 million related to its equity holdings in Religare Enterprises, Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017, because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was \$3.4 million which resulted in an unrealized gain of \$1.0 million being recognized in AOCI with no adjustment for deferred taxes as Customers did not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment. At December 31, 2018, Customers continues to not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. The adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a \$1.0 million reduction in AOCI and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of \$1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. At December 31, 2018, the fair value of the Religare equity securities was \$1.7 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Our business is highly susceptible to credit risk.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained

or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The higher education industry depends heavily upon the ability of students to obtain financial aid. As part of our contracts with our higher education institution clients that use BankMobile's Disbursement business services, students' financial aid and other refunds are sent to us for disbursement. The fees that we charge most of our Disbursement business higher education institution clients are based on the number of financial aid disbursements that we make to students. In addition, our



relationships with Disbursement business higher education institution clients provide us with a market for BankMobile. Consequently, a change in the availability or amount of financial aid that restricts client use of our Disbursement business service or otherwise limits our ability to attract new higher education institution clients could materially and adversely affect our financial performance. Also, decreases in the amount of financial aid disbursements from higher education institutions to students could materially and adversely affect our financial performance. Future legislative and executive-branch efforts to reduce the U.S. federal budget deficit or worsening economic conditions may require the government to severely curtail its financial aid spending, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The effective use of technology can increase efficiency and enable financial institutions to better serve customers and to reduce costs. However, some new technologies, including BankMobile, are not fully tested, and we may incur substantial expenses and devote significant management time and resources in order for BankMobile to compete effectively. Revenue generated from BankMobile's very-low-fee banking strategy may not perform as well as we expect or enhance the value of our business as a whole, and it could materially and adversely affect our financial condition and results of operations. Additionally, the anticipated benefits of our white label program may not be realized to the extent forecasted, or Customers may incur substantial expenses in the operation of the white label program that outweigh the benefits realized, if any, which could have a material and adverse affect on our financial condition and results of operations. Also, if the benefits of BankMobile do not meet the expectations of financial or industry analysts, the market price of our common stock may decline.

***While we retain and operate BankMobile, we will continue to face the risks and challenges associated with the BankMobile business.***

As long as we retain and operate BankMobile, we will continue to face the risks and challenges associated with the BankMobile business, including those relating to the integration of the Disbursement business and the successful launch and operation of the white label program. We cannot assure you that we will be able to address and manage these risks so as to

preserve or increase the value of BankMobile, and any failure to preserve or increase the value of BankMobile could adversely affect the business of Customers as a whole and our ability to otherwise dispose of BankMobile on favorable terms, or at all.

***If our total assets exceed \$10 billion while we retain and operate BankMobile, our business and potential for future success could be materially adversely affected.***

Under federal law and regulation, if our total assets exceed \$10 billion as of December 31 of each year, we will no longer qualify as a small issuer of debit cards and we will not receive the optimal debit card processing fee. Failure to qualify for the small issuer exception would result in a significant reduction in interchange fee income and could result in the BankMobile segment operating unprofitably, charging additional fees to students to replace the lost revenue, or the loss of our existing white label partner.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loan portfolios and other assets acquired in transactions may experience increases in delinquencies and losses in the loan portfolios, or in amounts that exceed initial forecasts developed during the due diligence investigation prior to acquiring those

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

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

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

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

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

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

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

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

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

***We may not be able to effectively manage our growth.***

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

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

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

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

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

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

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

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

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

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

Customers conducted a comprehensive analysis of the classifications of cash flows within its consolidated statements of cash flows and established new accounting policies and disclosure control procedures for the classification and reporting of its mortgage warehouse lending transactions on the consolidated balance sheet and statements of cash flows. These efforts have remediated the identified material weakness in internal control over financial reporting as of December 31, 2018.

As management continues to evaluate and work to enhance internal control over financial reporting, it may determine that additional measures are required to address control deficiencies or strengthen internal control over financial reporting. If Customers' remediation efforts do not operate effectively or if it is unsuccessful in implementing or following its remediation efforts, this may result in untimely or inaccurate reporting of Customers' financial results.

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

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

The amount of funds loaned to us is generally dependent on the value of the eligible collateral pledged and our financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, if further disruptions in the capital markets occur. Any change to or termination of our borrowings from the FHLB or correspondent banks could have an adverse effect on our profitability and financial condition, including liquidity.

***We may not be able to develop and retain a strong core deposit base and other low-cost, stable funding sources.***

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as a primary source of funding for our lending activities. We expect that our future loan growth will largely depend on our ability to



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

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

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

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

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

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

From time to time, we may make or consider making minority investments in other financial institutions or technology companies in the financial services business. If we do so, we may not be able to influence the activities of companies in which we invest and may suffer losses due to these activities. Investments in foreign companies could pose additional risks as a result of distance, language barriers and potential lack of information (for example, foreign institutions, including foreign financial institutions, may not be obligated to provide as much information regarding their operations as those in the United States). Our investment in Religare, which is a diversified financial services company in India, represents such an investment. In fourth quarter 2016, we announced our decision to exit our investment in Religare. As a result of that decision, we recorded an impairment loss of \$7.3 million in earnings in fourth quarter 2016 and adjusted our cost basis of the Religare securities to their estimated fair value of \$15.2 million at December 31, 2016. During the year ended December 31, 2017, Customers recorded OTTI losses of \$12.9 million related to its equity holdings in Religare for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017, because Customers no longer had the intent to hold these securities until a recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was \$3.4 million which resulted in an unrealized gain of \$1.0 million being recognized in AOCI with no adjustment for deferred taxes as Customers did not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment. At December 31, 2018, Customers continues to not have a tax strategy in place capable



of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment. The adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a \$1.0 million reduction in AOCI and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of \$1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. As of December 31, 2018, the fair value of the Religare equity securities was \$1.7 million. Future declines in the market price per share of the Religare common stock and adverse changes in foreign currency exchange rates, may have an adverse effect on our financial condition and results of operations.

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

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

**Risks Relating to the Regulation of Our Industry**

***Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which we operate.***

As a bank holding company, we are subject to federal supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit our operations significantly and control the methods by which we conduct business, just as they limit those of other banking organizations. In addition, compliance with laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance costs. The Dodd-Frank Act, which imposes significant regulatory and compliance changes on financial institutions, is an example of this type of federal regulation. Many of these regulations are intended to protect depositors, customers, the public, the banking system as a whole, or the FDIC insurance funds, not stockholders. Regulatory requirements and discretion affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. There are laws and regulations which restrict transactions between us and our subsidiaries. These requirements may constrain our operations, and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, financial condition, results of operations and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general, including Customers Bank in particular, at a competitive disadvantage compared to their non-banking competitors. We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identities, business and personal financial information, employment and other matters. We require our team members to agree to keep all such information confidential, and we monitor compliance. Failure to comply with confidentiality requirements could result in material liability and adversely affect our business, financial condition, results of operations and future prospects.

Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. Future changes may have a material adverse effect on our business, financial condition and results of operations.

Federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied or interpreted. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations on us. Compliance with current and potential regulation, as well as regulatory scrutiny, may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance and respond to any regulatory inquiries or investigations. In addition, press coverage and other public statements that assert some form of wrongdoing by financial services companies (including press coverage and public statements that do not involve us) may result in regulatory inquiries or investigations, which, independent of the outcome, may be time-consuming and expensive and may divert time, effort and resources from our business. Evolving regulations and guidance concerning executive compensation may also impose limitations on us that affect our ability to compete successfully for executive and management talent.

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

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

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

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

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

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

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

affiliates, expand into new financial activities or merge with or purchase other financial institutions. The timing of these examinations, including the timing of the resolution of any issues identified by our regulators in the examinations and the final determination by them with respect to the imposition of any remedial actions, conditions or limitations on our business operations, is generally not within our control. We also could suffer reputational harm in the event of any perceived or actual noncompliance with certain laws and regulations. If we become subject to such regulatory actions, we could be materially and adversely affected.

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

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

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

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

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

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

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

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

In September 2010, the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. Basel III narrowed the definition of capital, introduced requirements for minimum Tier 1 common capital, increased requirements for minimum Tier 1 capital and total risk-based capital, and changed risk-weighting methodologies. Basel III is being phased in over time until fully phased in by January 1, 2019.

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

In December 2017, the Basel Committee on Banking Supervision published standards that it described as the finalization of the Basel III regulatory framework (commonly referred to as Basel IV). Among other things, these standards revise the Basel Committee's standardized approach for credit risk and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced-approaches institutions and not to us. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

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

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

The federal Bank Secrecy Act, the Uniting and Strengthening America by PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by OFAC. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions (such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans), which could materially and adversely affect us. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

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

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

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

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

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

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

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

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

## Higher Education Regulations

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

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

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

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

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

the Disbursement business services disclose to us certain non-directory information concerning their students, including contact information, student identification numbers and the amount of students' credit balances. We believe that our higher education institution clients may disclose this information to us without the students' or their parents' consent pursuant to one or more exceptions under FERPA. However, if DOE asserts that we do not fall into one of these exceptions or if future changes to legislation or regulations require student consent before our higher education institution clients can disclose this information to us, a sizable number of students may cease using our products and services, which could materially and adversely affect our business, financial condition and results of operations.

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

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

Additionally, individual state legislatures may propose and enact new laws that restrict or otherwise affect our ability to offer our products and services as we currently do, which could have a material adverse effect on our business, financial condition and results of operations.

**Reviews performed by the Internal Revenue Service and state taxing authorities for the fiscal years that remain open for investigation may result in a change to income taxes recorded in our consolidated financial statements and adversely affect our results of operations.**

We are subject to U.S. federal income tax as well as income tax of various states primarily in the mid-Atlantic region of the United States. Years that remain open for potential review by (i) the IRS are 2015 through 2017 and (ii) state taxing authorities are 2013 through 2017. The results of these reviews could result in increased recognition of income tax expense in our consolidated financial statements as well as possible fines and penalties.

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

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act, was signed into law. The Tax Act includes many provisions that effected Customers' income tax expenses, including reducing its corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, Customers was required to re-measure, through income tax expense in the period of enactment, its deferred tax assets and liabilities using the enacted rate at which Customers expected them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of \$5.5 million recorded in fourth quarter 2017.

Also on December 22, 2017, the SEC released SAB 118 to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Act's enactment date to complete the necessary accounting.

Customers recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where information necessary to complete the accounting was not available, prepared or analyzed as follows: (i) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Act which allowed for full expensing of qualified property purchased and placed in service after September 27, 2017; (ii) the deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that were paid and deducted on the 2017 income tax returns and (iii) the deferred tax liability for temporary differences associated with equity investments in partnerships were awaiting receipt of Schedules K-1 from outside preparers, which was necessary to determine the 2017 tax impact from these investments.

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

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

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

## **Risks Relating to Our Securities**

### Risks Relating to Our Voting Common Stock

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

Series E and Series F Preferred Stock, the market prices of the shares of Series C, Series D, Series E and Series F Preferred Stock may decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Debt Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

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

(1) Includes one BankMobile administrative office.

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

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

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

**Item 3. Legal Proceedings**

Halbreiner Matter

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

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

Lifestyle Healthcare Group, Inc. Matter

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

United States Department of Education Matter

In third quarter 2018, Customers received a FPRD letter dated September 5, 2018 from the DOE regarding a focused program review of Higher One's/Customers Bank's administration, as a third party servicer, of the programs authorized pursuant to Title IV of the Higher Education Act of 1965. The DOE program review covered the award years beginning in 2013 through the FPRD issuance date, including the time period when Higher One was acting as the third party servicer prior to Customers' acquisition of the Disbursement business on June 15, 2016. The FPRD determined that, with respect to students enrolled at specified partner institutions, Higher One/Customers did not provide convenient fee-free access to ATMs or bank branch offices in such locations as required by the DOE's cash management regulations. Those regulations, which were in effect during the period covered by the program review and were revised during that period, seek, among other purposes, to ensure that students can make fee-free cash withdrawals. The FPRD determined that students incurred prohibited costs in accessing Title IV credit balance funds, and the FPRD classifies those costs as financial liabilities of Customers. The FPRD also requires Customers to take prospective action to increase ATM access for students at certain of its partner institutions. Customers disagrees with the FPRD and has elected to appeal the FPRD, including the asserted financial liabilities of \$6.5 million, and a request for review has been submitted to trigger an administrative process before the DOE's Office of Hearing and Appeals. Customers intends to vigorously defend itself against the financial liabilities established in the FPRD through that administrative appeals process and it further intends to pursue resolution of the FPRD's prospective action requirements during the appeals resolution process. The matter is in its early stages. Customers is currently unable to predict the outcome of the appeal and resolution efforts, and therefore cannot determine the likelihood of loss nor estimate a range of possible loss. Customers does not believe that this matter will have a material effect on the consolidated financial statements.

**Item 4. Mine Safety Disclosures**

Not Applicable.

## PART II

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

#### Trading Market for Common Stock

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

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

#### Dividends on Common Stock

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

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

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

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

#### Issuer Purchases of Equity Securities

On November 26, 2013, the Bancorp's board of directors authorized a stock repurchase plan in which the Bancorp could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. On December 11, 2018, the Bancorp's board of directors amended the terms of the 2013 stock repurchase plan to adjust the repurchase terms and book value measurement date such that Customers is authorized to purchase shares of common stock at prices not to exceed the book value per share of Customers' common stock measured as of September 30, 2018. The repurchase program has no expiration date but may be suspended, modified or discontinued at any time, and the Bancorp has no obligation to repurchase any amount of its common stock under the program. As of December 31, 2018, the remaining authorized shares for stock repurchases under this program is 31,351 shares.

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

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

#### EQUITY COMPENSATION PLANS

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

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

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

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

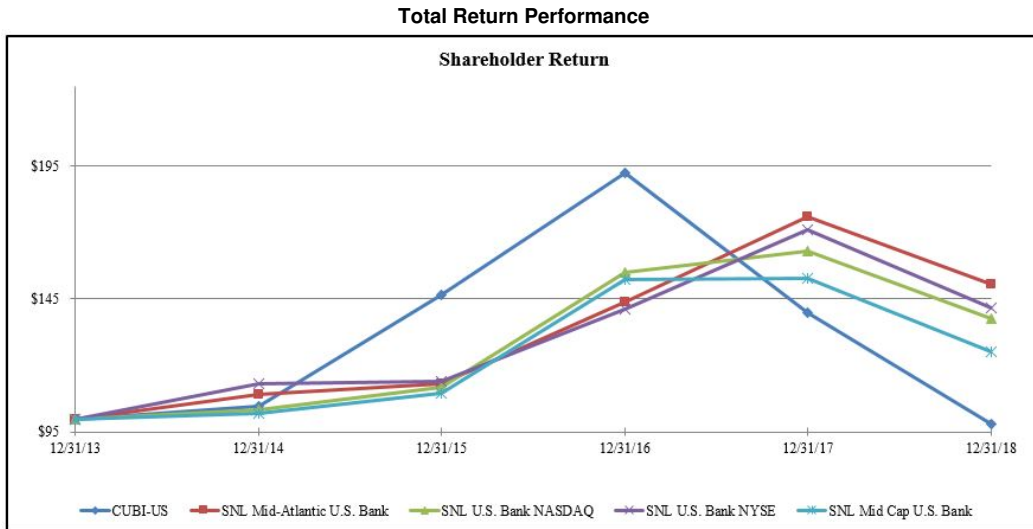
(3) Does not include securities available for future issuance under the BRRP as there is no specific number of shares reserved under this plan. By its terms, the plan links the award of restricted stock units to the annual performance awards identified with the participants in the BRRP.

#### Common Stock Performance Graph

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



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.



**Item 6. Selected Financial Data**
**Customers Bancorp, Inc. and Subsidiaries**

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

|  | 2018         | 2017         | 2016         | 2015         | 2014         |
|--|--------------|--------------|--------------|--------------|--------------|
| (dollars in thousands, except per share information)                           |              |              |              |              |              |
| <b>For the Years Ended December 31,</b>  |              |              |              |              |              |
| Interest income  | \$ 417,951   | \$ 372,850   | \$ 322,539   | \$ 249,850   | \$ 190,427   |
| Interest expense   | 160,074      | 105,507      | 73,042       | 53,560       | 38,504       |
| Net interest income  | 257,877      | 267,343      | 249,497      | 196,290      | 151,923      |
| Provision for loan losses  | 5,642        | 6,768        | 3,041        | 20,566       | 14,747       |
| Total non-interest income  | 58,998       | 78,910       | 56,370       | 27,717       | 25,126       |
| Total non-interest expense   | 220,179      | 215,606      | 178,231      | 114,946      | 98,914       |
| Income before income tax expense   | 91,054       | 123,879      | 124,595      | 88,495       | 63,388       |
| Income tax expense   | 19,359       | 45,042       | 45,893       | 29,912       | 20,174       |
| Net income   | 71,695       | 78,837       | 78,702       | 58,583       | 43,214       |
| Preferred stock dividends  | 14,459       | 14,459       | 9,515        | 2,493        | —            |
| Net income attributable to common shareholders                                 | \$ 57,236    | \$ 64,378    | \$ 69,187    | \$ 56,090    | \$ 43,214    |
| Earnings per common share:   |              |              |              |              |              |
| Basic earnings per common share  | \$ 1.81      | \$ 2.10      | \$ 2.51      | \$ 2.09      | \$ 1.62      |
| Diluted earnings per common share  | \$ 1.78      | \$ 1.97      | \$ 2.31      | \$ 1.96      | \$ 1.55      |
| <b>At Period End</b>   |              |              |              |              |              |
| Total assets   | \$ 9,833,425 | \$ 9,839,555 | \$ 9,382,736 | \$ 8,398,205 | \$ 6,821,500 |
| Cash and cash equivalents  | 62,135       | 146,323      | 264,709      | 264,593      | 371,023      |
| Investment securities  | 665,012      | 471,371      | 493,474      | 560,253      | 416,685      |
| Loans held for sale  | 1,507        | 146,077      | 695          | 42,114       | 103,440      |
| Loans receivable, mortgage warehouse, at fair value                            | 1,405,420    | 1,793,408    | 2,116,815    | 1,754,950    | 1,332,019    |
| Loans receivable   | 7,138,074    | 6,768,258    | 6,154,637    | 5,453,479    | 4,312,173    |
| Allowance for loan losses  | 39,972       | 38,015       | 37,315       | 35,647       | 30,932       |
| FDIC loss sharing receivable <sup>(1)</sup>                                    | —            | —            | —            | —            | 2,320        |
| Deposits   | 7,142,236    | 6,800,142    | 7,303,775    | 5,909,501    | 4,532,538    |
| Borrowings <sup>(2)</sup>  | 1,667,918    | 2,062,237    | 1,147,706    | 1,890,442    | 1,812,380    |
| Shareholders' equity   | 956,816      | 920,964      | 855,872      | 553,902      | 443,145      |
| Tangible common equity <sup>(3)</sup>  | 722,846      | 687,198      | 620,780      | 494,682      | 439,481      |
| <b>Selected Ratios and Share Data</b>  |              |              |              |              |              |
| Return on average assets   | 0.69%        | 0.77%        | 0.86%        | 0.81%        | 0.78%        |
| Return on average common equity  | 7.90%        | 9.38%        | 12.41%       | 11.82%       | 10.39%       |
| Common book value per share  | \$ 23.85     | \$ 22.42     | \$ 21.08     | \$ 18.52     | \$ 16.57     |
| Tangible book value per common share <sup>(3)</sup>                            | \$ 23.32     | \$ 21.90     | \$ 20.49     | \$ 18.39     | \$ 16.43     |
| Common shares outstanding  | 31,003,028   | 31,382,503   | 30,289,917   | 26,901,801   | 26,745,529   |
| Net interest margin, tax equivalent <sup>(3)</sup>                             | 2.58%        | 2.73%        | 2.84%        | 2.81%        | 2.86%        |
| Equity to assets   | 9.73%        | 9.36%        | 9.12%        | 6.60%        | 6.50%        |
| Tangible common equity to tangible assets <sup>(3)</sup>                       | 7.36%        | 7.00%        | 6.63%        | 5.89%        | 6.45%        |
| Common equity Tier 1 capital to risk-weighted assets – Customers Bancorp, Inc. | 8.96%        | 8.81%        | 8.49%        | 7.61%        | N/A          |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Common equity Tier 1 capital to risk-weighted assets – Customers Bank | 12.82% | 13.08% | 11.63% | 8.62%  | N/A    |
| Tier 1 risk-based capital ratio – Customers Bancorp, Inc.             | 11.58% | 11.58% | 11.41% | 8.46%  | 8.39%  |
| Tier 1 risk-based capital ratio – Customers Bank                      | 12.82% | 13.08% | 11.63% | 8.62%  | 9.27%  |
| Total risk-based capital ratio – Customers Bancorp, Inc.              | 13.01% | 13.05% | 13.05% | 10.62% | 11.09% |
| Total risk-based capital ratio – Customers Bank                       | 14.62% | 14.96% | 13.61% | 10.85% | 11.98% |
| Tier 1 leverage ratio – Customers Bancorp, Inc.                       | 9.67%  | 8.94%  | 9.07%  | 7.16%  | 6.69%  |
| Tier 1 leverage ratio – Customers Bank                                | 10.70% | 10.09% | 9.23%  | 7.30%  | 7.39%  |

**Asset Quality**

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Non-performing loans   | \$ 27,494 | \$ 26,415 | \$ 17,792 | \$ 10,771 | \$ 11,733 |
| Non-performing loans to loans receivable <sup>(4)</sup>      | 0.39%     | 0.39%     | 0.29%     | 0.20%     | 0.27%     |
| Non-performing loans to total loans                          | 0.32%     | 0.30%     | 0.22%     | 0.15%     | 0.20%     |
| Other real estate owned                                      | \$ 816    | \$ 1,726  | \$ 3,108  | \$ 5,057  | \$ 15,371 |
| Non-performing assets  | 28,310    | 28,141    | 20,900    | 15,828    | 27,104    |
| Non-performing assets to total assets                        | 0.29%     | 0.29%     | 0.22%     | 0.19%     | 0.40%     |
| Allowance for loan losses to loans receivable <sup>(4)</sup> | 0.56%     | 0.56%     | 0.61%     | 0.65%     | 0.72%     |
| Allowance for loan losses to non-performing loans            | 145.38%   | 143.91%   | 209.73%   | 330.95%   | 263.63%   |
| Net charge-offs  | \$ 3,685  | \$ 6,068  | \$ 1,662  | \$ 11,979 | \$ 3,124  |
| Net charge-offs to average loans receivable <sup>(4)</sup>   | 0.05%     | 0.09%     | 0.03%     | 0.26%     | 0.09%     |

- (1) The FDIC loss sharing receivable, net of the clawback liability, was included in "Accrued interest payable and other liabilities" as of December 31, 2015. The FDIC loss sharing arrangements were terminated during 2016.
- (2) Borrowings includes FHLB advances, Federal funds purchased, Subordinated debt and other borrowings.
- (3) Customers' selected financial data contains non-GAAP financial measures calculated using non-GAAP amounts. These measures include net interest margin tax equivalent, tangible common equity and tangible book value per common share and tangible common equity to tangible assets. Management uses these non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing the Bancorp's financial results and use of equity. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities. Customers Bancorp calculates tangible common equity by excluding intangible assets from total shareholders' equity. Tangible book value per common share equals tangible common equity divided by common shares outstanding. The non-GAAP tax-equivalent basis uses a marginal tax rate of 26% for the year ended December 31, 2018 and a marginal tax rate of 35% for the years ended December 31, 2017, 2016, 2015 and 2014 to approximate interest income as a taxable asset.
- (4) Excludes loans receivable, mortgage warehouse, at fair value which are not evaluated for impairment and do not have an allowance for loan loss.

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

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

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

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

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

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

### Critical Accounting Policies

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

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

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

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

#### *Allowance for Loan Losses*

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

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

#### *Purchased Credit-Impaired Loans*

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

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

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

#### *Deferred Income Taxes*

Customers provides for deferred income taxes using the liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities in the financial statements and their tax

basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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

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

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

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

At December 31, 2018, management evaluated its available-for-sale debt securities for OTTI. The unrealized losses associated with the available-for-sale debt securities were not considered to be other than temporary at December 31, 2018, because the losses were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or issuer. Customers does not intend to sell these securities, and it is not more likely than not that Customers will be required to sell the securities before recovery of the amortized cost basis.

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

#### *Fair Value*

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

liabilities, impaired loans and foreclosed property and the net assets acquired in business combinations. For additional information, see NOTE 18 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS to Customers' audited financial statements.

#### *Share-Based Compensation*

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

#### *Goodwill and Other Intangible Assets*

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired through business combinations accounted for under the acquisition method. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer and university relationship intangibles and non-compete agreements, are amortized over their estimated useful lives and subject to periodic impairment testing.

Goodwill and other intangible assets are reviewed for impairment annually as of October 31 and between annual tests when events and circumstances indicate that impairment may have occurred. If there is a goodwill impairment charge, it will be the amount by which the reporting unit's carrying amount exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The same one-step impairment test is applied to goodwill at all reporting units. Customers applies a qualitative assessment for its reporting units to determine if the one-step quantitative impairment test is necessary.

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

#### **Overview**

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

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

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



## 2019 Economic Outlook

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

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

## Results of Operations

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

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

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

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

### *Net interest income*

The \$9.5 million decrease in net interest income for the year ended December 31, 2018 compared to the year ended December 31, 2017 primarily resulted from the narrowing of net interest margin, tax equivalent, by 15 basis points, to 2.58%, for the year ended December 31, 2018, from 2.73% for the year ended December 31, 2017. The margin compression is driven by higher funding costs as the cost of interest-bearing liabilities increased by 64 basis points for the year ended December 31, 2018 compared to the year ended December 31, 2017. The impact of higher funding costs was offset in part by higher yields on interest earning assets, which increased 37 basis points for the year ended December 31, 2018 compared to the year ended December 31, 2017. The average balance of interest earning assets increased \$0.2 billion to \$10.0 billion for the year ended December 31, 2018 when compared to \$9.8 billion for the year ended December 31, 2017.

### *Provision for loan losses*

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

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

#### *Non-interest income*

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

#### *Non-interest expense*

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

#### *Income tax expense*

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

#### *Preferred stock dividends*

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

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

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

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

*Net interest income*

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

*Provision for loan losses*

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

*Non-interest income*

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

*Non-interest expense*

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

*Income tax expense*

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

*Preferred stock dividends*

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

## NET INTEREST INCOME

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with banks, and interest paid on deposits, borrowed funds and subordinated debt) is the primary source of Customers' earnings. The following table summarizes Customers' net interest income and related interest spread and net interest margin for the years ended December 31, 2018, 2017 and 2016.

|  | For the Years Ended December 31, |                                  |                             |                      |                                  |                             |                     |                                  |                             |  |
|--|----------------------------------|----------------------------------|-----------------------------|----------------------|----------------------------------|-----------------------------|---------------------|----------------------------------|-----------------------------|--|
|  | 2018                             |                                  |                             | 2017                 |                                  |                             | 2016                |                                  |                             |  |
|  | Average<br>balance               | Interest<br>income or<br>expense | Average<br>yield or<br>cost | Average<br>balance   | Interest<br>income or<br>expense | Average<br>yield or<br>cost | Average<br>balance  | Interest<br>income or<br>expense | Average<br>yield or<br>cost |  |
| (amounts in thousands)                                   |                                  |                                  |                             |                      |                                  |                             |                     |                                  |                             |  |
| <b>Assets</b>  |                                  |                                  |                             |                      |                                  |                             |                     |                                  |                             |  |
| Interest-earning deposits                                | \$ 217,168                       | \$ 4,115                         | 1.90%                       | \$ 296,305           | \$ 3,132                         | 1.06%                       | \$ 225,409          | \$ 1,218                         | 0.54%                       |  |
| Investment securities <sup>(1)</sup>                     | 1,005,688                        | 33,209                           | 3.30%                       | 870,979              | 25,153                           | 2.89%                       | 540,532             | 14,293                           | 2.64%                       |  |
| Loans:   |                                  |                                  |                             |                      |                                  |                             |                     |                                  |                             |  |
| Commercial loans to mortgage companies                   | 1,610,168                        | 79,152                           | 4.92%                       | 1,748,575            | 73,513                           | 4.20%                       | 1,985,495           | 70,308                           | 3.54%                       |  |
| Multi-family loans                                       | 3,549,511                        | 135,526                          | 3.82%                       | 3,551,683            | 132,263                          | 3.72%                       | 3,223,122           | 122,316                          | 3.79%                       |  |
| Commercial and industrial <sup>(2)</sup>                 | 1,743,696                        | 82,348                           | 4.72%                       | 1,452,805            | 60,595                           | 4.17%                       | 1,172,655           | 46,257                           | 3.94%                       |  |
| Non-owner occupied commercial real estate                | 1,257,545                        | 50,663                           | 4.03%                       | 1,293,173            | 51,212                           | 3.96%                       | 1,188,631           | 45,441                           | 3.82%                       |  |
| All other loans  | 517,800                          | 25,545                           | 4.93%                       | 503,532              | 22,353                           | 4.44%                       | 370,663             | 18,496                           | 4.99%                       |  |
| Total loans <sup>(3)</sup>                               | 8,678,720                        | 373,234                          | 4.30%                       | 8,549,768            | 339,936                          | 3.98%                       | 7,940,566           | 302,818                          | 3.81%                       |  |
| Other interest-earning assets                            | 110,223                          | 7,393                            | 6.71%                       | 103,710              | 4,629                            | 4.46%                       | 84,797              | 4,210                            | 4.96%                       |  |
| <b>Total interest-earning assets</b>                     | <b>10,011,799</b>                | <b>417,951</b>                   | <b>4.17%</b>                | <b>9,820,762</b>     | <b>372,850</b>                   | <b>3.80%</b>                | <b>8,791,304</b>    | <b>322,539</b>                   | <b>3.67%</b>                |  |
| Non-interest-earning assets                              | 406,303                          |                                  |                             | 376,948              |                                  |                             | 310,813             |                                  |                             |  |
| <b>Total assets</b>                                      | <b>\$ 10,418,102</b>             |                                  |                             | <b>\$ 10,197,710</b> |                                  |                             | <b>\$ 9,102,117</b> |                                  |                             |  |
| <b>Liabilities</b>                                       |                                  |                                  |                             |                      |                                  |                             |                     |                                  |                             |  |
| Interest checking accounts                               | \$ 630,335                       | 9,397                            | 1.49%                       | \$ 386,819           | 3,157                            | 0.82%                       | \$ 190,279          | 1,069                            | 0.56%                       |  |
| Money market deposit accounts                            | 3,417,779                        | 60,578                           | 1.77%                       | 3,339,053            | 34,488                           | 1.03%                       | 3,085,140           | 19,233                           | 0.62%                       |  |
| Other savings accounts                                   | 135,994                          | 2,272                            | 1.67%                       | 40,791               | 112                              | 0.27%                       | 39,122              | 95                               | 0.24%                       |  |
| Certificates of deposit                                  | 2,066,896                        | 38,561                           | 1.87%                       | 2,392,095            | 29,825                           | 1.25%                       | 2,633,425           | 27,871                           | 1.06%                       |  |
| Total interest-bearing deposits                          | 6,251,004                        | 110,808                          | 1.77%                       | 6,158,758            | 67,582                           | 1.10%                       | 5,947,966           | 48,268                           | 0.81%                       |  |
| Borrowings   | 1,951,921                        | 49,266                           | 2.52%                       | 1,875,431            | 37,925                           | 2.02%                       | 1,498,899           | 24,774                           | 1.65%                       |  |
| <b>Total interest-bearing liabilities</b>                | <b>8,202,925</b>                 | <b>160,074</b>                   | <b>1.95%</b>                | <b>8,034,189</b>     | <b>105,507</b>                   | <b>1.31%</b>                | <b>7,446,865</b>    | <b>73,042</b>                    | <b>0.98%</b>                |  |
| Non-interest-bearing deposits                            | 1,189,638                        |                                  |                             | 1,187,324            |                                  |                             | 873,599             |                                  |                             |  |
| Total deposits and borrowings                            | 9,392,563                        |                                  | 1.70%                       | 9,221,513            |                                  | 1.14%                       | 8,320,464           |                                  | 0.88%                       |  |
| Other non-interest-bearing liabilities                   | 83,563                           |                                  |                             | 72,714               |                                  |                             | 84,752              |                                  |                             |  |
| <b>Total liabilities</b>                                 | <b>9,476,126</b>                 |                                  |                             | <b>9,294,227</b>     |                                  |                             | <b>8,405,216</b>    |                                  |                             |  |
| <b>Shareholders' equity</b>                              | <b>941,976</b>                   |                                  |                             | <b>903,483</b>       |                                  |                             | <b>696,901</b>      |                                  |                             |  |
| <b>Total liabilities and shareholders' equity</b>        | <b>\$ 10,418,102</b>             |                                  |                             | <b>\$ 10,197,710</b> |                                  |                             | <b>\$ 9,102,117</b> |                                  |                             |  |
| Net interest earnings                                    |                                  | 257,877                          |                             |                      | 267,343                          |                             |                     | 249,497                          |                             |  |
| Tax-equivalent adjustment <sup>(4)</sup>                 |                                  | 685                              |                             |                      | 645                              |                             |                     | 390                              |                             |  |
| Net interest earnings                                    |                                  | <b>\$ 258,562</b>                |                             |                      | <b>\$ 267,988</b>                |                             |                     | <b>\$ 249,887</b>                |                             |  |
| <b>Interest spread</b>                                   |                                  |                                  | 2.47%                       |                      |                                  | 2.66%                       |                     |                                  | 2.79%                       |  |
| <b>Net interest margin</b>                               |                                  |                                  | 2.58%                       |                      |                                  | 2.72%                       |                     |                                  | 2.84%                       |  |
| <b>Net interest margin tax equivalent <sup>(4)</sup></b> |                                  |                                  | 2.58%                       |                      |                                  | 2.73%                       |                     |                                  | 2.84%                       |  |

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

(2) Includes owner occupied commercial real estate loans.

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

(4) Non-GAAP tax-equivalent basis, using an estimated marginal tax rate of 26% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017, and 2016, presented to approximate interest income as a taxable asset. Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of these non-GAAP measures provides additional clarity when assessing Customers' financial results. These disclosures should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

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

For the years ended December 31, 2018 and 2017

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

*For the years ended December 31, 2017 and 2016*

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

#### **PROVISION FOR LOAN LOSSES**

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

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

*For the years ended December 31, 2018 and 2017*

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

*For the years ended December 31, 2017 and 2016*

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

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

**NON-INTEREST INCOME**

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

For the years ended December 31, 2018 and 2017

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

#### *Interchange and card revenue*

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

#### *Deposit fees*

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

#### *Mortgage warehouse and transactional fees*

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

#### *Commercial lease income*

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

#### *Gains on sale of SBA and other loans*

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



#### Impairment loss on investment securities

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

#### (Loss) gain on sale of investment securities

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

#### Other non-interest income

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

#### For the years ended December 31, 2017 and 2016

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

#### Interchange and card revenue

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

#### Deposit fees

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

#### Mortgage warehouse transactional fees

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

#### Gain on sale of investment securities

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

*Bank-owned life insurance*

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

*Impairment loss on investment securities*

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

**NON-INTEREST EXPENSE**

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

*For the years ended December 31, 2018 and 2017*

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

*Salaries and employee benefits*

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

*Technology, communications, and bank operations*

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

*Professional services*

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

*Occupancy*

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

*FDIC assessments, non-income taxes, and regulatory fees*

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

*Provision for operating losses*

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

*Merger and acquisition related expenses*

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

*Commercial lease depreciation*

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

*Advertising and promotion*

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

*Other non-interest expenses*

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

For the years ended December 31, 2017 and 2016

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

#### *Salaries and employee benefits*

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

#### *Technology, communication and bank operations*

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

#### *Professional Services*

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

#### *Occupancy*

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

#### *FDIC assessments, non-income taxes, and regulatory fees*

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

#### *Provision for operating losses*

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

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

*Merger and acquisition related expenses*

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

*Other real estate owned*

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

*Other non-interest expenses*

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

**INCOME TAXES**

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

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

*For the years ended December 31, 2018 and 2017*

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

*For the years ended December 31, 2017 and 2016*

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

## FINANCIAL CONDITION

### GENERAL

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

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

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

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

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and due from banks and interest-earning deposits. Cash and due from banks consists mainly of vault cash and cash items in the process of collection. Cash and due from banks were \$17.7 million and \$20.4 million at December 31, 2018 and 2017, respectively. The cash and cash due from banks balances vary from day to day, primarily due to fluctuations in customers' deposits with the Bank.

Interest-earning deposits consist mainly of cash deposits at the FRB. Interest-earning deposits were \$44.4 million and \$125.9 million at December 31, 2018 and 2017, respectively. The balance of interest-earning deposits varies from day to day, depending on several factors, such as fluctuations in customers' deposits with Customers, payment of checks drawn on customers' accounts and strategic investment decisions made to maximize Customers' net interest income, while effectively managing interest-rate risk and liquidity.

### INVESTMENT SECURITIES

The investment securities portfolio is an important source of interest income and liquidity. It consists of mortgage-backed securities (guaranteed by an agency of the United States government), corporate securities, and marketable equity securities. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, provide

collateral for other borrowings and diversify the credit risk of interest-earning assets. The portfolio is structured to optimize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

At December 31, 2018, investment securities totaled \$665.0 million compared to \$471.4 million at December 31, 2017. The increase was primarily the result of purchases of agency-guaranteed mortgage-backed securities and corporate securities totaling of \$763.2 million, largely during first quarter 2018. The increase was offset in part by the sale of \$494.8 million of lower-yielding securities, and maturities, calls and principal repayments totaling \$44.3 million for the year ended December 31, 2018.

For financial reporting purposes, available-for-sale debt securities are carried at fair value. Unrealized gains and losses on available-for-sale debt securities are included in OCI and reported as a separate component of shareholders' equity, net of the related tax effect. Beginning January 1, 2018, changes in the fair value of marketable equity securities previously classified as available for sale are recorded in earnings in the period in which they occur and are no longer deferred in AOCI. Amounts previously recorded to AOCI were reclassified to retained earnings on January 1, 2018. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

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

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

(1) Includes equity securities issued by a foreign entity that are being measured at fair value with changes in fair value recognized directly in earnings effective January 1, 2018 as a result of adopting ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*(see NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of this new standard).

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

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

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

## LOANS

Existing lending relationships are primarily with small and middle market businesses and individual consumers primarily in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington, D.C.; and Chicago, Illinois. The portfolio



of loans to mortgage banking businesses is nationwide. The loan portfolio consists primarily of loans to support mortgage banking companies' funding needs, multi-family/commercial real estate and commercial and industrial loans. Customers continues to focus on small and middle market business loans to grow its commercial lending efforts, particularly its commercial and industrial loan portfolio and its specialty mortgage lending business, and has announced its entry into non-QM residential mortgage lending and plans to increase its consumer lending activities. In addition, Customers has been deemphasizing its multi-family business and has significantly limited originations of loans yielding less than 5.25% in order to reduce net interest margin compression.

#### *Commercial Lending*

Customers' commercial lending is divided into five groups: Business Banking, Small and Middle Market Business Banking, Multi-Family and Commercial Real Estate Lending, Mortgage Banking Lending and Equipment Finance. This grouping is designed to allow for greater resource deployment, higher standards of risk management, strong asset quality, lower interest- rate risk and higher productivity levels.

The commercial lending group focuses primarily on companies with annual revenues ranging from \$1 million to \$100 million, which typically have credit requirements between \$0.5 million and \$10 million.

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

In 2009, Customers launched its lending to mortgage banking businesses products, which primarily provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business in 2009 during a period of market turmoil. Customers saw an opportunity to provide liquidity to this business segment at attractive spreads. There was also the opportunity to attract escrow deposits and to generate fee income in this business. The underlying residential loans are taken as collateral for Customers' commercial loans to the mortgage companies. As of December 31, 2018 and 2017, commercial loans to mortgage banking businesses totaled \$1.4 billion and \$1.8 billion, respectively, and are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheet.

The goal of Customers' multi-family lending group is to build a portfolio of high-quality multi-family loans within Customers' covered markets while cross-selling other products and services. These lending activities primarily target the refinancing of loans with other banks using conservative underwriting standards and provide purchase money for new acquisitions by borrowers. The primary collateral for these loans is a first-lien mortgage on the multi-family property, plus an assignment of all leases related to such property. As of December 31, 2018, Customers had multi-family loans of \$3.3 billion outstanding, comprising approximately 38.4% of the total loan portfolio, compared to \$3.6 billion, or approximately 41.9% of the total loan portfolio, at December 31, 2017.

The equipment finance group offers equipment financing and leasing products and services for a broad range of asset classes. It services vendors, dealers, independent finance companies, bank-owned leasing companies and strategic direct customers in the plastics, packaging, machine tool, construction, transportation and franchise markets. As of December 31, 2018 and 2017, Customers had \$172.9 million and \$152.5 million, respectively, of equipment finance loans outstanding. As of December 31, 2018 and 2017, Customers had \$54.5 million and \$26.6 million of equipment finance leases, respectively. As of December 31, 2018 and 2017, Customers had \$54.5 million and \$21.7 million, respectively, of operating leases entered into under this program, net of accumulated depreciation of \$4.8 million and \$0.5 million, respectively.

As of December 31, 2018, Customers had \$7.8 billion in commercial loans outstanding, totaling approximately 91.6% of its total loan portfolio, which includes loans held for sale and loans receivable, mortgage warehouse, at fair value, compared to commercial loans outstanding of \$8.4 billion, comprising approximately 96.2% of its total loan portfolio, at December 31, 2017.

#### *Consumer Lending*

Customers provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending are conservative, and lending is offered to solidify customer relationships and grow relationship revenues in the long term. This lending is important in Customers' efforts to grow total relationship revenues for its consumer households. As of December 31, 2018, Customers had \$721.8 million in consumer loans outstanding, or 8.4% of the total loan portfolio,

compared to \$329.8 million, or 3.8% of the total loan portfolio, as of December 31, 2017. During the year ended December 31, 2018, Customers purchased \$398.5 million of residential mortgages and other consumer loans from third party financial institutions. Customers plans to expand its product offerings in real estate secured consumer lending, as well as other consumer lending activities, including the non-QM residential mortgage market and unsecured consumer lending.

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

#### Loans Held for Sale

The composition of loans held for sale was as follows:

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

At December 31, 2018, loans held for sale totaled \$1.5 million, or 0.02% of the total loan portfolio, and \$146.1 million, or 1.7% of the total loan portfolio, at December 31, 2017. Loans held for sale are carried on the balance sheet at either fair value (due to the election of the fair value option) or at the lower of cost or fair value. An allowance for loan losses is not recorded on loans that are classified as held for sale.

### Total Loans Receivable

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

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

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

#### Loans receivable, mortgage warehouse, at fair value

The mortgage warehouse product line provides financing to mortgage companies nationwide from the time of origination of the underlying mortgage loans until the mortgage loans are sold into the secondary market. As a mortgage warehouse lender, Customers provides a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short-term basis under a master repurchase agreement. These loans are reported as loans receivable, mortgage warehouse, at fair value on the consolidated balance sheets. Because these loans are reported at their fair value, they do not have an allowance for loan loss and are therefore excluded from allowance for loan loss related disclosures. At December 31, 2018, all of Customers' commercial mortgage warehouse loans were current in terms of payment.

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

#### Loans receivable

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

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

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

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

#### CREDIT RISK

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

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

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

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

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

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

(2) Includes owner occupied commercial real estate loans.

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

The allowance for loan losses is based on a quarterly evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb probable losses incurred as of the balance sheet date. All commercial loans, with the exception of commercial mortgage warehouse loans, which are reported at fair value, are assigned internal credit-risk ratings, based upon an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly by the responsible officer, and the risk ratings are adjusted when considered appropriate. The risk assessment allows management to identify problem loans timely. Management considers a variety of factors and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate an appropriate level of allowance for loan losses. Refer to Critical Accounting Policies herein and NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements for further discussion on management's methodology for estimating the allowance for loan losses.

Approximately 81% of Customers' commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, "the real estate portfolio"). Customers' lien position on the real estate collateral will vary on a loan-by-loan basis and will change as a result of changes in the value of the collateral. Current appraisals providing current value estimates of the property are received when Customers' credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal, including that real estate values have deteriorated. The credit committee and loan officers review loans that are 15 or more days delinquent and all non-accrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk-rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographic area and other factors that may affect the cash flow of the loan. If a loan is individually evaluated for impairment, the collateral value or discounted cash flow analysis is generally used to determine the estimated fair value of the underlying collateral, net of estimated selling costs, and compared to the outstanding loan balance to determine the amount of reserve necessary, if any. Appraisals used in this evaluation process are typically less than two years aged. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental

financial data to estimate the fair value of the loan, net of estimated selling costs, and compared to the outstanding loan balance to estimate the required reserve.

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

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

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

(1) Includes owner occupied commercial real estate loans.

### ASSET QUALITY

Customers divides its loan receivable portfolio into two categories to analyze and understand loan activity and performance: loans receivable that were originated and loans receivable that were acquired. Customers further segments the originated and acquired loan receivables by loan product or other characteristic generally defining a shared characteristic with other loans in the same group. Customers' originated loans were subject to the current underwriting standards that were put in place in 2009. Management believes this segmentation better reflects the risk in the portfolio and the various types of reserves that are available to absorb loan losses that may emerge in future periods. Credit losses from originated loans are absorbed by the allowance for loan losses. Credit losses from acquired loans are absorbed by the allowance for loan losses, nonaccretable difference fair value marks and cash reserves. As described below, the allowance for loan losses is intended to absorb only those losses estimated to have been incurred after acquisition; whereas the fair value mark and cash reserves absorb losses estimated to have been embedded in the acquired loans at acquisition. The schedule that follows includes both loans held for sale and loans held for investment.

**Asset Quality at December 31, 2018**

| (dollars in thousands)  | Total Loans         | Current             | 30-89 Days       | 90 Days or More Past Due and Accruing | Non-accrual/NPL (a) | OREO (b)      | NPA (a)+(b)      | NPL to Loan Type (%) | NPA to Loans + OREO (%) |
|---|---------------------|---------------------|------------------|---------------------------------------|---------------------|---------------|------------------|----------------------|-------------------------|
| <b>Loan Type</b>  |                     |                     |                  |                                       |                     |               |                  |                      |                         |
| <b>Originated Loans</b>   |                     |                     |                  |                                       |                     |               |                  |                      |                         |
| Multi-family  | \$ 3,282,903        | \$ 3,281,748        | \$ —             | \$ —                                  | \$ 1,155            | \$ —          | \$ 1,155         | 0.04%                | 0.04%                   |
| Commercial & Industrial <sup>(1)</sup>                          | 1,874,779           | 1,854,740           | 1,496            | —                                     | 18,543              | 621           | 19,164           | 0.99%                | 1.02%                   |
| Commercial Real Estate Non-Owner Occupied                       | 1,111,903           | 1,110,713           | 1,190            | —                                     | —                   | —             | —                | —%                   | —%                      |
| Residential   | 107,070             | 101,974             | 3,097            | —                                     | 1,999               | —             | 1,999            | 1.87%                | 1.87%                   |
| Construction  | 56,491              | 56,491              | —                | —                                     | —                   | —             | —                | —%                   | —%                      |
| Other Consumer  | 42,596              | 42,566              | 30               | —                                     | —                   | —             | —                | —%                   | —%                      |
| <b>Total Originated Loans <sup>(2)</sup></b>                    | <b>6,475,742</b>    | <b>6,448,232</b>    | <b>5,813</b>     | <b>—</b>                              | <b>21,697</b>       | <b>621</b>    | <b>22,318</b>    | <b>0.34%</b>         | <b>0.34%</b>            |
| <b>Acquired Loans</b>   |                     |                     |                  |                                       |                     |               |                  |                      |                         |
| Bank Acquisitions   | 125,718             | 117,826             | 3,410            | 378                                   | 4,104               | —             | 4,104            | 3.26%                | 3.26%                   |
| Loan Purchases  | 537,038             | 527,664             | 4,705            | 2,976                                 | 1,693               | 195           | 1,888            | 0.32%                | 0.35%                   |
| <b>Total Acquired Loans</b>                                     | <b>662,756</b>      | <b>645,490</b>      | <b>8,115</b>     | <b>3,354</b>                          | <b>5,797</b>        | <b>195</b>    | <b>5,992</b>     | <b>0.87%</b>         | <b>0.90%</b>            |
| Deferred (fees) costs and unamortized (discounts) premiums, net | (424)               | (424)               | —                | —                                     | —                   | —             | —                | —                    | —                       |
| <b>Loans Receivable</b>   | <b>7,138,074</b>    | <b>7,093,298</b>    | <b>13,928</b>    | <b>3,354</b>                          | <b>27,494</b>       | <b>816</b>    | <b>28,310</b>    | <b>0.39%</b>         | <b>0.40%</b>            |
| <b>Loans Receivable, Mortgage Warehouse, at Fair Value</b>      | <b>1,405,420</b>    | <b>1,405,420</b>    | <b>—</b>         | <b>—</b>                              | <b>—</b>            | <b>—</b>      | <b>—</b>         | <b>—</b>             | <b>—</b>                |
| <b>Total Loans Held for Sale</b>                                | <b>1,507</b>        | <b>1,507</b>        | <b>—</b>         | <b>—</b>                              | <b>—</b>            | <b>—</b>      | <b>—</b>         | <b>—</b>             | <b>—</b>                |
| <b>Total Portfolio</b>  | <b>\$ 8,545,001</b> | <b>\$ 8,500,225</b> | <b>\$ 13,928</b> | <b>\$ 3,354</b>                       | <b>\$ 27,494</b>    | <b>\$ 816</b> | <b>\$ 28,310</b> | <b>0.32%</b>         | <b>0.33%</b>            |

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.

(2) Does not include loans receivable, mortgage warehouse, at fair value.

**Asset Quality at December 31, 2018 (continued)**

| (dollars in thousands)  | Total Loans         | NPL              | ALL              | Cash Reserve  | Total Credit Reserves | Reserves to Loans (%) | Reserves to NPLs (%) |
|---|---------------------|------------------|------------------|---------------|-----------------------|-----------------------|----------------------|
| <b>Loan Type</b>  |                     |                  |                  |               |                       |                       |                      |
| <b>Originated Loans</b>   |                     |                  |                  |               |                       |                       |                      |
| Multi-family  | \$ 3,282,903        | \$ 1,155         | \$ 11,524        | \$ —          | \$ 11,524             | 0.35%                 | 997.75%              |
| Commercial & Industrial <sup>(1)</sup>                          | 1,874,779           | 18,543           | 14,866           | —             | 14,866                | 0.79%                 | 80.17%               |
| Commercial Real Estate  | 1,111,903           | —                | 4,093            | —             | 4,093                 | 0.37%                 | —%                   |
| Residential   | 107,070             | 1,999            | 2,013            | —             | 2,013                 | 1.88%                 | 100.70%              |
| Construction  | 56,491              | —                | 624              | —             | 624                   | 1.10%                 | —%                   |
| Other Consumer  | 42,596              | —                | 2,371            | —             | 2,371                 | 5.57%                 | —%                   |
| <b>Total Originated Loans <sup>(2)</sup></b>                    | <b>6,475,742</b>    | <b>21,697</b>    | <b>35,491</b>    | <b>—</b>      | <b>35,491</b>         | <b>0.55%</b>          | <b>163.58%</b>       |
| <b>Acquired Loans</b>   |                     |                  |                  |               |                       |                       |                      |
| Bank Acquisitions   | 125,718             | 4,104            | 3,224            | —             | 3,224                 | 2.56%                 | 78.56%               |
| Loan Purchases  | 537,038             | 1,693            | 1,257            | 488           | 1,745                 | 0.32%                 | 103.07%              |
| <b>Total Acquired Loans</b>                                     | <b>662,756</b>      | <b>5,797</b>     | <b>4,481</b>     | <b>488</b>    | <b>4,969</b>          | <b>0.75%</b>          | <b>85.72%</b>        |
| Deferred (fees) costs and unamortized (discounts) premiums, net | (424)               | —                | —                | —             | —                     | —                     | —                    |
| <b>Loans Receivable</b>   | <b>7,138,074</b>    | <b>27,494</b>    | <b>39,972</b>    | <b>488</b>    | <b>40,460</b>         | <b>0.57%</b>          | <b>147.16%</b>       |
| <b>Loans Receivable, Mortgage Warehouse, at Fair Value</b>      | <b>1,405,420</b>    | <b>—</b>         | <b>—</b>         | <b>—</b>      | <b>—</b>              | <b>—</b>              | <b>—</b>             |
| <b>Total Loans Held for Sale</b>                                | <b>1,507</b>        | <b>—</b>         | <b>—</b>         | <b>—</b>      | <b>—</b>              | <b>—</b>              | <b>—</b>             |
| <b>Total Portfolio</b>  | <b>\$ 8,545,001</b> | <b>\$ 27,494</b> | <b>\$ 39,972</b> | <b>\$ 488</b> | <b>\$ 40,460</b>      | <b>0.47%</b>          | <b>147.16%</b>       |

(1) Commercial & industrial loans, including owner occupied commercial real estate loans.

(2) Does not include loans receivable, mortgage warehouse, at fair value.

**Originated Loans**

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



2017. The management team adopted new underwriting standards that management believes better limits risks of loss in 2009 and has worked to maintain these standards. Only \$21.7 million, or 0.34% of originated loans, were non-performing at December 31, 2018, compared to \$20.0 million, or 0.31% of originated loans, at December 31, 2017. The originated loans were supported by an allowance for loan losses of \$35.5 million (0.55% of originated loans) and \$33.3 million (0.52% of originated loans) at December 31, 2018 and 2017, respectively.

*Loans Acquired*

At December 31, 2018, total acquired loans were \$662.8 million, or 9.3% of loans receivable, compared to \$328.8 million, or 4.9% of loans receivable, at December 31, 2017. Non-performing acquired loans totaled \$5.8 million and \$6.4 million at December 31, 2018 and 2017, respectively. When loans are acquired, they are recorded on the balance sheet at fair value. Acquired loans include purchased portfolios, FDIC failed-bank acquisitions and unassisted acquisitions. Of the manufactured housing loans purchased prior to 2012, \$46.6 million were supported by a \$0.5 million cash reserve at December 31, 2018, compared to \$51.9 million supported by a cash reserve of \$0.6 million at December 31, 2017. The cash reserve was created as part of the purchase transaction to absorb losses and is maintained in a demand deposit account at the Bank. All current losses and delinquent interest are absorbed by this reserve and any recoveries of those losses, as well as the proceeds from the sale of the repossessed properties securing the loans, are placed back into the reserve. For the manufactured housing loans purchased in 2012, the seller has an obligation to pay the Bank the full payoff amount of the defaulted loan, including any principal, unpaid interest or advances on the loans, once the borrower vacates the property. At December 31, 2018, \$26.5 million of these loans were outstanding, compared to \$31.4 million at December 31, 2017.

The price paid for acquired loans considered management's judgment as to the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the cash flow forecast to incorporate changes in the credit outlook. Generally, a decrease in forecasted cash flows for a purchased loan will result in a provision for loan losses, and absent charge-offs, an increase in the allowance for loan losses. Acquired loans have a significantly higher percentage of NPLs than originated loans. Management acquired these loans with the expectation that NPL levels would be elevated, and therefore incorporated that expectation into the price paid. Customers has assigned these loans to its SAG, a team that focuses on workouts for these acquired NPAs. Total acquired loans were supported by reserves (allowance for loan losses and cash reserves) of \$5.0 million (0.75% of total acquired loans) and \$5.4 million (1.64% of total acquired loans) at December 31, 2018 and 2017, respectively.

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

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

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

(1) Excludes PCI loans.

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

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

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

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

(1) Includes owner occupied commercial real estate loans.

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

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

#### *Problem Loan Identification and Management*

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

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

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

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

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

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

#### *Troubled Debt Restructurings*

At December 31, 2018, 2017 and 2016, there were \$19.2 million, \$20.4 million and \$16.4 million, respectively, in loans categorized as a TDR. TDRs are reported as impaired loans in the period of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if the borrower satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, Customers requires sustained performance for nine months before returning a TDR to accrual status.

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

TDR modifications primarily involve interest-rate concessions, extensions of term, deferrals of principal and other modifications. Other modifications typically reflect other nonstandard terms which Customers would not offer in non-troubled situations. During the years ended December 31, 2018, 2017 and 2016, loans aggregating \$1.7 million, \$8.1 million and \$6.6 million, respectively, were modified in TDRs. TDR modifications of loans within the commercial and industrial category were primarily interest-rate concessions, deferrals of principal and other modifications; modifications of commercial real estate loans were primarily deferrals of principal, extensions of term and other modifications; modifications of residential real estate loans were primarily interest-rate concessions and deferrals of principal; and modifications of manufactured housing loans were primarily interest rate concessions, extensions of term and deferrals of principal. As of December 31, 2018 and 2017, except for one commercial and industrial loan with an outstanding commitment of \$1.5 million and \$2.1 million, respectively, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs. There were no commitments to lend additional funds to debtors whose terms were modified in TDRs at December 31, 2016.

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

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

## ACCRUED INTEREST RECEIVABLE

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

## BANK PREMISES AND EQUIPMENT AND OTHER ASSETS

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

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

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

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

## DEPOSITS

The Bank offers a variety of deposit accounts, including checking, savings, MMDA and time deposits. Deposits are primarily obtained from Customers' geographic service area and nationwide through branchless digital banking, deposit brokers, listing services and other relationships.

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

|                                       | December 31,        |                     |                     | 2018 vs. 2017     | 2018 vs. 2017     |
|---------------------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
|                                       | 2018                | 2017                | 2016                | Change            | Percentage Change |
| <small>(amounts in thousands)</small> |                     |                     |                     |                   |                   |
| Demand, non-interest bearing          | \$ 1,122,171        | \$ 1,052,115        | \$ 966,058          | \$ 70,056         | 6.7 %             |
| Demand, interest bearing              | 803,948             | 523,848             | 339,398             | 280,100           | 53.5 %            |
| Savings, including MMDA               | 3,481,936           | 3,318,486           | 3,166,557           | 163,450           | 4.9 %             |
| Time, \$100,000 and over              | 792,370             | 1,284,855           | 2,106,905           | (492,485)         | (38.3)%           |
| Time, other                           | 941,811             | 620,838             | 724,857             | 320,973           | 51.7 %            |
| <b>Total deposits</b>                 | <b>\$ 7,142,236</b> | <b>\$ 6,800,142</b> | <b>\$ 7,303,775</b> | <b>\$ 342,094</b> | <b>5.0 %</b>      |

Total deposits were \$7.1 billion at December 31, 2018, an increase of \$0.3 billion, or 5.0%, from \$6.8 billion at December 31, 2017. Transaction deposits increased by \$0.5 billion, or 10.5%, to \$5.4 billion at December 31, 2018, from \$4.9 billion at December 31, 2017. This increase was primarily driven by Customers' initiative to improve its net interest margin by expanding its sources of lower-cost funding. These efforts led to increases in non-interest bearing demand deposits of \$70.1 million, interest bearing demand deposits of \$280.1 million and savings, including MMDA, of \$163.5 million. These increases were offset in part by decreases in time deposits of \$0.2 billion, or 9.0%, to \$1.7 billion at December 31, 2018, from \$1.9 billion at December 31, 2017.

At December 31, 2018, Customers had \$1.2 billion in state and municipal deposits to which it had pledged \$1.7 billion of available borrowing capacity through the FHLB to the depositors through a letter of credit arrangement.

Time deposits greater than \$250,000 totaled \$0.5 billion, \$0.8 billion and \$1.2 billion at December 31, 2018, 2017, and 2016, respectively.

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

|                              | For the Years ended December 31, |                   |                     |                   |                     |                   |
|------------------------------|----------------------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                              | 2018                             |                   | 2017                |                   | 2016                |                   |
|                              | Average Balance                  | Average Rate Paid | Average Balance     | Average Rate Paid | Average Balance     | Average Rate Paid |
| (amounts in thousands)       |                                  |                   |                     |                   |                     |                   |
| Demand, non-interest bearing | \$ 1,189,638                     | 0.00%             | \$ 1,187,324        | 0.00%             | \$ 873,599          | 0.00%             |
| Demand, interest-bearing     | 630,335                          | 1.49%             | 386,819             | 0.82%             | 190,279             | 0.56%             |
| Savings, including MMDA      | 3,553,773                        | 1.77%             | 3,379,844           | 1.02%             | 3,124,262           | 0.62%             |
| Time deposits                | 2,066,896                        | 1.87%             | 2,392,095           | 1.25%             | 2,633,425           | 1.06%             |
| <b>Total</b>                 | <b>\$ 7,440,642</b>              |                   | <b>\$ 7,346,082</b> |                   | <b>\$ 6,821,565</b> |                   |

At December 31, 2018, the scheduled maturities of time deposits greater than \$100,000 were as follows:

|                          | December 31, 2018 |
|--------------------------|-------------------|
| (amounts in thousands)   |                   |
| 3 months or less         | \$ 341,976        |
| Over 3 through 6 months  | 133,157           |
| Over 6 through 12 months | 144,149           |
| Over 12 months           | 173,087           |
| <b>Total</b>             | <b>\$ 792,369</b> |

For additional information, see NOTE 9 - DEPOSITS to Customers' audited financial statements.

#### FHLB ADVANCES AND OTHER BORROWINGS

Borrowed funds from various sources are generally used to supplement deposit growth and meet other operating needs. Customers' borrowings generally include short-term and long-term advances from the FHLB, federal funds purchased, senior unsecured notes and subordinated debt. Subordinated debt is also considered as Tier 2 capital for certain regulatory calculations. Customers strategically views the short-term FHLB advances as funding, in part, the commercial loans to the mortgage banking businesses.

#### **Short-term debt**

Short-term debt at December 31, 2018, 2017, and 2016, was as follows:

|                                    | December 31,        |       |                     |       |                   |       |
|------------------------------------|---------------------|-------|---------------------|-------|-------------------|-------|
|                                    | 2018                |       | 2017                |       | 2016              |       |
|                                    | Amount              | Rate  | Amount              | Rate  | Amount            | Rate  |
| (amounts in thousands)             |                     |       |                     |       |                   |       |
| FHLB advances                      | \$ 1,248,070        | 2.62% | \$ 1,611,860        | 1.47% | \$ 688,800        | 0.85% |
| Federal funds purchased            | 187,000             | 2.60% | 155,000             | 1.50% | 83,000            | 0.74% |
| <b>Total short-term borrowings</b> | <b>\$ 1,435,070</b> |       | <b>\$ 1,766,860</b> |       | <b>\$ 771,800</b> |       |

For additional information on Customers' short-term debt, see NOTE 10 – BORROWINGS to Customers' audited financial statements.

### **Long-term debt**

#### *FHLB Advances*

At December 31, 2018, Customers had no long-term FHLB advances.

Customers had a total maximum borrowing capacity with the FHLB of \$4.1 billion and with the FRB of \$102.5 million at December 31, 2018. Customers had a total maximum borrowing capacity with the FHLB of \$4.3 billion and with the FRB of \$142.5 million at December 31, 2017. Amounts can be borrowed as short-term or long-term. As of December 31, 2018 and 2017, advances under these arrangements were secured by certain assets, which included qualifying loans of Customers Bank of \$5.2 billion and \$5.5 billion, respectively.

#### *Senior notes*

On July 31, 2018, the 6.375% senior notes with an aggregate principal amount of \$63.3 million issued by Customers Bancorp in July and August 2013 matured and were paid in full.

In June 2017, Customers Bancorp issued \$100 million of senior notes at 99.775% of face value. The price to purchasers represents a yield-to-maturity of 4.0% on the fixed coupon rate of 3.95%. The senior notes mature in June 2022. The net proceeds to Customers after deducting the underwriting discount and estimated offering expenses were approximately \$98.6 million. The net proceeds were contributed to Customers Bank for purposes of its working capital needs and the funding of its organic growth.

On June 26, 2014, Customers Bancorp closed a private-placement transaction in which it issued \$25.0 million of 4.625% senior notes due June 2019. Interest is paid semi-annually in arrears in June and December.

#### *Subordinated debt*

On June 26, 2014, Customers Bank closed a private-placement transaction in which it issued \$110.0 million of fixed-to-floating rate subordinated notes due 2029. The subordinated notes bear interest at an annual fixed rate of 6.125% until June 26, 2024, and interest is paid semiannually. From June 26, 2024, the subordinated notes will bear an annual interest rate equal to three-month LIBOR plus 344.3 basis points until maturity on June 26, 2029. Customers Bank has the ability to call the subordinated notes, in whole or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

## **SHAREHOLDERS' EQUITY**

Shareholders' equity increased by \$35.9 million, or 3.9%, to \$956.8 million at December 31, 2018, from \$921.0 million at December 31, 2017. The primary components of the net increase were as follows:

- net income of \$71.7 million for the year ended December 31, 2018;
- share-based compensation expense of \$8.6 million for the year ended December 31, 2018; and
- issuance of common stock under share-based compensation arrangements of \$3.8 million for the year ended December 31, 2018.

These increases were offset in part by:

- other comprehensive loss of \$21.0 million for the year ended December 31, 2018, arising primarily from unrealized losses on available-for-sale debt securities;
- preferred stock dividends of \$14.5 million for the year ended December 31, 2018; and
- repurchases of shares of Customers' common stock totaling \$13.0 million.

Shareholders' equity increased by \$65.1 million, or 7.6%, to \$921.0 million at December 31, 2017, from \$855.9 million at December 31, 2016. The primary components of the net increase were as follows:

- net income of \$78.8 million for the year ended December 31, 2017;
- OCI of \$4.5 million for the year ended December 31, 2017, arising primarily from unrealized gains on available-for-sale securities and cash flow hedges; and
- share-based compensation expense of \$6.1 million for the year ended December 31, 2017;

These increases were offset in part by:

- preferred stock dividends of \$14.5 million for the year ended December 31, 2017; and
- issuance of common stock under share-based compensation arrangements of \$11.0 million for the year ended December 31, 2017.

Shareholders' equity increased by \$302.0 million to \$855.9 million at December 31, 2016, from \$553.9 million at December 31, 2015. The primary components of the net increase were as follows:

- net income of \$78.7 million for the year ended December 31, 2016;
- OCI of \$3.1 million for the year ended December 31, 2016, arising primarily from unrealized gains on available-for-sale securities;
- share-based compensation expense of \$6.2 million for the year ended December 31, 2016;
- issuance of 6,700,000 shares of preferred stock, resulting in an increases to shareholders' equity of \$161.9 million; and
- issuance of 2,641,677 shares of common stock, resulting in an increases to shareholders' equity of \$64.0 million.

These increases were offset in part by:

- preferred stock dividends of \$9.5 million for the year ended December 31, 2016; and
- issuance of common stock under share-based compensation arrangements of \$4.0 million for the year ended December 31, 2016.

For more information regarding the issuance of preferred and common stock and dividends paid to preferred shareholders, see NOTE 11 - SHAREHOLDERS' EQUITY to Customers' audited financial statements.

## LIQUIDITY

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

Customers' investment portfolio provides periodic cash flows through regular maturities and receipts of periodic payments and can be used as collateral to secure additional liquidity funding. Our principal sources of funds are proceeds from common and preferred stock issuances, deposits, debt issuances, principal and interest payments on loans and other funds from operations. Borrowing arrangements are maintained with the FHLB and the FRB to meet short-term liquidity needs. As of December 31, 2018, Customers' borrowing capacity with the FHLB was \$4.1 billion, of which \$1.2 billion was utilized in borrowings and commitments; and \$1.7 billion of available capacity was used to collateralize state and municipal deposits. As of December 31, 2017, Customers' borrowing capacity with the FHLB was \$4.3 billion, of which \$1.6 billion was utilized in borrowings and commitments; and \$1.8 billion of available capacity was used to collateralize state and municipal deposits. As of December 31, 2018 and 2017, Customers' borrowing capacity with the FRB was \$102.5 million and \$142.5 million, respectively.

The table below summarizes Customers' cash flows for the years indicated:

| (amounts in thousands)                               | For the Years Ended December 31, |              | Change    | Percentage Change |
|--|----------------------------------|--------------|-----------|-------------------|
|  | 2018                             | 2017         |           |                   |
| Net cash provided by operating activities            | \$ 97,474                        | \$ 62,193    | \$ 35,281 | 56.7 %            |
| Net cash used by investing activities                | (104,098)                        | (565,125)    | 461,027   | (81.6)%           |
| Net cash (used in) provided by financing activities  | (77,564)                         | 384,546      | (462,110) | (120.2)%          |
| Net increase (decrease) in cash and cash equivalents | \$ (84,188)                      | \$ (118,386) | \$ 34,198 | (28.9)%           |

### *Cash flows provided by operating activities*

Cash provided by operating activities for the years ended December 31, 2018 and 2017 of \$97.5 million and \$62.2 million, respectively, primarily resulted from net income of \$71.7 million for the year ended December 31, 2018 and net income of \$78.8 million for the year ended December 31, 2017.



*Cash flows used in investing activities*

Cash used in investing activities of \$104.1 million for the year ended December 31, 2018 primarily resulted from purchases of investment securities available for sale of \$0.8 billion and purchases of loans of \$0.4 billion. These uses of cash were offset in part by cash provided by investing activities of \$0.5 billion from the proceeds from sales of investment securities available for sale, net proceeds from repayments of mortgage warehouse loans of \$0.4 billion, and proceeds from the sales of loans of \$0.1 billion.

Cash used in investing activities of \$565.1 million for the year ended December 31, 2017 primarily resulted from purchases of investment securities available for sale of \$0.8 billion, a net increase in loans of \$1.0 billion, and purchases of loans of \$0.3 billion. These uses of cash were offset in part by cash provided by investing activities of \$0.8 billion from the proceeds from sales of investment securities available for sale, proceeds from repayments of mortgage warehouse loans of \$0.3 billion, and proceeds from the sales of loans of \$0.5 billion.

*Cash flows (used in) provided by financing activities*

Cash used in financing activities of \$77.6 million for the year ended December 31, 2018 primarily resulted from a decrease in short-term borrowed funds from the FHLB of \$363.8 million, repayments of long-term debt of \$63.3 million, payments of preferred stock dividends of \$14.5 million and repurchases of common stock of \$13.0 million, offset in part by a \$342.1 million increase in deposits and a \$32.0 million increase in federal funds purchased.

Cash provided by financing activities of \$384.5 million for the year ended December 31, 2017 primarily resulted from an increase in short-term borrowed funds from the FHLB of \$743.1 million, an increase in federal funds purchased of \$72.0 million, offset in part by a \$503.6 million decrease in deposits, payments of preferred stock dividends of \$14.5 million, and payment of employee taxes withheld from share-based awards of \$14.8 million.

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

**CAPITAL ADEQUACY**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At December 31, 2018 and 2017, the Bank and the Bancorp met all capital adequacy requirements to which they were subject to.

Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios set forth in the following table.

| (amounts in thousands)                                | Minimum Capital Levels to be Classified as: |         |                        |        |                  |         |                     |        |
|---|---|---------|------------------------|--------|------------------|---------|---------------------|--------|
|   | Actual                                      |         | Adequately Capitalized |        | Well Capitalized |         | Basel III Compliant |        |
|   | Amount                                      | Ratio   | Amount                 | Ratio  | Amount           | Ratio   | Amount              | Ratio  |
| <b>December 31, 2018</b>                              |   |         |                        |        |                  |         |                     |        |
| <b>Common equity Tier 1 (to risk-weighted assets)</b> |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 745,795                                  | 8.964%  | \$ 374,388             | 4.500% | N/A              | N/A     | \$ 530,384          | 6.375% |
| Customers Bank  | \$ 1,066,121                                | 12.822% | \$ 374,160             | 4.500% | \$ 540,453       | 6.500%  | \$ 530,059          | 6.375% |
| <b>Tier 1 capital (to risk-weighted assets)</b>       |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 963,266                                  | 11.578% | \$ 499,185             | 6.000% | N/A              | N/A     | \$ 655,180          | 7.875% |
| Customers Bank  | \$ 1,066,121                                | 12.822% | \$ 498,879             | 6.000% | \$ 665,173       | 8.000%  | \$ 654,779          | 7.875% |
| <b>Total capital (to risk-weighted assets)</b>        |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 1,081,962                                | 13.005% | \$ 665,580             | 8.000% | N/A              | N/A     | \$ 821,575          | 9.875% |
| Customers Bank  | \$ 1,215,522                                | 14.619% | \$ 665,173             | 8.000% | \$ 831,466       | 10.000% | \$ 821,072          | 9.875% |
| <b>Tier 1 capital (to average assets)</b>             |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 963,266                                  | 9.665%  | \$ 398,668             | 4.000% | N/A              | N/A     | \$ 398,668          | 4.000% |
| Customers Bank  | \$ 1,066,121                                | 10.699% | \$ 398,570             | 4.000% | \$ 498,212       | 5.000%  | \$ 398,570          | 4.000% |
| <b>December 31, 2017</b>                              |   |         |                        |        |                  |         |                     |        |
| <b>Common equity Tier 1 (to risk-weighted assets)</b> |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 689,494                                  | 8.805%  | \$ 352,368             | 4.500% | N/A              | N/A     | \$ 450,248          | 5.750% |
| Customers Bank  | \$ 1,023,564                                | 13.081% | \$ 352,122             | 4.500% | \$ 508,621       | 6.500%  | \$ 449,934          | 5.750% |
| <b>Tier 1 capital (to risk-weighted assets)</b>       |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 906,963                                  | 11.583% | \$ 469,824             | 6.000% | N/A              | N/A     | \$ 567,704          | 7.250% |
| Customers Bank  | \$ 1,023,564                                | 13.081% | \$ 469,496             | 6.000% | \$ 625,994       | 8.000%  | \$ 567,307          | 7.250% |
| <b>Total capital (to risk-weighted assets)</b>        |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 1,021,601                                | 13.047% | \$ 626,432             | 8.000% | N/A              | N/A     | \$ 724,313          | 9.250% |
| Customers Bank  | \$ 1,170,666                                | 14.961% | \$ 625,994             | 8.000% | \$ 782,493       | 10.000% | \$ 723,806          | 9.250% |
| <b>Tier 1 capital (to average assets)</b>             |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 906,963                                  | 8.937%  | \$ 405,949             | 4.000% | N/A              | N/A     | \$ 405,949          | 4.000% |
| Customers Bank  | \$ 1,023,564                                | 10.092% | \$ 405,701             | 4.000% | \$ 507,126       | 5.000%  | \$ 405,701          | 4.000% |

The capital ratios above reflect the capital requirements under "Basel III" adopted effective during first quarter 2015 and the capital conservation buffer phased in beginning January 1, 2016. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. As of December 31, 2018, the Bank and Customers Bancorp were in compliance with the Basel III requirements. See NOTE 17 - REGULATORY MATTERS to Customers' audited financial statements for additional discussion regarding regulatory capital requirements.

#### Capital Ratios

Customers continued to build its capital during 2018. In general, for the past few years, capital growth has been achieved by retained earnings, increases in capital from sales of common stock and issuance of preferred stock and subordinated debt. During 2018 and 2017, Customers Bancorp did not issue any preferred stock or common stock in public offerings. For more information relating to preferred and common stock, see NOTE 11 - SHAREHOLDERS' EQUITY to Customers' audited financial statements.

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

The maintenance of appropriate levels of capital is an important objective of Customers' asset and liability management process. Through its initial capitalization and subsequent offerings, Customers believes it has continued to maintain a strong capital position. Since first quarter 2015, Customers Bank's board of directors has declared a quarterly cash dividend to the Bank's sole shareholder, Customers Bancorp. Cash dividends declared by the Bank and paid to Customers Bancorp during 2018 and 2017, include the following:

- \$7.8 million declared on January 25, 2017, and paid on March 13, 2017;
- \$7.8 million declared on April 26, 2017, and paid on June 12, 2017;
- \$11.3 million declared on July 26, 2017, and paid on September 11, 2017;
- \$11.3 million declared on October 25, 2017, and paid on December 11, 2017;
- \$11.3 million declared on January 24, 2018, and paid on March 12, 2018;
- \$11.3 million declared on April 25, 2018, and paid on June 11, 2018;
- \$11.3 million declared on July 25, 2018, and paid on September 10, 2018;
- \$11.3 million declared on October 24, 2018, and paid on December 10, 2018; and
- \$14.5 million declared on January 30, 2019, and payable on March 10, 2019.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

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

As of December 31, 2018 and 2017, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

|   | December 31, |            |
|---|--------------|------------|
|   | 2018         | 2017       |
| (amounts in thousands)                                      |              |            |
| Commitments to fund loans                                   | \$ 345,608   | \$ 333,874 |
| Unfunded commitments to fund mortgage warehouse loans       | 1,537,900    | 1,567,139  |
| Unfunded commitments under lines of credit and credit cards | 867,131      | 485,345    |
| Letters of credit   | 55,659       | 39,890     |
| Other unused commitments                                    | 4,822        | 6,679      |

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

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

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. Government through one of its programs, such as FHA or VA, or they are conventional loans eligible for sale to Fannie Mae and Freddie Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

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

### CONTRACTUAL OBLIGATIONS

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2018. Interest on subordinated notes and senior notes was calculated using the current contractual interest rates.

#### Contractual cash obligations

|  | Within one year     | After one but within three year | After three but within five years | More than five years | Total               |
|--|---------------------|---------------------------------|-----------------------------------|----------------------|---------------------|
| (amounts in thousands)                     |                     |                                 |                                   |                      |                     |
| <b>On-balance sheet obligations</b>        |                     |                                 |                                   |                      |                     |
| FHLB advances                              | \$ 1,248,070        | \$ —                            | \$ —                              | \$ —                 | \$ 1,248,070        |
| Federal funds purchased                    | 187,000             | —                               | —                                 | —                    | 187,000             |
| Low income housing contributions           | 2,321               | 6,723                           | 22                                | 101                  | 9,167               |
| Benefit plan commitments                   | 300                 | 600                             | 600                               | 3,000                | 4,500               |
| Contractual maturities of time deposits    | 1,459,919           | 254,051                         | 20,211                            | —                    | 1,734,181           |
| Subordinated notes                         | —                   | —                               | —                                 | 110,000              | 110,000             |
| Interest on subordinated notes             | 6,738               | 13,475                          | 13,475                            | 36,981               | 70,669              |
| Senior notes                               | 25,000              | —                               | 100,000                           | —                    | 125,000             |
| Interest on senior notes                   | 4,515               | 7,900                           | 1,975                             | —                    | 14,390              |
| <b>Total on-balance sheet obligations</b>  | <b>\$ 2,933,863</b> | <b>\$ 282,749</b>               | <b>\$ 136,283</b>                 | <b>\$ 150,082</b>    | <b>\$ 3,502,977</b> |
| <b>Off-balance sheet obligations</b>       |                     |                                 |                                   |                      |                     |
| Loan commitments                           | \$ 2,062,970        | \$ 279,365                      | \$ 202,442                        | \$ 205,862           | \$ 2,750,639        |
| Operating leases                           | 5,577               | 9,648                           | 6,741                             | 4,699                | 26,665              |
| Other commitments <sup>(1)</sup>           | —                   | 4,822                           | —                                 | —                    | 4,822               |
| Standby letters of credit                  | 37,374              | 16,434                          | 1,851                             | —                    | 55,659              |
| <b>Total off-balance sheet obligations</b> | <b>2,105,921</b>    | <b>310,269</b>                  | <b>211,034</b>                    | <b>210,561</b>       | <b>2,837,785</b>    |
| <b>Total contractual cash obligations</b>  | <b>\$ 5,039,784</b> | <b>\$ 593,018</b>               | <b>\$ 347,317</b>                 | <b>\$ 360,643</b>    | <b>\$ 6,340,762</b> |

(1) Represents commitments funding in approximately one-to-three years that are subject to unscheduled requests for payment.

### NEW ACCOUNTING PRONOUNCEMENTS

For information about the impact that recently adopted or issued accounting guidance will have on us, refer to NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION to Customers' audited financial statements.

#### Item 7A. Quantitative and Qualitative Disclosure About Market Risk

##### Interest Rate Sensitivity

The largest component of Customers' net income is net interest income, and the majority of its financial instruments are interest rate sensitive assets and liabilities with various term structures and maturities. One of the primary objectives of management is to optimize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the

repricing of assets and liabilities, loan prepayments, deposit withdrawals and differences in lending and funding rates. Customers' asset/liability committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

Customers uses two complementary methods to analyze and measure interest rate sensitivity as part of the overall management of interest rate risk; they are income simulation modeling and estimates of EVE. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest rate risk of Customers' exposure to time factors and changes in interest rate environments.

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

Through the use of income simulation modeling, Customers has estimated the net interest income for the year ending December 31, 2019, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2018. Customers has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately ("rate shocks"). For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200 and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were decreased immediately by 100 and 200 basis points due to the limitations of the current low interest rate environment that renders the Down 300 rate shock impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2019, resulting from changes in interest rates.

#### Net change in net interest income

| Rate Shocks | % Change |
|-------------|----------|
| Up 3%       | (15.7)%  |
| Up 2%       | (9.8)%   |
| Up 1%       | (4.5)%   |
| Down 1%     | 3.9 %    |
| Down 2%     | 6.7 %    |

EVE estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. For upward rate shocks modeling a rising rate environment, current market interest rates were increased immediately by 100, 200 and 300 basis points. For downward rate shocks modeling a falling rate environment, current market rates were decreased immediately by 100 and 200 basis points due to the limitations of the current low interest rate environment that renders the Down 300 rate shocks impractical. The downward rate shocks modeled will be revisited in the future if necessary and will be contingent upon additional Federal Reserve interest rate hikes. This method of measurement primarily evaluates the longer-term repricing risks and options in Customers Bank's balance sheet.

The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2018, resulting from the referenced shocks to interest rates.

| Rate Shocks | From base |
|-------------|-----------|
| Up 3%       | (22.8)%   |
| Up 2%       | (13.3)%   |
| Up 1%       | (5.7)%    |
| Down 1%     | 3.8 %     |
| Down 2%     | 6.5 %     |

The matching of assets and liabilities may also be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity "gap." An asset or liability is considered interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest earning assets maturing or repricing within a specific time period and the amount of interest bearing liabilities maturing or repricing within that time period.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2018, that are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability.

The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2018, on the basis of contractual maturities, anticipated prepayments and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable and fixed-rate loans and as a result of contractual-rate adjustments on adjustable-rate loans.

Balance Sheet Gap Analysis at December 31, 2018

|   | 3 months or less    | 3 to 6 months     | 6 to 12 months    | 1 to 3 years        | 3 to 5 years        | Over 5 years        | Total               |
|---|---------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| (dollars in thousands)  |                     |                   |                   |                     |                     |                     |                     |
| <b>Assets</b>   |                     |                   |                   |                     |                     |                     |                     |
| Interest-earning deposits and federal funds sold                              | \$ 44,439           | \$ —              | \$ —              | \$ —                | \$ —                | \$ —                | \$ 44,439           |
| Investment securities   | 5,655               | 5,570             | 21,090            | 61,350              | 48,758              | 512,614             | 655,037             |
| Loans (a)   | 3,170,495           | 294,537           | 447,343           | 2,351,480           | 1,769,116           | 511,702             | 8,544,673           |
| Other interest-earning assets   | —                   | —                 | —                 | 95,290              | —                   | —                   | 95,290              |
| <b>Total interest-earning assets</b>  | <b>3,220,589</b>    | <b>300,107</b>    | <b>468,433</b>    | <b>2,508,120</b>    | <b>1,817,874</b>    | <b>1,024,316</b>    | <b>9,339,439</b>    |
| Non interest-earning assets   | —                   | —                 | —                 | —                   | —                   | 442,508             | 442,508             |
| <b>Total assets</b>   | <b>\$ 3,220,589</b> | <b>\$ 300,107</b> | <b>\$ 468,433</b> | <b>\$ 2,508,120</b> | <b>\$ 1,817,874</b> | <b>\$ 1,466,824</b> | <b>\$ 9,781,947</b> |
| <b>Liabilities</b>  |                     |                   |                   |                     |                     |                     |                     |
| Other interest-bearing deposits   | \$ 220,896          | \$ 210,284        | \$ 390,812        | \$ 1,230,853        | \$ 526,216          | \$ 1,718,022        | \$ 4,297,083        |
| Time deposits   | 705,744             | 397,347           | 361,005           | 250,182             | 24,691              | —                   | 1,738,969           |
| Other borrowings  | 1,435,070           | —                 | —                 | —                   | —                   | —                   | 1,435,070           |
| Subordinated debt   | —                   | —                 | —                 | —                   | —                   | 108,977             | 108,977             |
| <b>Total interest-bearing liabilities</b>                                     | <b>2,361,710</b>    | <b>607,631</b>    | <b>751,817</b>    | <b>1,481,035</b>    | <b>550,907</b>      | <b>1,826,999</b>    | <b>7,580,099</b>    |
| Non-interest-bearing liabilities  | 37,999              | 36,486            | 68,671            | 413,324             | 162,643             | 378,522             | 1,097,645           |
| <b>Shareholders' equity</b>   | <b>—</b>            | <b>—</b>          | <b>—</b>          | <b>—</b>            | <b>—</b>            | <b>1,104,203</b>    | <b>1,104,203</b>    |
| <b>Total liabilities and shareholders' equity</b>                             | <b>\$ 2,399,709</b> | <b>\$ 644,117</b> | <b>\$ 820,488</b> | <b>\$ 1,894,359</b> | <b>\$ 713,550</b>   | <b>\$ 3,309,724</b> | <b>\$ 9,781,947</b> |
| Interest sensitivity gap  | \$ 820,880          | \$ (344,010)      | \$ (352,055)      | \$ 613,761          | \$ 1,104,324        | \$ (1,842,900)      |                     |
| Cumulative interest sensitivity gap   |                     | \$ 476,870        | \$ 124,815        | \$ 738,576          | \$ 1,842,900        | \$ —                |                     |
| Cumulative interest sensitivity gap to total assets                           | 8.4%                | 4.9%              | 1.3%              | 7.6%                | 18.8%               | 0.0%                |                     |
| Cumulative interest-earning assets to cumulative interest-bearing liabilities | 136.4%              | 118.6%            | 107.2%            | 124.9%              | 144.5%              | 123.2%              |                     |

(a) Includes loans held for sale

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

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

Item 8. Financial Statements and Supplementary Data



Financial statements for the three years ended  
December 31, 2018, 2017 and 2016

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## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Customers Bancorp, Inc.  
Wyomissing, Pennsylvania

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Customers Bancorp, Inc. (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 1, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

Philadelphia, Pennsylvania  
March 1, 2019

## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
Customers Bancorp, Inc.  
Wyomissing, Pennsylvania

### Opinion on Internal Control over Financial Reporting

We have audited Customers Bancorp, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of Customers Bancorp, Inc. (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 1, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP  
Philadelphia, Pennsylvania  
March 1, 2019

**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands, except share and per share data)

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| <b>ASSETS</b>  |                     |                     |
| Cash and due from banks  | \$ 17,696           | \$ 20,388           |
| Interest earning deposits  | 44,439              | 125,935             |
| Cash and cash equivalents  | 62,135              | 146,323             |
| Investment securities available for sale, at fair value  | 665,012             | 471,371             |
| Loans held for sale (includes \$1,507 and \$1,886, respectively, at fair value)  | 1,507               | 146,077             |
| Loans receivable, mortgage warehouse, at fair value  | 1,405,420           | 1,793,408           |
| Loans receivable   | 7,138,074           | 6,768,258           |
| Allowance for loan losses  | (39,972)            | (38,015)            |
| Total loans receivable, net of allowance for loan losses   | 8,503,522           | 8,523,651           |
| FHLB, Federal Reserve Bank, and other restricted stock   | 89,685              | 105,918             |
| Accrued interest receivable  | 32,955              | 27,021              |
| Bank premises and equipment, net   | 11,063              | 11,955              |
| Bank-owned life insurance  | 264,559             | 257,720             |
| Other real estate owned  | 816                 | 1,726               |
| Goodwill and other intangibles   | 16,499              | 16,295              |
| Other assets   | 185,672             | 131,498             |
| <b>Total assets</b>  | <b>\$ 9,833,425</b> | <b>\$ 9,839,555</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                     |                     |
| Liabilities:   |                     |                     |
| Deposits:  |                     |                     |
| Demand, non-interest bearing   | \$ 1,122,171        | \$ 1,052,115        |
| Interest bearing   | 6,020,065           | 5,748,027           |
| Total deposits   | 7,142,236           | 6,800,142           |
| Federal funds purchased  | 187,000             | 155,000             |
| FHLB advances  | 1,248,070           | 1,611,860           |
| Other borrowings   | 123,871             | 186,497             |
| Subordinated debt  | 108,977             | 108,880             |
| Accrued interest payable and other liabilities   | 66,455              | 56,212              |
| Total liabilities  | 8,876,609           | 8,918,591           |
| Commitments and contingencies (NOTE 16)  |                     |                     |
| Shareholders' equity:  |                     |                     |
| Preferred stock, par value \$1.00 per share; liquidation preference \$25.00 per share; 100,000,000 shares authorized, 9,000,000 shares issued and outstanding as of December 31, 2018 and 2017                                   | 217,471             | 217,471             |
| Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 32,252,488 and 31,912,763 shares issued as of December 31, 2018 and 2017; 31,003,028 and 31,382,503 shares outstanding as of December 31, 2018 and 2017 | 32,252              | 31,913              |
| Additional paid in capital   | 434,314             | 422,096             |
| Retained earnings  | 316,651             | 258,076             |
| Accumulated other comprehensive loss, net  | (22,663)            | (359)               |
| Treasury stock, at cost (1,249,460 and 530,260 shares as of December 31, 2018 and 2017)  | (21,209)            | (8,233)             |
| Total shareholders' equity   | 956,816             | 920,964             |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 9,833,425</b> | <b>\$ 9,839,555</b> |

See accompanying notes to the consolidated financial statements.

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

|   | For the Years Ended December 31, |            |            |
|---|----------------------------------|------------|------------|
|   | 2018                             | 2017       | 2016       |
| <b>Interest income:</b>                                 |                                  |            |            |
| Loans   | \$ 373,234                       | \$ 339,936 | \$ 302,818 |
| Investment securities                                   | 33,209                           | 25,153     | 14,293     |
| Other   | 11,508                           | 7,761      | 5,428      |
| Total interest income                                   | 417,951                          | 372,850    | 322,539    |
| <b>Interest expense:</b>                                |                                  |            |            |
| Deposits  | 110,808                          | 67,582     | 48,268     |
| Other borrowings  | 11,486                           | 10,056     | 6,438      |
| FHLB advances   | 31,043                           | 21,130     | 11,597     |
| Subordinated debt                                       | 6,737                            | 6,739      | 6,739      |
| Total interest expense                                  | 160,074                          | 105,507    | 73,042     |
| Net interest income                                     | 257,877                          | 267,343    | 249,497    |
| Provision for loan losses                               | 5,642                            | 6,768      | 3,041      |
| Net interest income after provision for loan losses     | 252,235                          | 260,575    | 246,456    |
| <b>Non-interest income:</b>                             |                                  |            |            |
| Interchange and card revenue                            | 30,695                           | 41,509     | 24,681     |
| Deposit fees  | 7,824                            | 10,039     | 8,067      |
| Bank-owned life insurance                               | 7,620                            | 7,219      | 4,736      |
| Mortgage warehouse transactional fees                   | 7,158                            | 9,345      | 11,547     |
| Commercial lease income                                 | 5,354                            | 647        | —          |
| Gains on sale of SBA and other loans                    | 3,294                            | 4,223      | 3,685      |
| Mortgage banking income                                 | 606                              | 875        | 969        |
| Impairment loss on investment securities                | —                                | (12,934)   | (7,262)    |
| Gain (loss) on sale of investment securities            | (18,659)                         | 8,800      | 25         |
| Other   | 15,106                           | 9,187      | 9,922      |
| Total non-interest income                               | 58,998                           | 78,910     | 56,370     |
| <b>Non-interest expense:</b>                            |                                  |            |            |
| Salaries and employee benefits                          | 104,841                          | 95,518     | 80,641     |
| Technology, communication and bank operations           | 44,454                           | 45,885     | 26,839     |
| Professional services                                   | 20,237                           | 28,051     | 20,684     |
| Occupancy   | 11,809                           | 11,161     | 10,327     |
| FDIC assessments, non-income taxes, and regulatory fees | 8,642                            | 7,906      | 13,097     |
| Provision for operating losses                          | 5,616                            | 6,435      | 3,517      |
| Merger and acquisition related expenses                 | 4,391                            | 410        | 1,195      |
| Commercial lease depreciation                           | 4,388                            | 522        | —          |
| Advertising and promotion                               | 2,446                            | 1,470      | 1,549      |
| Loan workout  | 2,183                            | 2,366      | 2,063      |
| Other real estate owned                                 | 449                              | 570        | 1,953      |
| Other   | 10,723                           | 15,312     | 16,366     |
| Total non-interest expense                              | 220,179                          | 215,606    | 178,231    |
| Income before income tax expense                        | 91,054                           | 123,879    | 124,595    |
| Income tax expense                                      | 19,359                           | 45,042     | 45,893     |
| <b>Net income</b>                                       | 71,695                           | 78,837     | 78,702     |
| <b>Preferred stock dividends</b>                        | 14,459                           | 14,459     | 9,515      |
| <b>Net income available to common shareholders</b>      | \$ 57,236                        | \$ 64,378  | \$ 69,187  |
| Basic earnings per common share                         | \$ 1.81                          | \$ 2.10    | \$ 2.51    |
| Diluted earnings per common share                       | \$ 1.78                          | \$ 1.97    | \$ 2.31    |

See accompanying notes to the consolidated financial statements.

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

|  | For the Years Ended December 31, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2018                             | 2017             | 2016             |
| Net income   | \$ 71,695                        | \$ 78,837        | \$ 78,702        |
| Unrealized gains (losses) on available-for-sale securities:            |                                  |                  |                  |
| Unrealized (losses) gains arising during the period                    | (46,069)                         | 12,266           | (3,335)          |
| Income tax effect  | 11,978                           | (4,378)          | 1,317            |
| Reclassification adjustments for losses (gains) included in net income | 18,659                           | (8,800)          | 7,237            |
| Income tax effect  | (4,851)                          | 3,432            | (2,714)          |
| Net unrealized (losses) gains on available-for-sale securities         | (20,283)                         | 2,520            | 2,505            |
| Unrealized gains (losses) on cash flow hedges:                         |                                  |                  |                  |
| Unrealized gains (losses) arising during the period                    | 1,995                            | 666              | (1,093)          |
| Income tax effect  | (518)                            | (260)            | 464              |
| Reclassification adjustment for (gains) losses included in net income  | (2,917)                          | 2,634            | 1,946            |
| Income tax effect  | 758                              | (1,027)          | (730)            |
| Net unrealized (losses) gains on cash flow hedges                      | (682)                            | 2,013            | 587              |
| Other comprehensive (loss) income, net of income tax effect            | (20,965)                         | 4,533            | 3,092            |
| <b>Comprehensive income</b>  | <b>\$ 50,730</b>                 | <b>\$ 83,370</b> | <b>\$ 81,794</b> |

See accompanying notes to the consolidated financial statements.

**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Years Ended December 31, 2018, 2017 and 2016**  
(amounts in thousands, except share data)

|   | Preferred Stock                             |                 | Common Stock                             |              | Additional Paid<br>in Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive Income<br>(Loss) | Treasury<br>Stock | Total      |
|---|---|-----------------|--|--------------|-------------------------------|----------------------|---|-------------------|------------|
|   | Shares of<br>Preferred Stock<br>Outstanding | Preferred Stock | Shares of<br>Common Stock<br>Outstanding | Common Stock |                               |                      |   |                   |            |
| <b>Balance, December 31, 2015</b>   | 2,300,000                                   | \$ 55,569       | 26,901,801                               | \$ 27,432    | \$ 362,607                    | \$ 124,511           | \$ (7,984)  | \$ (8,233)        | \$ 553,902 |
| Net income  | —   | —               | —  | —            | —                             | 78,702               | —   | —                 | 78,702     |
| Other comprehensive income  | —   | —               | —  | —            | —                             | —                    | 3,092   | —                 | 3,092      |
| Issuance of common stock,<br>net of offering costs of<br>\$2,238  | —   | —               | 2,641,677                                | 2,642        | 61,389                        | —                    | —   | —                 | 64,031     |
| Issuance of preferred stock,<br>net of offering costs of<br>\$5,598   | 6,700,000                                   | 161,902         | —  | —            | —                             | —                    | —   | —                 | 161,902    |
| Preferred stock dividends   | —   | —               | —  | —            | —                             | (9,515)              | —   | —                 | (9,515)    |
| Share-based compensation<br>expense   | —   | —               | —  | —            | 6,189                         | —                    | —   | —                 | 6,189      |
| Exercise of warrants  | —   | —               | 345,414                                  | 345          | 1,186                         | —                    | —   | —                 | 1,531      |
| Issuance of common stock<br>under share-based-<br>compensation arrangements   | —   | —               | 401,025                                  | 401          | (4,363)                       | —                    | —   | —                 | (3,962)    |
| <b>Balance, December 31, 2016</b>   | 9,000,000                                   | 217,471         | 30,289,917                               | 30,820       | 427,008                       | 193,698              | (4,892)   | (8,233)           | 855,872    |
| Net income  | —   | —               | —  | —            | —                             | 78,837               | —   | —                 | 78,837     |
| Other comprehensive income  | —   | —               | —  | —            | —                             | —                    | 4,533   | —                 | 4,533      |
| Preferred stock dividends   | —   | —               | —  | —            | —                             | (14,459)             | —   | —                 | (14,459)   |
| Share-based compensation<br>expense   | —   | —               | —  | —            | 6,088                         | —                    | —   | —                 | 6,088      |
| Exercise of warrants  | —   | —               | 74,161                                   | 74           | 985                           | —                    | —   | —                 | 1,059      |
| Issuance of common stock<br>under share-based-<br>compensation arrangements   | —   | —               | 1,018,425                                | 1,019        | (11,985)                      | —                    | —   | —                 | (10,966)   |
| <b>Balance, December 31, 2017</b>   | 9,000,000                                   | 217,471         | 31,382,503                               | 31,913       | 422,096                       | 258,076              | (359)   | (8,233)           | 920,964    |
| Reclassification of the income<br>tax effects of the Tax Cuts<br>and Jobs Act from<br>accumulated other<br>comprehensive loss | —   | —               | —  | —            | —                             | 298                  | (298)   | —                 | —          |
| Reclassification of net<br>unrealized gains on equity<br>securities from accumulated<br>other comprehensive loss              | —   | —               | —  | —            | —                             | 1,041                | (1,041)   | —                 | —          |
| Net income  | —   | —               | —  | —            | —                             | 71,695               | —   | —                 | 71,695     |
| Other comprehensive loss  | —   | —               | —  | —            | —                             | —                    | (20,965)  | —                 | (20,965)   |
| Preferred stock dividends   | —   | —               | —  | —            | —                             | (14,459)             | —   | —                 | (14,459)   |
| Share-based compensation<br>expense   | —   | —               | —  | —            | 8,605                         | —                    | —   | —                 | 8,605      |
| Exercise of warrants  | —   | —               | 5,242                                    | 5            | 107                           | —                    | —   | —                 | 112        |
| Issuance of common stock<br>under share-based-<br>compensation arrangements   | —   | —               | 334,483                                  | 334          | 3,506                         | —                    | —   | —                 | 3,840      |
| Repurchase of shares  | —   | —               | (719,200)                                | —            | —                             | —                    | —   | (12,976)          | (12,976)   |
| <b>Balance, December 31,<br/>2018</b>   | 9,000,000                                   | \$ 217,471      | 31,003,028                               | \$ 32,252    | \$ 434,314                    | \$ 316,651           | \$ (22,663)   | \$ (21,209)       | \$ 956,816 |

See accompanying notes to the consolidated financial statements.

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

|  | For the Years Ended December 31, |                   |                   |
|--|----------------------------------|-------------------|-------------------|
|  | 2018                             | 2017              | 2016              |
| <b>Cash Flows from Operating Activities</b>  |                                  |                   |                   |
| Net income   | \$ 71,695                        | \$ 78,837         | \$ 78,702         |
| Adjustments to reconcile net income to net cash provided by operating activities:                    |                                  |                   |                   |
| Provision for loan losses, net of change to FDIC receivable and clawback liability                   | 5,642                            | 6,768             | 3,041             |
| Depreciation and amortization  | 14,157                           | 10,801            | 5,897             |
| Share-based compensation expense   | 9,740                            | 7,167             | 7,069             |
| Deferred taxes   | 9,303                            | 14,820            | (2,579)           |
| Net amortization of investment securities premiums and discounts                                     | 1,403                            | 702               | 891               |
| Unrealized loss recognized on equity securities  | 1,634                            | —                 | —                 |
| Loss (gain) on sale of investment securities   | 18,659                           | (8,800)           | (25)              |
| Impairment loss on investment securities   | —                                | 12,934            | 7,262             |
| Gain on sale of SBA and other loans  | (3,913)                          | (4,898)           | (3,685)           |
| Origination of loans held for sale   | (31,699)                         | (41,172)          | (39,750)          |
| Proceeds from the sale of loans held for sale  | 32,676                           | 40,656            | 42,772            |
| Decrease in FDIC loss sharing receivable net of clawback liability                                   | —                                | —                 | 255               |
| Amortization of fair value discounts and premiums  | 194                              | 88                | 405               |
| Net loss on sales of other real estate owned   | 183                              | 154               | 130               |
| Valuation and other adjustments to other real estate owned   | 153                              | 298               | 1,473             |
| Earnings on investment in bank-owned life insurance  | (7,620)                          | (7,219)           | (4,736)           |
| Increase in accrued interest receivable and other assets   | (34,614)                         | (32,256)          | (11,538)          |
| Increase (decrease) in accrued interest payable and other liabilities                                | 9,881                            | (16,687)          | 5,819             |
| <b>Net Cash Provided by Operating Activities</b>   | <b>97,474</b>                    | <b>62,193</b>     | <b>91,403</b>     |
| <b>Cash Flows from Investing Activities</b>  |                                  |                   |                   |
| Purchases of investment securities available for sale  | (763,242)                        | (796,594)         | (5,000)           |
| Proceeds from maturities, calls and principal repayments on investment securities available for sale | 44,313                           | 48,124            | 64,701            |
| Proceeds from sales of investment securities available for sale                                      | 476,182                          | 769,203           | 2,852             |
| Origination of mortgage warehouse loans  | (27,209,330)                     | (30,084,255)      | (36,091,174)      |
| Proceeds from repayments of mortgage warehouse loans   | 27,597,318                       | 30,407,662        | 35,729,309        |
| Net decrease (increase) in loans   | 59,534                           | (960,372)         | (794,954)         |
| Purchase of loans  | (397,888)                        | (262,641)         | —                 |
| Proceeds from sale of loans  | 110,526                          | 462,518           | 133,104           |
| Purchases of bank-owned life insurance   | —                                | (90,000)          | —                 |
| Proceeds from bank-owned life insurance  | 529                              | 1,418             | 619               |
| Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock              | 16,233                           | (37,510)          | 22,433            |
| Payments to the FDIC on loss sharing agreements  | —                                | —                 | (2,049)           |
| Purchases of leased assets under operating leases  | (37,207)                         | (22,223)          | —                 |
| Purchases of bank premises and equipment   | (1,777)                          | (2,135)           | (5,426)           |
| Proceeds from sales of other real estate owned   | 2,213                            | 1,680             | 1,051             |
| Acquisition and purchase of intangible assets  | (1,502)                          | —                 | (17,000)          |
| <b>Net Cash Used in Investing Activities</b>   | <b>(104,098)</b>                 | <b>(565,125)</b>  | <b>(961,534)</b>  |
| <b>Cash Flows from Financing Activities</b>  |                                  |                   |                   |
| Net increase (decrease) in deposits  | 342,094                          | (503,633)         | 1,394,276         |
| Net (decrease) increase in short-term borrowed funds from the FHLB                                   | (363,790)                        | 743,060           | (831,500)         |
| Net increase in federal funds purchased  | 32,000                           | 72,000            | 13,000            |
| Proceeds from long-term FHLB borrowings  | —                                | —                 | 75,000            |
| Repayments of long-term debt   | (63,250)                         | —                 | —                 |
| Proceeds from issuance of long-term debt   | —                                | 98,564            | —                 |
| Net proceeds from issuance of preferred stock  | —                                | —                 | 161,902           |
| Preferred stock dividends paid   | (14,459)                         | (14,459)          | (9,051)           |
| Exercise of warrants   | 112                              | 1,059             | 1,532             |
| Purchase of treasury stock   | (12,976)                         | —                 | —                 |
| Payment of employee taxes withheld from share-based awards   | (880)                            | (14,761)          | (5,897)           |
| Net proceeds from issuance of common stock   | 3,585                            | 2,716             | 70,985            |
| <b>Net Cash (Used in) Provided by Financing Activities</b>   | <b>(77,564)</b>                  | <b>384,546</b>    | <b>870,247</b>    |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>  | <b>(84,188)</b>                  | <b>(118,386)</b>  | <b>116</b>        |
| <b>Cash and Cash Equivalents – Beginning</b>   | <b>146,323</b>                   | <b>264,709</b>    | <b>264,593</b>    |
| <b>Cash and Cash Equivalents – Ending</b>  | <b>\$ 62,135</b>                 | <b>\$ 146,323</b> | <b>\$ 264,709</b> |

(continued)

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

|   | For the Years Ended December 31, |            |           |
|---|----------------------------------|------------|-----------|
|   | 2018                             | 2017       | 2016      |
| <b>Supplementary Cash Flow Information</b>                  |                                  |            |           |
| Interest paid   | \$ 160,384                       | \$ 101,575 | \$ 71,216 |
| Income taxes paid   | 4,794                            | 40,282     | 57,251    |
| <b>Non-cash Items:</b>                                      |                                  |            |           |
| Transfer of loans to other real estate owned                | \$ 1,639                         | \$ 750     | \$ 703    |
| Transfer of loans from held for investment to held for sale | —                                | 150,638    | —         |
| Transfer of loans from held for sale to held for investment | 129,691                          | —          | 25,118    |

See accompanying notes to the consolidated financial statements.



**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 – DESCRIPTION OF THE BUSINESS**

Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank (the “Bank”), collectively referred to as “Customers” herein. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank, and non-bank subsidiaries, serve residents and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties); Rye Brook, New York (Westchester County); Hamilton, New Jersey (Mercer County); Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire (Rockingham County); Manhattan and Melville, New York; Washington D.C.; Chicago, Illinois; and nationally for certain loan and deposit products. The Bank has 13 full-service branches and provides commercial banking products, primarily loans and deposits. In addition, Customers Bank also administratively supports loan and other financial products, including equipment finance leases, to customers through its limited-purpose offices in Boston, Massachusetts; Providence, Rhode Island; Portsmouth, New Hampshire; Manhattan and Melville, New York; Philadelphia, Pennsylvania; Washington D.C.; and Chicago, Illinois. The Bank also provides liquidity to residential mortgage originators nationwide through commercial loans for mortgage companies. Through BankMobile, a division of Customers Bank, Customers offers state of the art high tech digital banking services to consumers, students, and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners.

Customers Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities. Customers Bancorp has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION****Basis of Presentation**

The accounting and reporting policies of Customers Bancorp, Inc. and subsidiaries are in conformity with U.S. GAAP and predominant practices of the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, credit deterioration and expected cash flows of purchased-credit-impaired loans, valuation of deferred tax assets, OTTI losses on securities, fair values of financial instruments, fair value of share-based compensation awards and annual goodwill and intangible asset impairment analysis.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the parent company and its wholly owned subsidiaries, including Customers Bank, CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd., as well as Customers Bank's wholly owned subsidiaries, BankMobile Technologies, Inc., Customers Commercial Finance, LLC and Devon Service PA LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents and Statements of Cash Flows**

Cash and cash equivalents include cash on hand, amounts due from banks and interest-bearing deposits with banks with a maturity date of three months or less and are recorded at cost. The carrying value of cash and cash equivalents is a reasonable estimate of its approximate fair value. Changes in the balances of cash and cash equivalents are reported on the consolidated statements of cash flows. Cash receipts from the repayment or sale of loans are classified within the statement of cash flows based on management's original intent upon origination of the loan, as prescribed by accounting guidance related to the statement of cash flows. Commercial mortgage warehouse loans are classified as held for investment and presented at "Loans receivable, mortgage warehouse, at fair value" on the consolidated balance sheets and the cash flow activities associated with these commercial mortgage warehouse lending activities are reported as investing activities on the consolidated statements of cash flows.

## Restrictions on Cash and Amounts due from Banks

Customers Bank is required to maintain average balances at a certain level of cash and amounts on deposit with the Federal Reserve Bank. Customers Bank generally maintains balances in excess of the required levels at the Federal Reserve Bank. At December 31, 2018 and 2017, these required reserve balances were \$58.4 million and \$164.7 million, respectively.

## Business Combinations

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, *Business Combinations*. Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at their fair values as of the date of acquisition and are recognized separately from goodwill. The results of operations of the acquired entity are included in the consolidated statement of income from the date of acquisition. Customers recognizes goodwill when the acquisition price exceeds the estimated fair value of the net assets acquired.

## Investment Securities

Customers acquires securities, largely mortgage-backed securities and corporate notes, to effectively utilize cash and capital and to generate earnings. Security transactions are recorded as of the trade date. Debt securities are classified at the time of acquisition as available for sale, HTM or trading, and their classification determines the accounting as follows:

*Available for sale:* Investment securities classified as available for sale are those debt securities that Customers intends to hold for an indefinite period of time but not necessarily to maturity. Investment securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in AOCI, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings and recorded on the trade date. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

*Held to maturity:* Investment securities classified as HTM are those debt securities that Customers has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premiums and accretion of discounts, computed by a method which approximates the interest method over the terms of the securities. There were no securities classified as HTM as of December 31, 2018 and 2017.

*Equity securities:* Equity securities are carried at their fair value, with changes in fair value reported in income beginning in 2018. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. For years ended December 31, 2017 and prior, equity securities were classified as available for sale and carried at fair value, with unrealized gains or losses reported as increases or decreases in AOCI, net of the related deferred tax effect.

For available-for-sale and held-to-maturity debt securities, management periodically assesses whether the securities are other than temporarily impaired. OTTI means that management believes a security's decline in fair value below its amortized cost basis is due to factors that could include the issuer's inability to pay interest or dividends, its potential for default and/or other factors. When a held-to-maturity or available-for-sale debt security is assessed for OTTI, management has to first consider (a) whether Customers intends to sell the security, and (b) whether it is more likely than not that Customers will be required to sell the security prior to recovery of its amortized cost basis.

If one of these circumstances applies to a security, an OTTI loss is recognized in the consolidated statements of income equal to the full amount of the decline in fair value below the amortized cost basis. If neither of these circumstances applies to a security, but Customers does not expect to recover the entire amortized cost basis, an OTTI has occurred that must be separated into two categories for debt securities: (a) the amount related to a credit loss and (b) the amount related to other factors. In determining the amount of OTTI attributable to credit loss, management compares the present value of cash flows expected to be collected to the amortized cost basis of the security. The portion of the total OTTI attributed to a credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows expected to be collected), while the amount related to all other factors is recognized in AOCI. The total OTTI loss is presented in the statement of income, less the portion recognized in AOCI. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

On January 1, 2018, Customers adopted the new accounting standard for financial instruments, which requires equity securities to be measured at fair value, except those accounted for under the equity method of accounting, with changes in fair value recognized in earnings in the period in which they occur and will no longer be deferred in AOCI. The adoption of this guidance resulted in an \$1.0 million increase to beginning retained earnings and a \$1.0 million decrease to beginning AOCI.

## Loan Accounting Framework

The accounting for a loan depends on management's strategy for the loan and on whether the loan was credit impaired at the date of acquisition. The Bank accounts for loans based on the following categories:

- Loans held for sale,
- Loans at fair value,
- Loans receivable and
- Purchased loans.

The discussion that follows describes the accounting for loans in these categories.

### Loans Held for Sale and Loans at Fair Value

Loans originated or acquired by Customers with the intent to sell them in the secondary market are carried either at the lower of cost or fair value, determined in the aggregate, or at fair value, depending upon an election made at the time the loan is originated. These loans are generally sold on a non-recourse basis with servicing released. Gains and losses on the sale of loans accounted for at the lower of cost or fair value are recognized in earnings based on the difference between the proceeds received and the carrying amount of the loans, inclusive of deferred origination fees and costs, if any.

As a result of changes in events and circumstances or developments regarding management's view of the foreseeable future, loans not originated or acquired with the intent to sell may subsequently be designated as held for sale. These loans are transferred to the held-for-sale portfolio at the lower of amortized cost or fair value. When the recorded investment of the loan exceeds its fair value at the date of transfer to the held-for-sale portfolio, the excess will be recognized as a charge against the allowance for loan losses to the extent the loan's reduction in fair value has already been provided for in the allowance for loan losses. Any subsequent lower of cost or fair value adjustments are recognized as a valuation allowance with charges recognized in non-interest income.

Loans originated or acquired by Customers with the intent to sell them for which fair value accounting is elected are reported at fair value, with changes in fair value recognized in earnings in the period in which they occur. Upon sale, any difference between the proceeds received and the carrying amount of the loan is recognized in earnings. No fees or costs related to such loans are deferred, so they do not affect the gain or loss calculation at the time of sale.

An allowance for loan losses is not maintained on loans designated as held for sale or reported at fair value.

### Loans Receivable - Mortgage Warehouse, at Fair Value

Certain mortgage warehouse lending transactions subject to master repurchase agreements are designated as loans receivable, mortgage warehouse and reported at fair value based on an election made to account for the loans at fair value. Pursuant to these agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded loans and receives proceeds directly from third party investors when the loans are sold into the secondary market. Commercial warehouse mortgage loans are classified as held for investment and presented as "Loans receivable, mortgage warehouse, at fair value" on the consolidated balance sheets.

An allowance for loan losses is not maintained on loans reported at fair value.

### Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the level-yield method without anticipating prepayments. Customers is generally amortizing these amounts over the contractual life of the loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on non-accrual status, unpaid accrued interest previously credited to income is reversed. Interest received on non-accrual loans is generally applied against principal until all principal has been recovered. Thereafter, payments are recognized as interest

income until all unpaid amounts have been received. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a minimum of six months, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

### **Purchased Loans**

Customers believes that the varying circumstances under which it purchases loans and the diverse credit quality of loans purchased should drive the decision as to whether loans in a portfolio should be deemed to be PCI loans. Therefore, loan purchases are evaluated on a case-by-case basis to determine the appropriate accounting treatment. Loans acquired that do not have evidence of credit deterioration at the purchase date are accounted for in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs*, and loans acquired with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

#### Loans that are purchased that do not have evidence of credit deterioration

Purchased performing loans are initially recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments. Purchase premiums or discounts are subsequently amortized or accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for acquired performing loans. An allowance for loan losses is recorded for any credit deterioration in these loans subsequent to acquisition.

#### Loans that are purchased that have evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected

For these types of loan purchases, evidence of deteriorated credit quality may include 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 accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference that is not included in the carrying amount of acquired loans. Subsequent to acquisition, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities and other factors that are reflective of current market conditions. Subsequent decreases in expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows will 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 acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of those cash flows.

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

### **Allowance for Loan Losses**

The allowance for loan losses is established as losses that are estimated to have occurred and are recognized through provisions for loan losses. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance for loan losses. The allowance for loan losses is maintained at a level considered appropriate to absorb probable incurred loan losses inherent in the loan portfolio as of the reporting date.

Customers segments its loan portfolio into groups of loans with similar risk characteristics for purposes of estimating the allowance for loan losses.

Customers' loan groups include multi-family, commercial and industrial, owner and non-owner occupied commercial real estate, construction, residential real estate, manufactured housing, other consumer and PCI loans. SBA loans are further

segmented. Customers also further segments its residential real estate portfolio into two classes based upon certain risk characteristics: first-mortgage loans and home equity loans and lines of credit. The remaining loan groups are also considered classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. Additionally, within each loan group the acquired loans that are accounted for under ASC 310-10 are further segmented.

The total allowance for loan losses consists of an allowance for impaired loans, a general allowance for losses and may also include residual non-specific reserve amounts. The allowance for loan losses is maintained at a level considered adequate to provide for losses that are estimated to have been incurred. Management performs a quarterly assessment of the adequacy of the allowance for loan losses, which is based on Customers' past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, peer and industry data and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available. Customers' current methodology for determining the allowance for loan losses is based on historical loss rates, peer and industry data, current economic conditions, risk ratings, allowances on loans identified as impaired and other qualitative adjustments as considered appropriate.

The impaired-loan component of the allowance for loan losses generally relates to loans for which it is probable that Customers will be unable to collect all amounts due according to the contractual terms of the loan agreements. Customers analyzes certain loans in its portfolio for impairment in accordance with ASC 310-10-35. Customers' impaired loans generally include loans that have been (i) placed on non-accrual, (ii) restructured in a TDR, regardless of their payment status and (iii) charged-off to their net realizable value. For such loans, an allowance is established when the (i) discounted cash flows, (ii) collateral value or (iii) the impaired loan estimated fair value is lower than the carrying value of the loan.

The general component of the allowance for loan losses covers groups of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity loans, home equity lines of credit and other consumer loans. These pools of loans are evaluated for loss exposure based upon industry, peer or Customers' historical loss rates for each of these groups of loans. After determining the appropriate historical loss rate for each group of loans, management considers current qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience. The overall effect of these factors is recorded as an adjustment that, as appropriate, increases or decreases the historical loss rate applied to the loan group. The qualitative factors that management generally considers include the following:

- National, regional and local economic and business conditions, including review of changes in the unemployment rate;
- Volume and severity of past-due loans, non-accrual loans and classified loans;
- Lending policies and procedures, including underwriting standards and historically based loss/collection, charge-off and recovery practices;
- Nature and volume of the portfolio;
- Existence and effect of any credit concentrations and changes in the level of such concentrations;
- Risk ratings;
- Changes in the values of collateral for collateral dependent loans;
- Changes in the quality of the loan review system;
- Experience, ability and depth of lending management and staff; and
- Other external factors, such as changes in the legal, regulatory or competitive environment.

A residual reserve may be maintained to cover uncertainties that could affect management's estimate of probable losses. The residual reserve amount reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating credit losses in the loan portfolio.

The discussion that follows describes Customers' underwriting policies for its primary lending activities and its credit monitoring and charge-off practices.

Commercial and industrial loans are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower's ability to repay its obligation as agreed. Commercial and industrial loans are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan facility. Accordingly, the repayment of a commercial and industrial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Construction loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates, in addition to independent appraisal valuations. These loans rely on the value associated with the project upon completion. These cost and valuation amounts used are estimates and may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of the developed property. These loans are closely monitored by on-site inspections and are considered to be of a higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest-rate sensitivity and governmental regulation of real property.

Commercial real estate and multi-family loans are subject to the underwriting standards and processes similar to commercial and industrial loans, in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan, or the principal business conducted on the property securing the loan, to generate sufficient cash flows to service the debt. In addition, the underwriting considers the amount of the principal advanced relative to the property value. Commercial real estate and multi-family loans may be adversely affected by conditions in the real estate markets or the economy in general. Management monitors and evaluates commercial real estate and multi-family loans based on cash flow estimates, collateral valuation and risk-rating criteria. Customers also utilizes third-party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate and multi-family loans.

Residential real estate loans are secured by one-to-four dwelling units. This group is further divided into first mortgage and home equity loans. First mortgages are originated at a loan to value ratio of 80% or less. Home equity loans have additional risks as a result of typically being in a second position or lower in the event collateral is liquidated.

Manufactured housing loans are loans that are secured by the manufactured housing unit where the borrower may or may not own the underlying real estate and therefore have a higher risk than a residential real estate loan.

Other consumer loans consist of loans to individuals originated through Customers' retail network or through purchases and are typically secured by personal property or are unsecured. Consumer loans have a greater credit risk than residential loans because of the difference in the underlying collateral, if any. The application of various federal and state bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

Delinquency status and other borrower characteristics are used to monitor loans and identify credit risks, and the general reserves are established based on the expected net charge-offs, adjusted for qualitative factors.

Charge-offs on commercial and industrial, construction, multi-family and commercial real estate loans are recorded when management estimates that there are insufficient cash flows to repay the contractual loan obligation based upon financial information available and valuation of the underlying collateral. Shortfalls in the underlying collateral value for loans determined to be collateral dependent are charged-off immediately.

Customers also takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or allowance associated with an impaired loan. Accordingly, Customers may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable under the circumstance, and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, Customers may carry a loan at a value that is in excess of the appraised value in certain circumstances, such as when Customers has a guarantee from a borrower that Customers believes has realizable value. In evaluating the strength of any guarantee, Customers evaluates the financial wherewithal of the guarantor, the guarantor's reputation and the guarantor's willingness and desire to work with Customers. Customers then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

Customers records charge-offs for residential real estate, consumer and manufactured housing loans after 120 days of delinquency or sooner when cash flows are determined to be insufficient for repayment. Customers may also charge-off these loans below the net appraised valuation if Customers holds a junior-mortgage position in a piece of collateral whereby the risk to acquiring control of the property through the purchase of the senior-mortgage position is deemed to potentially increase the risk of loss upon liquidation due to the amount of time to ultimately market the property and the volatile market conditions. In such cases, Customers may abandon its junior mortgage and charge-off the loan balance in full.

Estimates of cash flows expected to be collected for PCI loans are updated each reporting period. If Customers estimates decreases in expected cash flows to be collected after acquisition, Customers charges the provision for loan losses and establishes an allowance for loan losses.

### *Credit Quality Factors*

Commercial and industrial, multi-family, commercial real estate and construction loans are each assigned a numerical rating of risk based on an internal risk-rating system. The risk rating is assigned at loan origination and indicates management's estimate of credit quality. Risk ratings are reviewed on a periodic or "as needed" basis. Residential real estate, manufactured housing and other consumer loans are evaluated primarily based on payment activity of the loan. Risk ratings are not established for residential real estate, home equity loans, manufactured housing loans and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history (through the monitoring of delinquency levels and trends). For additional information about credit quality factor ratings refer to NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES.

### *Impaired Loans*

A loan is generally considered impaired when, based on current information and events, it is probable that Customers will be unable to collect all amounts due according to the contractual terms of the loan agreement. Customers' impaired loans generally include loans that have been (i) placed on non-accrual, (ii) restructured in a TDR, regardless of their payment status and (iii) charged-off to their net realizable value. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is generally measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's original effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is measured based on the value of the collateral securing the loans, less estimated costs to liquidate the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of Customers' collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, third-party licensed appraiser using observable market data. The value of business equipment is based upon an outside appraisal if deemed significant or the net book value on the applicable business' financial statements if not considered significant, using observable market data. Similarly, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports.

### **Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the identifiable net assets of businesses acquired through business combinations accounted for under the acquisition method. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as customer and university relationships and non-compete agreements, are amortized over their estimated useful lives and are subject to impairment testing.

Goodwill and other intangible assets are reviewed for impairment annually as of October 31 and between annual tests when events and circumstances indicate that impairment may have occurred. If there is a goodwill impairment charge, it will be the amount by which the reporting unit's carrying amount exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The same one-step impairment test is applied to goodwill at all reporting units. Customers applies a qualitative assessment for its reporting units to determine if the one-step quantitative impairment test is necessary.

Intangible assets subject to amortization are reviewed for impairment under ASC 360 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.

As part of its qualitative assessment, Customers reviewed regional and national trends in current and expected economic conditions, examining indicators such as GDP growth, interest rates and unemployment rates. Customers also considered its own historical performance, expectations of future performance and other trends specific to the banking industry. Based on its qualitative assessment, Customers determined that there was no evidence of impairment on the balance of goodwill and other intangible assets. As of December 31, 2018 and 2017, goodwill and other intangible assets totaled \$ 16.5 million and \$16.3 million, respectively.



**FHLB, Federal Reserve Bank and other restricted stock**

FHLB, Federal Reserve Bank and other restricted stock represents required investment in the capital stock of the FHLB, the Federal Reserve Bank and Atlantic Community Bankers Bank and is carried at cost. Total restricted stock as of December 31, 2018 and 2017, was \$89.7 million and \$105.9 million, respectively, which included \$67.3 million and \$83.7 million, respectively, of FHLB stock.

**Other Real Estate Owned**

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by third-party appraisers, and the real estate is carried at the lower of its carrying amount or fair value less estimated costs to sell. Any declines in the fair value of the real estate properties below the initial cost basis are recorded through a valuation allowance. Increases in the fair value of the real estate properties net of estimated selling costs will reverse the valuation allowance but only up to the costs basis which was established at the initial measurement date. Revenue and expenses from operations and changes in the valuation allowance are included in earnings.

**Bank-Owned Life Insurance**

Bank-owned life insurance policies insure the lives of officers of Customers and name Customers as beneficiary. Non-interest income is generated tax free (subject to certain limitations) from the increase in value of the policies' underlying investments made by the insurance company. Cash proceeds received from the settlement of the bank-owned life insurance policies are tax-free and can be used to partially offset costs associated with employee compensation and benefit programs.

**Bank Premises and Equipment**

Bank premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or estimated useful life, unless extension of the lease term is reasonably assured.

**Lessor Operating Leases**

Leased assets under operating leases are carried at amortized cost net of accumulated depreciation and any impairment charges. The depreciation expense of the leased assets is recognized on a straight-line basis over the contractual term of the leases up to their expected residual value. The expected residual value and, accordingly, the monthly depreciation expense, may change throughout the term of the lease. Operating lease rental income for leased assets is recognized in other non-interest income on a straight-line basis over the lease term. Customers periodically reviews its leased assets for impairment. An impairment loss is recognized if the carrying amount of the leased asset exceeds its fair value and is not recoverable. The carrying amount of leased assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the lease payments and the estimated residual value upon the eventual disposition of the equipment. During 2018, Customers leased various types of equipment to customers within its commercial and industrial loan portfolio. The net carrying value of the leased assets was \$54.5 million and \$21.7 million, which included accumulated depreciation of \$4.8 million and \$0.5 million, as of December 31, 2018 and 2017, respectively, and is presented in other assets in Customers' consolidated balance sheets. As of December 31, 2018, the leases have a weighted-average term of 4.6 years.

The following table presents the future lease nonresidual rental payments due from customers for equipment on operating leases:

|                               | December 31, 2018 |
|-------------------------------|-------------------|
| (amounts in thousands)        |                   |
| 2019                          | \$ 8,347          |
| 2020                          | 9,735             |
| 2021                          | 8,810             |
| 2022                          | 5,815             |
| 2023                          | 3,663             |
| Thereafter                    | 2,518             |
| <b>Total minimum payments</b> | <b>\$ 38,888</b>  |



## Treasury Stock

Common stock purchased for treasury is recorded at cost.

## Income Taxes

Customers accounts for income taxes under the liability method of accounting for income taxes. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Customers determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

A tax position is recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term upon examination includes resolution of the related appeals or litigation process. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

In assessing the realizability of federal or state deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and prudent, feasible and permissible as well as available tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible as well as available tax planning strategies, management believes it is more likely than not that Customers will realize the benefits of these deferred tax assets.

On December 22, 2017, the Tax Act was enacted into law. The Tax Act contained several key tax provisions including the reduction in the corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result, Customers was required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted rate at which it expected them to be recovered or settled. In December 2017, the SEC issued SAB 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which allowed companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. See NOTE 14 - INCOME TAXES for additional information.

## Share-Based Compensation

Customers has four active share-based compensation plans. Share-based-compensation accounting guidance requires that the compensation cost relating to share-based-payment transactions be recognized in earnings. The cost is measured based on the grant-date fair value of the equity instruments issued. The Black-Scholes model is used to estimate the fair value of stock options, while the closing market price of Customers' common stock on the date of grant is generally used for restricted stock awards.

Compensation cost for all share-based awards is calculated and recognized over the team member's service period, generally defined as 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' accounting policy election is to recognize forfeitures as they occur.

In 2014, the shareholders of Customers Bancorp approved an ESPP. Because the purchase price under the plan is 85% (a 15% discount to the market price) of the fair market value of a share of common stock on the first day of each quarterly subscription period, the plan is considered to be a compensatory plan under current accounting guidance. Therefore, the entire amount of the discount is recognizable compensation expense. See NOTE 13 - SHARE-BASED COMPENSATION for additional information.

## Transfers of Financial Assets

Transfers of financial assets, including loan participations sold, are accounted for as sales when control over the assets has been surrendered (settlement date). Control over transferred assets is generally considered to have been surrendered when (i) the

assets have been isolated from Customers, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) Customers does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. If the sale criteria are met, the transferred financial assets are removed from Customers' balance sheet, and a gain or loss on sale is recognized. If the sale criteria are not met, the transfer is recorded as a secured borrowing with the assets remaining on Customers' balance sheet, and the proceeds received from the transaction recognized as a liability.

## Segment Information

In connection with the acquisition of the Disbursement business from Higher One and the combination of that business with the BankMobile technology platform late in second quarter 2016, Customers' chief operating decision makers began allocating resources and assessing performance for two distinct business segments, "Customers Bank Business Banking" and "BankMobile." The Customers Bank Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington D.C., and Illinois through a single point of contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. The BankMobile segment provides state-of-the-art high-tech digital banking and disbursement services to consumers, students and the "under banked" nationwide, along with "Banking as a Service" offerings with existing and potential white label partners. BankMobile, as a division of Customers Bank, is a full service bank that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Prior to third quarter 2016, Customers operated in one business segment, "Community Banking." Additional information regarding reportable segments can be found in NOTE 22 - BUSINESS SEGMENTS.

## Derivative Instruments and Hedging

ASC 815, *Derivatives and Hedging*, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments, (ii) how the entity accounts for derivative instruments and the related hedged items and (c) how derivative instruments and the related hedged items affect an entity's financial position, financial performance and cash flows. Further, qualitative disclosures are required that explain the objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, Customers records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether Customers has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as hedges of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest-rate risk, are considered fair value hedges. Derivatives designated and qualifying as hedges of the exposure to variability in expected future cash flows or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. Customers may enter into derivative contracts that are intended to economically hedge certain of its risks; even though hedge accounting does not apply, or Customers elects not to apply hedge accounting.

Prior to first quarter 2014, none of Customers' financial derivatives were designated in qualifying hedge relationships in accordance with the applicable accounting guidance. As such, all changes in fair value of the financial derivatives were recognized directly in earnings. Beginning in March 2014, Customers entered into pay-fixed interest-rate swaps to hedge the variable cash flows associated with the forecasted issuance of debt. Customers documented and designated these interest-rate swaps as cash flow hedges. The effective portion of changes in the fair value of financial derivatives designated and qualifying as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period in which the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the financial derivatives is recognized directly to interest expense. Amounts reported in AOCI related to financial derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. As of December 31, 2018, Customers had six financial derivatives designated in qualifying cash flow hedge relationships with a notional aggregate balance of \$750.0 million. As of December 31, 2017, Customers had nine financial derivatives designated in qualifying cash flow hedge relationships with a notional aggregate balance of \$550.0 million.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives were not designated in hedge relationships for accounting purposes and are being recorded at their fair value, with fair value changes recorded directly in earnings. At December 31, 2018 and 2017, Customers had an outstanding notional balance of credit derivatives of \$94.9 million and \$80.5 million, respectively.

In accordance with the FASB's fair value measurement guidance, Customers made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. See NOTE 19 - DERIVATIVE INSTRUMENTS for additional information.

### **Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes changes in unrealized gains and losses on debt securities available for sale arising during the period and reclassification adjustments for realized gains and losses on debt securities available for sale included in net income. Other comprehensive income (loss) also includes the effective portion of changes in fair value of financial derivatives designated and qualifying as cash flow hedges. Cash flow hedge amounts classified as comprehensive income are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

### **Earnings per Share**

Basic EPS represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes all potentially dilutive common shares outstanding during the period. Potential common shares that may be issued related to outstanding stock options, restricted stock units and warrants are determined using the treasury stock method.

### **Loss Contingencies**

Loss contingencies, including claims and legal, regulatory and governmental actions and proceedings arise in the ordinary course of business. In accordance with applicable accounting guidance, Customers establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, Customers, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency is deemed to be both probable and estimable, Customers will establish an accrued liability and record a corresponding amount of litigation-related expense. Customers continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements that are not currently accrued for.

### **Collaborative Arrangements**

In the normal course of business, Customers may enter into collaborative arrangements primarily to develop and commercialize banking products to their partners' customers. Collaborative arrangements are contractual agreements with third parties that involve a joint operating activity where both Customers and the collaborating partner are active participants in the activity and are exposed to the significant risks and rewards of the activity. Collaborative activities typically include research and development, technology, product development, marketing, and day-to-day operations of the banking product. These arrangements often require the sharing of revenues and expense. Net interest income, non-interest income, and non-interest expenses incurred pursuant to these arrangements are reported net of any payments due to or amounts due from Customers' collaboration partners. Reimbursement of non-interest expenses are allocated to other non-interest expense and are recognized at the time the collaborative party becomes obligated to pay. Each collaboration is unique in nature.

For the years ended December 31, 2018 and 2017, Customers recognized \$8.4 million and \$2.4 million, respectively, in expense reimbursements from collaborative arrangements. There were no such reimbursements during the year ended December 31, 2016. There was no revenue sharing with partners during the years ended December 31, 2018, 2017, and 2016.

**Recently Issued Accounting Standards****Accounting Standards Adopted in 2018**

Since January 1, 2018, Customers has adopted the following FASB Accounting Standard Updates (“ASUs”), none of which had a material impact to Customers’ consolidated financial statements:

| <b>Standard</b>   | <b>Summary of guidance</b>   | <b>Effects on Financial Statements</b>  |
|---|--|---|
| ASU 2018-13,<br><i>Fair Value (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement</i><br><br>Issued August 2018    | • Eliminates disclosure requirements for the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements.<br>• Clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.<br>• Expands disclosures to include unrealized gains and losses for the period included in OCI for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.<br>• Certain amendments are applied prospectively and retrospectively.<br>• Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted. | • Customers early adopted on September 30, 2018.<br>• The adoption did not have a significant impact on Customers’ financial condition, results of operations and consolidated financial statements.  |
| ASU 2018-03,<br><i>Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)</i><br><br>Issued February 2018  | • Clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with ASC 820, Fair Value Measurement.<br>• Provides clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date.<br>• Effective July 1, 2018 on a prospective basis with early adoption permitted.  | • Customers adopted on July 1, 2018 on a prospective basis.<br>• The adoption did not have a significant impact on Customers’ financial condition, results of operations and consolidated financial statements as Customers currently does not have any significant equity securities without readily determinable fair values.   |
| ASU 2018-02,<br><i>Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income/(Loss)</i><br><br>Issued February 2018 | • Allows for reclassification from AOCI to retained earnings for stranded tax effects resulting from the 2017 Tax Cut and Jobs Act.<br>• Requires an entity to disclose whether it has elected to reclassify stranded tax effects from AOCI to retained earnings and its policy for releasing income tax effects from AOCI.<br>• Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted.  | • Customers early adopted on January 1, 2018.<br>• The adoption resulted in the reclassification of \$0.3 million in stranded tax effects in Customers’ AOCI related to net unrealized losses on its available-for-sale debt securities and cash flow hedges.<br>• The adoption did not have a significant impact on Customers’ financial condition, results of operations and consolidated financial statements. |

**Accounting Standards Adopted in 2018 (continued)**

| Standard  | Summary of guidance   | Effects on Financial Statements   |
|---|---|---|
| <p>ASU 2017-12,<br/><i>Targeted Improvements to Accounting for Hedging Activities</i></p> <p>Issued August 2017</p>   | <p>• Aligns the entity's risk management activities and financial reporting for hedging relationships.</p> <p>• Amends the existing hedge accounting model and expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest-rate risk.</p> <p>• Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line item as the hedge item.</p> <p>• Changes certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness.</p> <p>• Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.</p> <p>• In October 2018, the FASB issued ASU 2018-16 "Derivatives and Hedging (Topic 815): Inclusion of the SOFR OIS Rate as a Benchmark Interest Rate for Hedge Accounting Purposes," which permits the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes.</p> | <p>• Customers early adopted on January 1, 2018.</p> <p>• With the early adoption, Customers is able to pursue additional hedging strategies including the ability to apply fair value hedge accounting to a specified pool of assets by excluding the portion of the hedged items related to prepayments, defaults and other events.</p> <p>• These additional hedging strategies will allow Customers to better align the accounting and financial reporting of its hedging activities with the economic objectives thereby reducing the earnings volatility resulting from these hedging activities.</p> <p>• The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2017-09,<br/><i>Compensation - Stock Compensation: Scope of Modification Accounting</i></p> <p>Issued May 2017</p>   | <p>• Clarifies when to account for a change to the terms or conditions of a share-based-payment award as a modification in ASC 718.</p> <p>• Provides that modification accounting is only required if the fair value, vesting conditions, or the classification of the award as equity or a liability changes as a result of the change in terms or conditions.</p> <p>• Effective January 1, 2018 on a prospective basis for awards modified on or after the adoption date.</p>   | <p>• Customers adopted on January 1, 2018.</p> <p>• The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p>  |
| <p>ASU 2017-05,<br/><i>Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i></p> <p>Issued February 2017</p> | <p>• Clarifies the scope and application of the accounting guidance on the sale of nonfinancial assets to non-customers, including partial sales.</p> <p>• Clarifies that if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20.</p> <p>• Effective January 1, 2018 on a prospective basis.</p>   | <p>• Customers adopted on January 1, 2018.</p> <p>• The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p>  |
| <p>ASU 2017-01,<br/><i>Clarifying the Definition of a Business</i></p> <p>Issued January 2017</p>   | <p>• Narrows the definition of a business and clarifies that to be considered a business, the fair value of gross assets acquired (or disposed of) should not be concentrated in a single identifiable asset or a group of similar identifiable assets.</p> <p>• Also clarifies that in order to be considered a business, an acquisition would have to include an input and a substantive process that together will significantly contribute to the ability to create an output.</p> <p>• Effective January 1, 2018 on a prospective basis.</p>   | <p>• Customers adopted on January 1, 2018.</p> <p>• The adoption did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p>  |
| <p>ASU 2016-18,<br/><i>Statement of Cash Flows: Restricted Cash</i></p> <p>Issued November 2016</p>   | <p>• Requires inclusion of restricted cash in cash and cash equivalents when reconciling the beginning-of-period total amounts shown on the statement of cash flows.</p> <p>• Effective January 1, 2018 and requires retrospective application to all periods presented.</p>  | <p>• Customers adopted on January 1, 2018.</p> <p>• The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore did not result in a retrospective application.</p>  |

**Accounting Standards Adopted in 2018 (continued)**

| Standard   | Summary of guidance  | Effects on Financial Statements   |
|--|--|---|
| <p>ASU 2016-16,<br/><i>Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory</i></p> <p>Issued October 2016</p>                              | <p>ÿ Requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.</p> <p>ÿ Eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use.</p> <p>ÿ Effective January 1, 2018 on a modified retrospective basis.</p>   | <p>ÿ Customers adopted on January 1, 2018.</p> <p>ÿ The adoption of the ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p>   |
| <p>ASU 2016-15,<br/><i>Statement of Cash Flow: Classification of Certain Cash Receipts and Cash Payments</i></p> <p>Issued August 2016</p>                             | <p>ÿ Aims to reduce the existing diversity in practice with regards to the classification of the following specific items in the statement of cash flows:</p> <ol style="list-style-type: none"> <li>1. Cash payments for debt prepayment or debt extinguishment costs should be classified as a financing activity.</li> <li>2. Cash paid by an acquirer soon after a business combination for the settlement of a contingent consideration liability recognized at the acquisition date will be classified in investing activities.</li> <li>3. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (i.e., the nature of the loss).</li> <li>4. Cash proceeds received from the settlement of bank-owned life insurance policies will be classified as cash inflows from investing activities.</li> <li>5. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a non-cash activity, and cash received from beneficial interests will be classified in investing activities.</li> </ol> <p>ÿ Effective January 1, 2018 and requires retrospective application to all periods presented.</p> | <p>ÿ Customers adopted on January 1, 2018.</p> <p>ÿ The adoption did not result in any significant impact on Customers' financial condition, results of operations and consolidated financial statements, including its consolidated statement of cash flows, and therefore it did not result in a retrospective application.</p> |
| <p>ASU 2016-04,<br/><i>Liabilities - Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products</i></p> <p>Issued March 2016</p> | <p>ÿ Requires issuers of prepaid stored-value products (such as gift cards, telecommunication cards, and traveler's checks), to derecognize the financial liability related to those products for breakage. Breakage is the value of prepaid stored-value products that is not redeemed by consumers for goods, services or cash.</p> <p>ÿ The amendments in this ASU provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistent with the breakage guidance in Topic 606.</p> <p>ÿ Effective January 1, 2018 on a modified retrospective basis.</p>  | <p>ÿ Customers adopted on January 1, 2018.</p> <p>ÿ The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p>  |

**Accounting Standards Adopted in 2018 (continued)**

| Standard  | Summary of guidance   | Effects on Financial Statements  |
|---|---|--|
| <p>ASU 2016-01,<br/><i>Recognition and Measurement of Financial Assets and Financial Liabilities</i></p> <p>Issued January 2016</p> | <p>• Requires equity investments with certain exceptions to be measured at fair value with changes in fair value recognized in net income.</p> <p>• Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment.</p> <p>• Eliminates the requirement for public entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.</p> <p>• Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.</p> <p>• Requires an entity to present separately in OCI the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.</p> <p>• Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements.</p> <p>• Clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities.</p> <p>• Effective January 1, 2018 on a modified retrospective basis.</p> | <p>• Customers adopted on January 1, 2018 using a modified retrospective approach.</p> <p>• The adoption of this ASU resulted in a cumulative-effect adjustment that resulted in a \$1.0 million reduction in AOCI and a corresponding increase in retained earnings for the same amount.</p> <p>• The \$1.0 million represented the net unrealized gain on Customers' investment in Religare equity securities at December 31, 2017, as disclosed in NOTE 5 - INVESTMENT SECURITIES.</p> <p>• Customers also refined its calculation to determine the fair value of its held-for- investment loan portfolio for disclosure purposes using an exit price notion as part of adopting this ASU. The refined calculation did not have a significant impact on Customers' fair value disclosures.</p>  |
| <p>ASU 2014-09,<br/><i>Revenue from Contracts with Customers (Topic 606)</i></p> <p>Issued May 2014</p>                             | <p>• Supersedes the revenue recognition requirements in ASC 605.</p> <p>• Requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p> <p>• The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605.</p> <p>• Reframed the structure of the indicators of when an entity is acting as an agent and focused on evidence that an entity is acting as the principal or agent in a revenue transaction.</p> <p>• Requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.</p> <p>• Effective January 1, 2018 and can either be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption (modified retrospective approach).</p>   | <p>• Customers adopted on January 1, 2018 on a modified retrospective basis.</p> <p>• Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), Customers concluded that the new guidance did not have a material impact on the elements of its consolidated statements of operations most closely associated with leases and financial instruments (such as interest income, interest expense and securities gains or losses).</p> <p>• Customers has identified its deposit-related fees, service charges, debit and prepaid card interchange income and university fees to be within the scope of the standard.</p> <p>• Customers has also completed its review of the related contracts and its evaluation of certain costs related to these revenue streams and determined that its debit and prepaid card interchange income, previously reported on a gross basis for periods prior to adoption, will need to be presented on a net basis under this ASU, as Customers is the agent.</p> <p>• The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements. Additional discussion related to the adoption and the required quantitative and qualitative disclosures are included in NOTE 23 - NON-INTEREST REVENUES.</p> |

**Accounting Standards Adopted on January 1, 2019**

| Standard   | Summary of guidance   | Effects on Financial Statements  |
|--|---|--|
| <p>ASU 2018-07,<br/><i>Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting</i></p> <p>Issued June 2018</p>  | <p>ÿ Expands the scope of <i>Topic 718, Compensation - Stock Compensation</i>, which currently only includes share-based payments issued to employees, to also include share-based payments issued to non-employees for goods and services.</p> <p>ÿ Applies to all share-based payment transactions in which a grantor acquires goods or services from non-employees to be used or consumed in a grantor's own operations by issuing share-based payment awards.</p> <p>ÿ With the amended guidance from ASU 2018-07, non-employees share-based payments are measured with an estimate of the fair value of the equity the business is obligated to issue at the grant date (the date that the business and the stock award recipient agree to the terms of the award).</p> <p>ÿ Compensation would be recognized in the same period and in the same manner as if the entity had paid cash for goods or services instead of stock.</p> <p>ÿ Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.</p>         | <p>ÿ Customers adopted this ASU on January 1, 2019. The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2017-11,<br/><i>Accounting for Certain Financial Instruments with Down Round Features</i></p> <p>Issued July 2017</p>                                       | <p>ÿ Changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features.</p> <p>ÿ When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) would no longer be accounted for as a derivative liability at fair value as a result of the existence of a down round feature.</p> <p>ÿ For freestanding equity-classified financial instruments, the amendments require entities to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of net income available to common shareholders in basic EPS.</p> <p>ÿ Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.</p> | <p>ÿ Customers adopted this ASU on January 1, 2019. The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2017-08,<br/><i>Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities</i></p> <p>Issued March 2017</p> | <p>ÿ Requires that premiums for certain callable debt securities held be amortized to their earliest call date.</p> <p>ÿ Effective for Customers beginning after December 15, 2018, with early adoption permitted.</p> <p>ÿ Adoption of this new guidance must be applied on a modified retrospective approach.</p>   | <p>ÿ Customers adopted this ASU on January 1, 2019. The adoption of this ASU did not have a significant impact on Customers' financial condition, results of operations and consolidated financial statements.</p> |



**Accounting Standards Adopted on January 1, 2019 (continued)**

| <b>Standard</b>   | <b>Summary of guidance</b>  | <b>Effects on Financial Statements</b>  |
|---|---|---|
| ASU 2016-02,<br><i>Leases</i><br><br>Issued February 2016 | <p>Ÿ Supersedes the current lease accounting guidance for both lessees and lessors under ASC 840, <i>Leases</i>.</p> <p>Ÿ From the lessee's perspective, the new standard establishes a ROU model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months.</p> <p>Ÿ Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for lessees.</p> <p>Ÿ This ASU will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases.</p> <p>Ÿ Effective beginning after December 15, 2018 with early adoption permitted.</p> <p>Ÿ In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements," which provides lessees the option to apply the new leasing standard to all open leases as of the adoption date. Prior to this ASU issuance, a modified retrospective transition approach was required.</p> <p>Ÿ In December 2018, the FASB issued ASU 2018-20 "Leases (Topic 842): Narrow-Scope Improvements for Lessors," which provides lessors a policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Additionally, the update requires certain lessors to exclude from variable payments lessor costs paid by lessees directly to third parties.</p> | <p>Ÿ Customers adopted this ASU on January 1, 2019.</p> <p>Ÿ Customers recognized a lease liability and a corresponding ROU asset of approximately \$25 million at January 1, 2019. The increase in assets is expected to lower Customers' regulatory capital ratios by approximately four basis points.</p> <p>Ÿ Customers does not expect material changes to the recognition of operating lease expense in its consolidated statements of income.</p> <p>Ÿ Customers adopted certain practical expedients available under the new guidance, which will not require it to (1) reassess whether any expired or existing contracts contain leases, (2) reassess the lease classification for any expired or existing leases, (3) reassess initial direct costs for any existing leases, and (4) evaluate whether certain sales taxes and other similar taxes are lessor costs. Additionally, Customers elected to apply the new lease guidance at the adoption date, rather than at the beginning of the earliest period presented and will continue to present the comparative periods under Topic 840. Customers did not adopt the hindsight practical expedient.</p> |

**Accounting Standards Issued But Not Yet Adopted**

| Standard   | Summary of guidance  | Effects on Financial Statements   |
|--|--|---|
| <p>ASU 2018-18,<br/><i>Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606</i></p> <p>Issued November 2018</p>  | <p>• Clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation, and disclosure requirements.</p> <p>• Adds unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within scope of Topic 606.</p> <p>• Requires that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer.</p> <p>• Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.</p> | <p>• Customers is currently evaluating the expected impact of this ASU on its financial condition, results of operations and consolidated financial statements.</p> |
| <p>ASU 2018-15,<br/><i>Internal-Use Software (Subtopic 350-40): Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i></p> <p>Issued August 2018</p> | <p>• Clarifies that service contracts with hosting arrangements must follow internal-use software guidance Subtopic 350-40 when determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense.</p> <p>• Also clarifies that capitalized implementation costs of a hosting arrangement that is a service contract are to be amortized over the term of the hosting arrangement, which includes the noncancelable period of the arrangement plus options to extend the arrangement if reasonably certain to exercise.</p> <p>• Clarifies that existing impairment guidance in Subtopic 350-40 must be applied to the capitalized implementation costs as if they were long-lived assets.</p> <p>• Applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.</p> <p>• Effective for fiscal year beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption permitted.</p>   | <p>• Customers is currently evaluating the expected impact of this ASU on its financial condition, results of operations and consolidated financial statements.</p> |

| Standard  | Summary of guidance  | Effects on Financial Statements  |
|---|--|--|
| <p>ASU 2016-13,<br/><i>Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments</i></p> <p>Issued June 2016</p> | <p>ÿ Requires an entity to utilize a new impairment model known as the current expected credit loss model to estimate lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the financial asset (including HTM securities), presents the net amount expected to be collected on the financial asset.</p> <p>ÿ Replaces today's "incurred loss" approach and is expected to result in earlier recognition of credit losses.</p> <p>ÿ For available-for-sale debt securities, entities will be required to record allowances for credit losses rather than reduce the carrying amount, as they do today under the OTTI model, and will be allowed to reverse previously established allowances in the event the credit of the issuer improves.</p> <p>ÿ Simplifies the accounting model for PCI debt securities and loans.</p> <p>ÿ Effective beginning after December 15, 2019 with early adoption permitted.</p> <p>ÿ Adoption can be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.</p> | <p>ÿ Customers has established a company-wide, cross-discipline governance structure, which provides implementation oversight and continues evaluating the impact of this ASU and reviewing the loss modeling requirements consistent with lifetime expected loss estimates.</p> <p>ÿ Customers has selected a third-party vendor to assist in the implementation process of its new model, which will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset and will consider expected future changes in macroeconomic conditions.</p> <p>ÿ Customers continues to evaluate data requirements, methodologies, and forecasting options to utilize within the new model. Additionally, Customers is evaluating how to properly segment its loan portfolio.</p> <p>ÿ Customers has completed preliminary runs of the new model and continues to evaluate the results as it prepares to run two methodologies parallel in 2019.</p> <p>ÿ The adoption of this ASU may result in an increase to Customers' allowance for loan losses which will depend upon the nature and characteristics of Customers' loan portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at that date.</p> <p>ÿ Customers does not intend to early adopt this new guidance.</p> |

**NOTE 3 – EARNINGS PER SHARE**

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

|  | For the Years Ended December 31, |            |            |
|--|----------------------------------|------------|------------|
|  | 2018                             | 2017       | 2016       |
| (amounts in thousands, except share and per share data)      |                                  |            |            |
| Net income available to common shareholders                  | \$ 57,236                        | \$ 64,378  | \$ 69,187  |
| Weighted-average number of common shares outstanding – basic | 31,570,118                       | 30,659,320 | 27,596,020 |
| Share-based compensation plans                               | 658,739                          | 1,917,451  | 2,221,517  |
| Warrants   | 4,241                            | 19,906     | 196,113    |
| Weighted-average number of common shares – diluted           | 32,233,098                       | 32,596,677 | 30,013,650 |
| Basic earnings per common share                              | \$ 1.81                          | \$ 2.10    | \$ 2.51    |
| Diluted earnings per common share                            | 1.78                             | 1.97       | 2.31       |

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

|                                | For the Years Ended December 31, |           |         |
|--------------------------------|----------------------------------|-----------|---------|
|                                | 2018                             | 2017      | 2016    |
| Anti-dilutive securities:      |                                  |           |         |
| Share-based compensation plans | 1,138,251                        | 1,059,225 | 894,720 |
| Warrants                       | —                                | —         | 52,242  |
| Total anti-dilutive securities | 1,138,251                        | 1,059,225 | 946,962 |

**NOTE 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT**

The following table presents the changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2018 and 2017. All amounts are presented net of tax. Amounts in parentheses indicate reductions to AOCI.

| (amounts in thousands)   | Available-for-Sale Securities |                           |                                    | Unrealized Gains<br>(Losses) on Cash<br>Flow Hedges | Total       |
|--|-------------------------------|---------------------------|------------------------------------|---|-------------|
|  | Unrealized Gains<br>(Losses)  | Foreign<br>Currency Items | Total Unrealized<br>Gains (Losses) |   |             |
| Balance, December 31, 2016   | \$ (2,681)                    | \$ —                      | \$ (2,681)                         | \$ (2,211)  | \$ (4,892)  |
| <b>Current period:</b>   |                               |                           |                                    |   |             |
| Other comprehensive income before reclassifications  | 7,800                         | 88                        | 7,888                              | 406   | 8,294       |
| Amounts reclassified from accumulated other comprehensive income to net income <sup>(1)</sup>        | (5,368)                       | —                         | (5,368)                            | 1,607   | (3,761)     |
| Net current-period other comprehensive income  | 2,432                         | 88                        | 2,520                              | 2,013   | 4,533       |
| Balance, December 31, 2017   | (249)                         | 88                        | (161)                              | (198)   | (359)       |
| Reclassification of the income tax effects of the Tax Cuts and Jobs Act <sup>(2)</sup>               | (256)                         | —                         | (256)                              | (42)  | (298)       |
| Reclassification of the of net unrealized gains on equity securities <sup>(2)</sup>                  | (953)                         | (88)                      | (1,041)                            | —   | (1,041)     |
| Balance after reclassification adjustments on January 1, 2018  | (1,458)                       | —                         | (1,458)                            | (240)   | (1,698)     |
| <b>Current period:</b>   |                               |                           |                                    |   |             |
| Other comprehensive income (loss) before reclassifications   | (34,091)                      | —                         | (34,091)                           | 1,477   | (32,614)    |
| Amounts reclassified from accumulated other comprehensive income (loss) to net income <sup>(1)</sup> | 13,808                        | —                         | 13,808                             | (2,159)   | 11,649      |
| Net current-period other comprehensive income (loss)   | (20,283)                      | —                         | (20,283)                           | (682)   | (20,965)    |
| Balance, December 31, 2018   | \$ (21,741)                   | \$ —                      | \$ (21,741)                        | \$ (922)  | \$ (22,663) |

(1) Reclassification amounts for available-for-sale debt securities are reported as gain or loss on sale of investment securities on the consolidated statements of income. During the years ended December 31, 2018 and 2017, reclassification amounts of \$18.7 million (\$13.8 million net of taxes), and \$8.8 million (\$5.4 million net of taxes) were reported as loss and gains on sale of investment securities on the consolidated statements of income, respectively. Impairment losses recorded during the year ended December 31, 2017 were not previously deferred in accumulated other comprehensive income (loss) because Customers decided to sell the securities as of December 31, 2016. Reclassification amounts for cash flow hedges are reported as either interest expense on FHLB advances on the consolidated statements of income or other non-interest income on the consolidated statements of income for gains recognized from the discontinuance of cash flow hedge accounting for certain interest rate swaps. During the year ended December 31, 2018, a reclassification amount of \$95 thousand (\$70 thousand net of taxes) was reported as a reduction to interest expense on FHLB advances on the consolidated statements of income. A reclassification amount of \$2.8 million (\$2.1 million net of taxes) was reported as other non-interest income on the consolidated statements of income from the discontinuance of cash flow hedge accounting for certain interest rate swaps. During the year ended December 31, 2017, a reclassification amount of \$2.6 million (\$1.6 million net of taxes) was reported as interest expense on FHLB advances on the consolidated statements of income.

(2) Amounts reclassified from accumulated other comprehensive income (loss) on January 1, 2018 as a result of the adoption of ASU 2018-02 and ASU 2016-01 resulted in a decrease in accumulated other comprehensive income of \$1.3 million and a corresponding increase in retained earnings for the same amount. See NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for more information.

**NOTE 5 – INVESTMENT SECURITIES**

The amortized cost and approximate fair value of investment securities as of December 31, 2018 and 2017, are summarized as follows:

|  | December 31, 2018 |                              |                               |                   |
|--|-------------------|------------------------------|-------------------------------|-------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
| (amounts in thousands)                                   |                   |                              |                               |                   |
| <b>Available-for-sale debt securities</b>                |                   |                              |                               |                   |
| Agency-guaranteed residential mortgage-backed securities | \$ 311,267        | \$ —                         | \$ (5,893)                    | \$ 305,374        |
| Corporate notes <sup>(1)</sup>                           | 381,407           | 920                          | (24,407)                      | 357,920           |
| Available-for-sale debt securities                       | <u>\$ 692,674</u> | <u>\$ 920</u>                | <u>\$ (30,300)</u>            | <u>663,294</u>    |
| Equity securities <sup>(2)</sup>                         |                   |                              |                               | 1,718             |
| Total investment securities, at fair value               |                   |                              |                               | <u>\$ 665,012</u> |

(1) Includes corporate securities issued by other bank holding companies.

(2) Includes equity securities issued by a foreign entity that are being measured at fair value with changes in fair value recognized directly in earnings effective January 1, 2018 as a result of adopting ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*(see NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for additional information related to the adoption of this new standard).

|   | December 31, 2017 |                              |                               |                   |
|---|-------------------|------------------------------|-------------------------------|-------------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
| (amounts in thousands)  |                   |                              |                               |                   |
| <b>Available-for-sale securities</b>                                |                   |                              |                               |                   |
| Agency-guaranteed residential mortgage-backed securities            | \$ 186,221        | \$ 36                        | \$ (2,799)                    | \$ 183,458        |
| Agency-guaranteed commercial real estate mortgage-backed securities | 238,809           | 432                          | (769)                         | 238,472           |
| Corporate notes <sup>(1)</sup>                                      | 44,959            | 1,130                        | —                             | 46,089            |
| Equity securities <sup>(2)</sup>                                    | 2,311             | 1,041                        | —                             | 3,352             |
| Total available-for-sale securities, at fair value                  | <u>\$ 472,300</u> | <u>\$ 2,639</u>              | <u>\$ (3,568)</u>             | <u>\$ 471,371</u> |

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

(2) Includes equity securities issued by a foreign entity.

The following table shows proceeds from the sale of available-for-sale securities, gross gains and gross losses on those sales of securities:

|   | For the Years Ended December 31, |                 |              |
|---|----------------------------------|-----------------|--------------|
|   | 2018                             | 2017            | 2016         |
| (amounts in thousands)                              |                                  |                 |              |
| Proceeds from sale of available-for-sale securities | \$ 476,182                       | \$ 769,203      | \$ 2,852     |
| Gross gains   | \$ —                             | \$ 8,808        | \$ 26        |
| Gross losses  | (18,659)                         | (8)             | (1)          |
| Net (losses) gains                                  | <u>\$ (18,659)</u>               | <u>\$ 8,800</u> | <u>\$ 25</u> |

These (losses)/gains were determined using the specific identification method and were reported as (loss) gain on sale of investment securities included in non-interest income on the consolidated statements of income.

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

|  | December 31, 2018  |                   |
|--|--------------------|-------------------|
|  | Available for Sale |                   |
|  | Amortized<br>Cost  | Fair<br>Value     |
| (amounts in thousands)                                   |                    |                   |
| Due in one year or less                                  | \$ —               | \$ —              |
| Due after one year through five years                    | —                  | —                 |
| Due after five years through ten years                   | 329,096            | 308,578           |
| Due after ten years                                      | 52,311             | 49,342            |
| Agency-guaranteed residential mortgage-backed securities | 311,267            | 305,374           |
| Total available-for-sale debt securities                 | <u>\$ 692,674</u>  | <u>\$ 663,294</u> |

Gross unrealized losses and fair value of Customers' available-for-sale debt securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017 were as follows:

|  | December 31, 2018   |                      |                   |                      |                   |                      |
|--|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|  | Less than 12 months |                      | 12 months or more |                      | Total             |                      |
|  | Fair Value          | Unrealized<br>Losses | Fair Value        | Unrealized<br>Losses | Fair Value        | Unrealized<br>Losses |
| (amounts in thousands)                                   |                     |                      |                   |                      |                   |                      |
| <b>Available-for-sale debt securities</b>                |                     |                      |                   |                      |                   |                      |
| Agency-guaranteed residential mortgage-backed securities | \$ 305,374          | \$ (5,893)           | \$ —              | \$ —                 | \$ 305,374        | \$ (5,893)           |
| Corporate notes <sup>(1)</sup>                           | 310,036             | (24,407)             | —                 | —                    | 310,036           | (24,407)             |
| Total  | <u>\$ 615,410</u>   | <u>\$ (30,300)</u>   | <u>\$ —</u>       | <u>\$ —</u>          | <u>\$ 615,410</u> | <u>\$ (30,300)</u>   |

(1) Includes corporate securities issued by other bank holding companies.

|  | December 31, 2017   |                      |                   |                      |                   |                      |
|--|---------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|  | Less than 12 months |                      | 12 months or more |                      | Total             |                      |
|  | Fair Value          | Unrealized<br>Losses | Fair Value        | Unrealized<br>Losses | Fair Value        | Unrealized<br>Losses |
| (amounts in thousands)                                   |                     |                      |                   |                      |                   |                      |
| <b>Available-for-sale debt securities</b>                |                     |                      |                   |                      |                   |                      |
| Agency-guaranteed residential mortgage-backed securities | \$ 104,861          | \$ (656)             | \$ 66,579         | \$ (2,143)           | \$ 171,440        | \$ (2,799)           |
| Agency-guaranteed commercial mortgage-backed securities  | 115,970             | (740)                | 6,151             | (29)                 | 122,121           | (769)                |
| Total  | <u>\$ 220,831</u>   | <u>\$ (1,396)</u>    | <u>\$ 72,730</u>  | <u>\$ (2,172)</u>    | <u>\$ 293,561</u> | <u>\$ (3,568)</u>    |

At December 31, 2018, there were twenty-six available-for-sale debt securities with unrealized losses in the less-than-twelve-month category and no available-for-sale debt securities with unrealized losses in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. The unrealized losses on the corporate notes relate to securities with no company specific concentration. The unrealized losses were due to an upward shift in interest rates that resulted in a negative impact on the respective notes' fair value. All amounts related to the mortgage-backed securities and the corporate notes are expected to be recovered when market prices recover or at maturity. 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.

During the year ended December 31, 2017, Customers recorded OTTI losses of \$12.9 million related to its equity holdings in Religare Enterprises, Ltd. ("Religare") for the full amount of the decline in fair value from the cost basis established at December 31, 2016 through September 30, 2017, because Customers no longer has the intent to hold these securities until a

recovery in fair value. At December 31, 2017, the fair value of the Religare equity securities was \$3.4 million which resulted in an unrealized gain of \$1.0 million being recognized in AOCI with no adjustment for deferred taxes as Customers did not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare investment. At December 31, 2018, Customers continues to not have a tax strategy in place capable of generating sufficient capital gains to utilize any capital losses resulting from the Religare impairment.

As described in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, the adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, on January 1, 2018 resulted in a cumulative effect adjustment to Customers' consolidated balance sheet with a \$1.0 million reduction in AOCI and a corresponding increase in retained earnings related to the December 31, 2017 unrealized gain on the Religare equity securities. In accordance with the new accounting guidance, changes in the fair value of the Religare equity securities since adoption are recorded directly in earnings, which resulted in an unrealized loss of \$1.6 million being recognized in other non-interest income in the accompanying consolidated statements of income for the year ended December 31, 2018. At December 31, 2018, the fair value of the Religare equity securities was \$1.7 million.

At December 31, 2018 and 2017, Customers Bank had pledged investment securities with fair values aggregating to \$23.0 million and \$16.9 million, respectively, as collateral against its borrowings primarily with the FHLB and an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

At December 31, 2018, and 2017, no securities holdings of any one issuer, other than the U.S. Government and its agencies, amounted to greater than 10% of shareholder's equity.

#### NOTE 6 – LOANS HELD FOR SALE

The composition of loans held for sale as of December 31, 2018 and 2017, was as follows:

|  | December 31, |                |
|--|--------------|----------------|
|  | 2018         | 2017           |
| <small>(amounts in thousands)</small>              |              |                |
| <b>Commercial loans:</b>                           |              |                |
| Multi-family loans, at lower of cost or fair value | \$ —         | \$ 144,191     |
| <b>Total commercial loans held for sale</b>        | <b>—</b>     | <b>144,191</b> |
| <b>Consumer loans:</b>                             |              |                |
| Residential mortgage loans, at fair value          | 1,507        | 1,886          |
| Loans held for sale                                | \$ 1,507     | \$ 146,077     |

Effective March 31, 2018, Customers Bank transferred \$129.7 million of multi-family loans from loans held for sale to loans receivable (held for investment) because the Bank no longer has the intent to sell these loans. Customers Bank transferred these loans at their carrying value, which approximated their fair value at the time of transfer.

Effective June 30, 2017, Customers Bank transferred \$150.6 million of multi-family loans from loans receivable (held for investment) to loans held for sale. Customers Bank transferred these loans at their carrying value, which was lower than the estimated fair value at the time of transfer. At December 31, 2017, the carrying value of these loans approximates their fair value. Accordingly, a lower of cost or fair value adjustment was not recorded as of December 31, 2017. See NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION for more information on the reclassification of loans previously reported as held for sale.



**NOTE 7 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES**

The following table presents loans receivable as of December 31, 2018 and 2017:

|   | December 31, |              |
|---|--------------|--------------|
|   | 2018         | 2017         |
| <i>(amounts in thousands)</i>   |              |              |
| Loans receivable, mortgage warehouse, at fair value                         | \$ 1,405,420 | \$ 1,793,408 |
| Loans receivable:   |              |              |
| Commercial:   |              |              |
| Multi-family  | 3,285,297    | 3,502,381    |
| Commercial and industrial (including owner occupied commercial real estate) | 1,951,277    | 1,633,818    |
| Commercial real estate non-owner occupied                                   | 1,125,106    | 1,218,719    |
| Construction  | 56,491       | 85,393       |
| Total commercial loans receivable   | 6,418,171    | 6,440,311    |
| Consumer:   |              |              |
| Residential real estate   | 566,561      | 234,090      |
| Manufactured housing  | 79,731       | 90,227       |
| Other   | 74,035       | 3,547        |
| Total consumer loans receivable   | 720,327      | 327,864      |
| Loans receivable  | 7,138,498    | 6,768,175    |
| Deferred (fees) costs and unamortized (discounts) premiums, net             | (424)        | 83           |
| Allowance for loan losses   | (39,972)     | (38,015)     |
| Total loans receivable, net of allowance for loan losses                    | \$ 8,503,522 | \$ 8,523,651 |

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

*Loans receivable, mortgage warehouse, at fair value:*

Mortgage warehouse loans consist of commercial loans to mortgage companies. These mortgage warehouse lending transactions are subject to master repurchase agreements. As a result of the contractual provisions, for accounting purposes control of the underlying mortgage loan has not transferred and the rewards and risks of the mortgage loans are not assumed by Customers. The mortgage warehouse loans receivable are designated as loans held for investment and reported at fair value based on an election made to account for the loans at fair value. Pursuant to the agreements, Customers funds the pipelines for these mortgage lenders by sending payments directly to the closing agents for funded mortgage loans and receives proceeds directly from third party investors when the underlying mortgage loans are sold into the secondary market. The fair value of the mortgage warehouse loans is estimated as the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The interest rates on these loans are variable, and the lending transactions are short-term, with an average life of 23 days from purchase to sale. The primary goal of these lending transactions is to provide liquidity to mortgage companies.

At December 31, 2018 and 2017, all of Customers' commercial mortgage warehouse loans were current in terms of payment. As these loans are reported at their fair value, they do not have an allowance for loan loss and are therefore excluded from allowance for loan losses related disclosures.

**Loans receivable:**

The following tables summarize loans receivable by loan type and performance status as of December 31, 2018 and 2017:

|   | December 31, 2018                  |   |                               |                  |                        |  |                            |
|---|------------------------------------|---|-------------------------------|------------------|------------------------|--|----------------------------|
|   | 30-89 Days Past Due <sup>(1)</sup> | 90 Days or More Past Due <sup>(1)</sup> | Total Past Due <sup>(1)</sup> | Non- Accrual     | Current <sup>(2)</sup> | Purchased-Credit-Impaired Loans <sup>(3)</sup> | Total Loans <sup>(4)</sup> |
| (amounts in thousands)                    |                                    |   |                               |                  |                        |  |                            |
| Multi-family                              | \$ —                               | \$ —                                    | \$ —                          | \$ 1,155         | \$ 3,282,452           | \$ 1,690                                       | \$ 3,285,297               |
| Commercial and industrial                 | 1,914                              | —                                       | 1,914                         | 17,764           | 1,353,586              | 536  | 1,373,800                  |
| Commercial real estate owner occupied     | 193                                | —                                       | 193                           | 1,037            | 567,809                | 8,438  | 577,477                    |
| Commercial real estate non-owner occupied | 1,190                              | —                                       | 1,190                         | 129              | 1,119,443              | 4,344  | 1,125,106                  |
| Construction                              | —                                  | —                                       | —                             | —                | 56,491                 | —  | 56,491                     |
| Residential real estate                   | 5,940                              | —                                       | 5,940                         | 5,605            | 550,679                | 4,337  | 566,561                    |
| Manufactured housing <sup>(5)</sup>       | 3,926                              | 2,188                                   | 6,114                         | 1,693            | 69,916                 | 2,008  | 79,731                     |
| Other consumer                            | 200                                | —                                       | 200                           | 111              | 73,503                 | 221  | 74,035                     |
| <b>Total</b>                              | <b>\$ 13,363</b>                   | <b>\$ 2,188</b>                         | <b>\$ 15,551</b>              | <b>\$ 27,494</b> | <b>\$ 7,073,879</b>    | <b>\$ 21,574</b>                               | <b>\$ 7,138,498</b>        |

|   | December 31, 2017                  |   |                               |                  |                        |  |                            |
|---|------------------------------------|---|-------------------------------|------------------|------------------------|--|----------------------------|
|   | 30-89 Days Past Due <sup>(1)</sup> | 90 Days or More Past Due <sup>(1)</sup> | Total Past Due <sup>(1)</sup> | Non- Accrual     | Current <sup>(2)</sup> | Purchased-Credit-Impaired Loans <sup>(3)</sup> | Total Loans <sup>(4)</sup> |
| (amounts in thousands)                    |                                    |   |                               |                  |                        |  |                            |
| Multi-family                              | \$ 4,900                           | \$ —                                    | \$ 4,900                      | \$ —             | \$ 3,495,600           | \$ 1,881                                       | \$ 3,502,381               |
| Commercial and industrial                 | 103                                | —                                       | 103                           | 17,392           | 1,130,831              | 764  | 1,149,090                  |
| Commercial real estate owner occupied     | 202                                | —                                       | 202                           | 1,453            | 472,501                | 10,572   | 484,728                    |
| Commercial real estate non-owner occupied | 93                                 | —                                       | 93                            | 160              | 1,213,216              | 5,250  | 1,218,719                  |
| Construction                              | —                                  | —                                       | —                             | —                | 85,393                 | —  | 85,393                     |
| Residential real estate                   | 7,628                              | —                                       | 7,628                         | 5,420            | 215,361                | 5,681  | 234,090                    |
| Manufactured housing <sup>(5)</sup>       | 4,028                              | 2,743                                   | 6,771                         | 1,959            | 78,946                 | 2,551  | 90,227                     |
| Other consumer                            | 116                                | —                                       | 116                           | 31               | 3,184                  | 216  | 3,547                      |
| <b>Total</b>                              | <b>\$ 17,070</b>                   | <b>\$ 2,743</b>                         | <b>\$ 19,813</b>              | <b>\$ 26,415</b> | <b>\$ 6,695,032</b>    | <b>\$ 26,915</b>                               | <b>\$ 6,768,175</b>        |

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

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

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

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

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

As of December 31, 2018 and 2017, the Bank had \$0.2 million and \$0.3 million, respectively, of residential real estate held in OREO. As of December 31, 2018 and 2017, the Bank had initiated foreclosure proceedings on \$2.1 million and \$1.6 million, respectively, in loans secured by residential real estate.

**Allowance for loan losses:**

The changes in the allowance for loan losses for the years ended December 31, 2018 and 2017, and the loans and allowance for loan losses by loan type based on impairment-evaluation method are presented in the tables below.

| <b>Twelve months ended<br/>December 31, 2018</b> | Multi-family | Commercial<br>and Industrial | Commercial<br>Real Estate<br>Owner<br>Occupied | Commercial<br>Real Estate<br>Non-Owner<br>Occupied | Construction | Residential<br>Real Estate | Manufactured<br>Housing | Other<br>Consumer | Total     |
|--|--------------|------------------------------|--|--|--------------|----------------------------|-------------------------|-------------------|-----------|
| (amounts in thousands)                           |              |                              |  |  |              |                            |                         |                   |           |
| Ending Balance,<br>December 31, 2017             | \$ 12,168    | \$ 10,918                    | \$ 3,232                                       | \$ 7,437   | \$ 979       | \$ 2,929                   | \$ 180                  | \$ 172            | \$ 38,015 |
| Charge-offs                                      | —            | (1,722)                      | (747)  | —  | —            | (466)                      | —                       | (1,822)           | (4,757)   |
| Recoveries                                       | —            | 403                          | 326  | 5  | 241          | 76                         | —                       | 21                | 1,072     |
| Provision for loan losses                        | (706)        | 2,546                        | 509  | (1,349)  | (596)        | 1,115                      | (35)                    | 4,158             | 5,642     |
| Ending Balance,<br>December 31, 2018             | \$ 11,462    | \$ 12,145                    | \$ 3,320                                       | \$ 6,093   | \$ 624       | \$ 3,654                   | \$ 145                  | \$ 2,529          | \$ 39,972 |

**As of December 31, 2018**

| <b>Loans:</b>                               |              |              |            |              |           |            |           |           |              |
|---|--------------|--------------|------------|--------------|-----------|------------|-----------|-----------|--------------|
| Individually evaluated for<br>impairment    | \$ 1,155     | \$ 17,828    | \$ 1,069   | \$ 129       | \$ —      | \$ 8,631   | \$ 10,195 | \$ 111    | \$ 39,118    |
| Collectively evaluated for<br>impairment    | 3,282,452    | 1,355,436    | 567,970    | 1,120,633    | 56,491    | 553,593    | 67,528    | 73,703    | 7,077,806    |
| Loans acquired with credit<br>deterioration | 1,690        | 536          | 8,438      | 4,344        | —         | 4,337      | 2,008     | 221       | 21,574       |
| Total loans receivable                      | \$ 3,285,297 | \$ 1,373,800 | \$ 577,477 | \$ 1,125,106 | \$ 56,491 | \$ 566,561 | \$ 79,731 | \$ 74,035 | \$ 7,138,498 |
| <b>Allowance for loan losses:</b>           |              |              |            |              |           |            |           |           |              |
| Individually evaluated for<br>impairment    | \$ 539       | \$ 261       | \$ 1       | \$ —         | \$ —      | \$ 41      | \$ 3      | \$ —      | \$ 845       |
| Collectively evaluated for<br>impairment    | 10,923       | 11,516       | 3,319      | 4,161        | 624       | 3,227      | 89        | 2,390     | 36,249       |
| Loans acquired with credit<br>deterioration | —            | 368          | —          | 1,932        | —         | 386        | 53        | 139       | 2,878        |
| Allowance for loan losses                   | \$ 11,462    | \$ 12,145    | \$ 3,320   | \$ 6,093     | \$ 624    | \$ 3,654   | \$ 145    | \$ 2,529  | \$ 39,972    |

| <b>Twelve months ended<br/>December 31, 2017</b> | Multi-family | Commercial<br>and Industrial | Commercial<br>Real Estate<br>Owner<br>Occupied | Commercial<br>Real Estate<br>Non-Owner<br>Occupied | Construction | Residential<br>Real Estate | Manufactured<br>Housing | Other<br>Consumer | Total        |
|--|--------------|------------------------------|--|--|--------------|----------------------------|-------------------------|-------------------|--------------|
| (amounts in thousands)                           |              |                              |  |  |              |                            |                         |                   |              |
| Ending Balance,<br>December 31, 2016             | \$ 11,602    | \$ 11,050                    | \$ 2,183                                       | \$ 7,894   | \$ 840       | \$ 3,342                   | \$ 286                  | \$ 118            | \$ 37,315    |
| Charge-offs                                      | —            | (4,157)                      | (731)  | (486)  | —            | (415)                      | —                       | (1,338)           | (7,127)      |
| Recoveries                                       | —            | 676                          | 9  | —  | 164          | 72                         | —                       | 138               | 1,059        |
| Provision for loan losses                        | 566          | 3,349                        | 1,771  | 29   | (25)         | (70)                       | (106)                   | 1,254             | 6,768        |
| Ending Balance,<br>December 31, 2017             | \$ 12,168    | \$ 10,918                    | \$ 3,232                                       | \$ 7,437   | \$ 979       | \$ 2,929                   | \$ 180                  | \$ 172            | \$ 38,015    |
| <b>Loans:</b>                                    |              |                              |  |  |              |                            |                         |                   |              |
| Individually evaluated for<br>impairment         | \$ —         | \$ 17,461                    | \$ 1,448                                       | \$ 160   | \$ —         | \$ 9,247                   | \$ 10,089               | \$ 30             | \$ 38,435    |
| Collectively evaluated for<br>impairment         | 3,500,500    | 1,130,865                    | 472,708  | 1,213,309  | 85,393       | 219,162                    | 77,587                  | 3,301             | 6,702,825    |
| Loans acquired with credit<br>deterioration      | 1,881        | 764                          | 10,572   | 5,250  | —            | 5,681                      | 2,551                   | 216               | 26,915       |
| Total loans receivable                           | \$ 3,502,381 | \$ 1,149,090                 | \$ 484,728                                     | \$ 1,218,719                                       | \$ 85,393    | \$ 234,090                 | \$ 90,227               | \$ 3,547          | \$ 6,768,175 |
| <b>Allowance for loan losses:</b>                |              |                              |  |  |              |                            |                         |                   |              |
| Individually evaluated for<br>impairment         | \$ —         | \$ 650                       | \$ 642   | \$ —   | \$ —         | \$ 155                     | \$ 4                    | \$ —              | \$ 1,451     |
| Collectively evaluated for<br>impairment         | 12,168       | 9,804                        | 2,580  | 4,630  | 979          | 2,177                      | 82                      | 117               | 32,537       |
| Loans acquired with credit<br>deterioration      | —            | 464                          | 10   | 2,807  | —            | 597                        | 94                      | 55                | 4,027        |
| Allowance for loan losses                        | \$ 12,168    | \$ 10,918                    | \$ 3,232                                       | \$ 7,437   | \$ 979       | \$ 2,929                   | \$ 180                  | \$ 172            | \$ 38,015    |

Certain manufactured housing loans were purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the purchase agreement for defaults of the underlying borrower and other specified items. At December 31, 2018 and 2017, funds available for reimbursement, if necessary, were \$0.5 million and \$0.6 million, respectively. Each quarter, these

funds are evaluated to determine if they would be sufficient to absorb the probable incurred losses within the manufactured housing portfolio.

*Impaired Loans - Individually Evaluated for Impairment*

The following tables present the recorded investment (net of charge-offs), unpaid principal balance and related allowance by loan type for impaired loans that were individually evaluated for impairment as of December 31, 2018 and 2017, and the average recorded investment and interest income recognized for the years ended December 31, 2018, 2017 and 2016. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

|  | December 31, 2018                            |                             |                   | Twelve Months Ended,<br>December 31, 2018 |                               |
|--|--|-----------------------------|-------------------|---|-------------------------------|
|  | Recorded<br>Investment Net of<br>Charge Offs | Unpaid Principal<br>Balance | Related Allowance | Average Recorded<br>Investment            | Interest Income<br>Recognized |
| (amounts in thousands)                     |  |                             |                   |   |                               |
| <b>With no related allowance recorded:</b> |  |                             |                   |   |                               |
| Multi-family                               | \$ —   | \$ —                        | \$ —              | \$ 537                                    | \$ 8                          |
| Commercial and industrial                  | 13,660                                       | 15,263                      | —                 | 8,831                                     | 673                           |
| Commercial real estate owner occupied      | 1,037  | 1,766                       | —                 | 776                                       | 19                            |
| Commercial real estate non-owner occupied  | 129  | 241                         | —                 | 645                                       | 48                            |
| Residential real estate                    | 4,842  | 5,128                       | —                 | 4,129                                     | 151                           |
| Manufactured housing                       | 10,027                                       | 10,027                      | —                 | 10,015                                    | 561                           |
| Other consumer                             | 111  | 111                         | —                 | 89  | 1                             |
| <b>With an allowance recorded:</b>         |  |                             |                   |   |                               |
| Multi-family                               | 1,155  | 1,155                       | 539               | 231                                       | 37                            |
| Commercial and industrial                  | 4,168  | 4,351                       | 261               | 6,504                                     | 25                            |
| Commercial real estate owner occupied      | 32   | 32                          | 1                 | 443                                       | 3                             |
| Residential real estate                    | 3,789  | 3,789                       | 41                | 4,566                                     | 131                           |
| Manufactured housing                       | 168  | 168                         | 3                 | 214                                       | 14                            |
| <b>Total</b>                               | <b>\$ 39,118</b>                             | <b>\$ 42,031</b>            | <b>\$ 845</b>     | <b>\$ 36,980</b>                          | <b>\$ 1,671</b>               |

|  | December 31, 2017                            |                                |                      | Twelve Months Ended,<br>December 31, 2017 |                               | Twelve Months Ended,<br>December 31, 2016 |                               |
|--|--|--------------------------------|----------------------|---|-------------------------------|---|-------------------------------|
|  | Recorded<br>Investment Net<br>of Charge Offs | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment         | Interest Income<br>Recognized | Average<br>Recorded<br>Investment         | Interest Income<br>Recognized |

(amounts in thousands)

**With no related allowance recorded:**

|   |       |       |      |        |      |        |       |
|---|-------|-------|------|--------|------|--------|-------|
| Multi-family                              | \$ —  | \$ —  | \$ — | \$ —   | \$ — | \$ 964 | \$ 53 |
| Commercial and industrial                 | 9,138 | 9,287 | —    | 8,865  | 214  | 15,424 | 804   |
| Commercial real estate owner occupied     | 806   | 806   | —    | 1,439  | 70   | 7,963  | 426   |
| Commercial real estate non-owner occupied | 160   | 272   | —    | 898    | 2    | 5,265  | 155   |
| Residential real estate                   | 3,628 | 3,801 | —    | 4,617  | 24   | 4,567  | 120   |
| Manufactured housing                      | 9,865 | 9,865 | —    | 10,003 | 558  | 8,961  | 465   |
| Other consumer                            | 30    | 30    | —    | 51     | —    | 47     | —     |

**With an allowance recorded:**

|   |                  |                  |                 |                  |                 |                  |                 |
|---|------------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Multi-family                              | —                | —                | —               | —                | —               | 232              | —               |
| Commercial and industrial                 | 8,323            | 8,506            | 650             | 5,984            | 230             | 7,028            | 436             |
| Commercial real estate owner occupied     | 642              | 642              | 642             | 882              | —               | 173              | —               |
| Commercial real estate non-owner occupied | —                | —                | —               | —                | —               | 380              | —               |
| Residential real estate                   | 5,619            | 5,656            | 155             | 3,307            | 187             | 395              | —               |
| Manufactured housing                      | 224              | 224              | 4               | 131              | 8               | —                | —               |
| Other consumer                            | —                | —                | —               | —                | —               | 29               | —               |
| <b>Total</b>                              | <b>\$ 38,435</b> | <b>\$ 39,089</b> | <b>\$ 1,451</b> | <b>\$ 36,177</b> | <b>\$ 1,293</b> | <b>\$ 51,428</b> | <b>\$ 2,459</b> |

*Troubled Debt Restructurings*

At December 31, 2018, 2017 and 2016, there were \$19.2 million, \$20.4 million and \$16.4 million, respectively, in loans reported as TDRs. TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum performance requirement of six months, however, it will remain classified as impaired. Generally, the Bank requires sustained performance for nine months before returning a TDR to accrual status. Modifications of PCI loans that are accounted for within loan pools in accordance with the accounting standards for PCI loans do not result in the removal of these loans from the pool even if the modifications would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, modifications of loans within such pools are not considered TDRs.

The following table presents total TDRs based on loan type and accrual status at December 31, 2018, 2017, and 2016. Nonaccrual TDRs are included in the reported amount of total non-accrual loans.

|   | December 31,     |                 |                  |                  |                 |                  |                  |                 |                  |
|---|------------------|-----------------|------------------|------------------|-----------------|------------------|------------------|-----------------|------------------|
|   | 2018             |                 |                  | 2017             |                 |                  | 2016             |                 |                  |
|   | Accruing TDRs    | Nonaccrual TDRs | Total            | Accruing TDRs    | Nonaccrual TDRs | Total            | Accruing TDRs    | Nonaccrual TDRs | Total            |
| Commercial and industrial                 | \$ 64            | \$ 5,273        | \$ 5,337         | \$ 63            | \$ 5,939        | \$ 6,002         | \$ 73            | \$ 146          | \$ 219           |
| Commercial real estate owner occupied     | 32               | —               | 32               | —                | —               | —                | 12               | —               | 12               |
| Commercial real estate non-owner occupied | —                | —               | —                | —                | —               | —                | —                | 1,945           | 1,945            |
| Residential real estate                   | 3,026            | 667             | 3,693            | 3,828            | 703             | 4,531            | 4,012            | 707             | 4,719            |
| Manufactured housing                      | 8,502            | 1,620           | 10,122           | 8,130            | 1,766           | 9,896            | 7,429            | 2,072           | 9,501            |
| Other consumer                            | —                | 12              | 12               | —                | —               | —                | —                | —               | —                |
| <b>Total TDRs</b>                         | <b>\$ 11,624</b> | <b>\$ 7,572</b> | <b>\$ 19,196</b> | <b>\$ 12,021</b> | <b>\$ 8,408</b> | <b>\$ 20,429</b> | <b>\$ 11,526</b> | <b>\$ 4,870</b> | <b>\$ 16,396</b> |

(amounts in thousands)

The following table presents loans modified in a TDR by type of concession for the years ended December 31, 2018, 2017 and 2016. There were no modifications that involved forgiveness of debt for the years ended December 31, 2018, 2017 and 2016.

|                          | For the Years Ended December 31, |                     |                 |                     |                 |                     |
|--------------------------|----------------------------------|---------------------|-----------------|---------------------|-----------------|---------------------|
|                          | 2018                             |                     | 2017            |                     | 2016            |                     |
|                          | Number of Loans                  | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| (dollars in thousands)   |                                  |                     |                 |                     |                 |                     |
| Extensions of maturity   | 2                                | \$ 60               | 5               | \$ 6,497            | 3               | \$ 1,995            |
| Interest-rate reductions | 39                               | 1,615               | 35              | 1,574               | 61              | 4,621               |
| <b>Total</b>             | <b>41</b>                        | <b>\$ 1,675</b>     | <b>40</b>       | <b>\$ 8,071</b>     | <b>64</b>       | <b>\$ 6,616</b>     |

The following table provides, by loan type, the number of loans modified in TDRs and the related recorded investment for the years ended December 31, 2018, 2017 and 2016.

|   | For the Years Ended December 31, |                     |                 |                     |                 |                     |
|---|----------------------------------|---------------------|-----------------|---------------------|-----------------|---------------------|
|   | 2018                             |                     | 2017            |                     | 2016            |                     |
|   | Number of Loans                  | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| (dollars in thousands)                    |                                  |                     |                 |                     |                 |                     |
| Commercial and industrial                 | —                                | \$ —                | 4               | \$ 6,437            | 1               | \$ 76               |
| Commercial real estate non-owner occupied | —                                | —                   | —               | —                   | 1               | 1,844               |
| Residential real estate                   | 2                                | 352                 | —               | —                   | 4               | 2,410               |
| Manufactured housing                      | 38                               | 1,310               | 36              | 1,634               | 58              | 2,286               |
| Other consumer                            | 1                                | 13                  | —               | —                   | —               | —                   |
| <b>Total loans</b>                        | <b>41</b>                        | <b>\$ 1,675</b>     | <b>40</b>       | <b>\$ 8,071</b>     | <b>64</b>       | <b>\$ 6,616</b>     |

As of December 31, 2018 and 2017, except for one commercial and industrial loan with an outstanding commitment of \$1.5 million and \$2.1 million, respectively, there were no other commitments to lend additional funds to debtors whose loans have been modified in TDRs. There were no commitments to lend additional funds to debtors whose terms were modified in TDRs at December 31, 2016.

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

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

#### *Purchased-Credit-Impaired Loans*

The changes in accretable yield related to PCI loans for the years ended December 31, 2018, 2017 and 2016, were as follows:

|   | For the Years Ended December 31, |                 |                  |
|---|----------------------------------|-----------------|------------------|
|   | 2018                             | 2017            | 2016             |
| (amounts in thousands)  |                                  |                 |                  |
| Accretable yield balance, beginning of period                     | \$ 7,825                         | \$ 10,202       | \$ 12,947        |
| Accretion to interest income                                      | (1,455)                          | (1,673)         | (3,760)          |
| Reclassification from nonaccretable difference and disposals, net | (192)                            | (704)           | 1,015            |
| <b>Accretable yield balance, end of period</b>                    | <b>\$ 6,178</b>                  | <b>\$ 7,825</b> | <b>\$ 10,202</b> |

*Allowance for Loan Losses and the FDIC Loss Sharing Receivable and Clawback Liability*

In 2010, Customers acquired certain loans pursuant to FDIC-assisted transactions in which losses from resolution of the nonperforming loans were eligible for partial reimbursement by the FDIC. Subsequent to the purchase date, the expected cash flows on the covered loans were subject to evaluation. Decreases in the present value of expected cash flows on the covered loans were recognized by increasing the allowance for loan losses with a related charge to the provision for loan losses. At the same time, the FDIC loss sharing receivable balance was increased reflecting an estimated future collection from the FDIC, which was recorded as a reduction to the provision for loan losses. If the expected cash flows on the covered loans increased such that a previously recorded impairment could be reversed, Customers recorded a reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC loss sharing receivable balance (with a related charge to the provision for loan losses). Increases in expected cash flows on covered loans and decreases in expected cash flows from the FDIC loss sharing receivable, when there were no previously recorded impairments, were considered together and recognized over the remaining life of the loans as interest income. Decreases in the valuations of OREO covered by the loss sharing agreements were recorded net of the estimated FDIC receivable as an increase to OREO expense (a component of non-interest expense).

As part of the FDIC loss sharing agreements, Customers also assumed a potential liability to be paid within 45 days subsequent to the maturity or termination of the loss sharing agreements that was contingent upon actual losses incurred over the life of the agreements relative to the expected losses and the consideration paid upon acquisition of the failed institutions. Due to cash receipts on the covered assets in excess of the original expectations of the FDIC, Customers anticipated that it would be required to pay an amount to the FDIC at the end of the loss sharing agreements.

Customers presented the FDIC Loss Sharing Receivable, net of the Clawback liability on the consolidated balance sheets. In the event the Clawback liability exceeded the FDIC Loss Sharing Receivable balance, the net liability amount was presented in "Accrued interest payable and other liabilities" on the consolidated balance sheets.

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 cash receipts from the FDIC as part of the December 31, 2015 and March 31, 2016 certifications. Consequently, loans and OREO previously reported as covered assets pursuant to the loss sharing agreements were no longer presented as covered assets as of June 30, 2016.

The following table presents changes in the allowance for loans losses and the FDIC loss sharing receivable, including the effect of the estimated Clawback liability for the years ended December 31, 2018, 2017 and 2016.

|   | Allowance for Loan Losses<br>For the Years Ended December 31,    |           |            |
|---|--|-----------|------------|
|   | 2018   | 2017      | 2016       |
| (amounts in thousands)                                  |  |           |            |
| Ending balance as of December 31,                       | \$ 38,015  | \$ 37,315 | \$ 35,647  |
| Provision for loan losses (1)                           | 5,642  | 6,768     | 3,330      |
| Charge-offs   | (4,757)  | (7,127)   | (4,405)    |
| Recoveries  | 1,072  | 1,059     | 2,743      |
| Ending balance as of December 31,                       | \$ 39,972  | \$ 38,015 | \$ 37,315  |
|   |  |           |            |
|   | FDIC Loss Sharing Receivable<br>For the Years Ended December 31, |           |            |
|   | 2018   | 2017      | 2016       |
| (amounts in thousands)                                  |  |           |            |
| Ending balance as of December 31,                       | \$ —   | \$ —      | \$ (2,083) |
| Increased estimated cash flows (2)                      | —  | —         | 289        |
| Other activity, net <sup>(a)</sup>                      | —  | —         | (255)      |
| Cash payments to the FDIC                               | —  | —         | 2,049      |
| Ending balance as of December 31,                       | \$ —   | \$ —      | \$ —       |
|   |  |           |            |
| (1) Provision for loan losses                           | \$ 5,642   | \$ 6,768  | \$ 3,330   |
| (2) Effect attributable to FDIC loss sharing agreements | —  | —         | (289)      |
| Net amount reported as provision for loan losses        | \$ 5,642   | \$ 6,768  | \$ 3,041   |

(a) Includes external costs, such as legal fees, real estate taxes and appraisal expenses, that qualified for reimbursement under the loss sharing agreements.

### *Credit Quality Indicators*

The allowance for loan losses represents management's estimate of probable losses in Customers' loans receivable portfolio, excluding commercial mortgage warehouse loans carried under the fair value option. Multi-family, commercial and industrial, owner occupied commercial real estate, non-owner occupied commercial real estate and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic, or on an "as needed" basis. Residential real estate loans, manufactured housing and other consumer loans are evaluated based on the payment activity of the loan.

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

The risk rating grades are defined as follows:

#### "1" – Pass/Excellent

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

#### "2" – Pass/Superior

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

#### "3" – Pass/Strong

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

#### "4" – Pass/Good

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

#### "5" – Satisfactory

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

#### "6" – Satisfactory/Bankable with Care

Loans rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have



limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.

“7” – Special Mention

Loans rated 7 are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event potential weaknesses are not corrected or mitigated, deterioration in the ability of the borrower to repay the debt in the future may occur. This grade is not assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loans where significant actual, not potential, weaknesses or problems are clearly evident are graded in the category below.

“8” – Substandard

Loans are rated 8 when the loans are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the company will sustain some loss if the weaknesses are not corrected.

“9” – Doubtful

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

“10” – Loss

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

Risk ratings are not established for certain consumer loans, including residential real estate, home equity, manufactured housing, and installment loans, mainly because these portfolios consist of a larger number of homogeneous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and non-performing.

The following tables present the credit ratings of loans receivable as of December 31, 2018 and 2017.

|                               | December 31, 2018 |                           |                                       |   |              |                         |                      |                |                      |
|-------------------------------|-------------------|---------------------------|---------------------------------------|---|--------------|-------------------------|----------------------|----------------|----------------------|
|                               | Multi-family      | Commercial and Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Non-Owner Occupied | Construction | Residential Real Estate | Manufactured Housing | Other Consumer | Total <sup>(3)</sup> |
| (amounts in thousands)        |                   |                           |                                       |   |              |                         |                      |                |                      |
| Pass/Satisfactory             | \$ 3,201,822      | \$ 1,306,466              | \$ 562,639                            | \$ 1,054,493                              | \$ 56,491    | \$ —                    | \$ —                 | \$ —           | \$ 6,181,911         |
| Special Mention               | 55,696            | 30,551                    | 9,730                                 | 30,203                                    | —            | —                       | —                    | —              | 126,180              |
| Substandard                   | 27,779            | 36,783                    | 5,108                                 | 40,410                                    | —            | —                       | —                    | —              | 110,080              |
| Performing <sup>(1)</sup>     | —                 | —                         | —                                     | —   | —            | 555,016                 | 71,924               | 73,724         | 700,664              |
| Non-performing <sup>(2)</sup> | —                 | —                         | —                                     | —   | —            | 11,545                  | 7,807                | 311            | 19,663               |
| Total                         | \$ 3,285,297      | \$ 1,373,800              | \$ 577,477                            | \$ 1,125,106                              | \$ 56,491    | \$ 566,561              | \$ 79,731            | \$ 74,035      | \$ 7,138,498         |

December 31, 2017

|                               | Multi-family | Commercial and Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Non-Owner Occupied | Construction | Residential Real Estate | Manufactured Housing | Other Consumer | Total <sup>(3)</sup> |
|-------------------------------|--------------|---------------------------|---------------------------------------|---|--------------|-------------------------|----------------------|----------------|----------------------|
| (amounts in thousands)        |              |                           |                                       |   |              |                         |                      |                |                      |
| Pass/Satisfactory             | \$ 3,438,554 | \$ 1,118,889              | \$ 471,826                            | \$ 1,185,933                              | \$ 85,393    | \$ —                    | \$ —                 | \$ —           | \$ 6,300,595         |
| Special Mention               | 53,873       | 7,652                     | 5,987                                 | 31,767                                    | —            | —                       | —                    | —              | 99,279               |
| Substandard                   | 9,954        | 22,549                    | 6,915                                 | 1,019                                     | —            | —                       | —                    | —              | 40,437               |
| Performing <sup>(1)</sup>     | —            | —                         | —                                     | —   | —            | 221,042                 | 81,497               | 3,400          | 305,939              |
| Non-performing <sup>(2)</sup> | —            | —                         | —                                     | —   | —            | 13,048                  | 8,730                | 147            | 21,925               |
| Total                         | \$ 3,502,381 | \$ 1,149,090              | \$ 484,728                            | \$ 1,218,719                              | \$ 85,393    | \$ 234,090              | \$ 90,227            | \$ 3,547       | \$ 6,768,175         |

(1) Includes residential real estate, manufactured housing, and other consumer loans not subject to risk ratings.

(2) Includes residential real estate, manufactured housing, and other consumer loans that are past due and still accruing interest or on nonaccrual status.

(3) Excludes commercial mortgage warehouse loans carried under the fair value option.

### Loan Purchases and Sales

Purchases and sales of loans were as follows for the years ended December 31, 2018, 2017 and 2016:

|  | For the Years Ended December 31, |              |             |
|--|----------------------------------|--------------|-------------|
|  | 2018                             | 2017         | 2016        |
| (amounts in thousands)                               |                                  |              |             |
| <b>Purchases <sup>(1)</sup></b>                      |                                  |              |             |
| Residential real estate                              | \$ 368,402                       | \$ 264,090   | \$ —        |
| Other consumer                                       | 30,066                           | —            | —           |
| <b>Total</b>   | \$ 398,468                       | \$ 264,090   | \$ —        |
| <b>Sales <sup>(2)</sup></b>                          |                                  |              |             |
| Multi-family   | \$ (54,638)                      | \$ (226,831) | \$ —        |
| Commercial and industrial <sup>(3)</sup>             | (32,263)                         | (19,974)     | (23,731)    |
| Commercial real estate owner occupied <sup>(3)</sup> | (20,218)                         | (19,813)     | (15,342)    |
| Residential real estate                              | —                                | (191,574)    | —           |
| Other consumer                                       | —                                | —            | —           |
| <b>Total</b>   | \$ (107,119)                     | \$ (458,192) | \$ (39,073) |

(1) The purchase price was 99.9% and 99.4% of loans outstanding for the years ended December 31, 2018 and 2017, respectively. There were no loan purchases during the year ended December 31, 2016.

(2) Loan sales resulted in a net gain of \$3.3 million, \$4.2 million and \$3.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

(3) Primarily sales of SBA loans.

None of the purchases and sales during the years ended December 31, 2018, 2017 and 2016 materially affected the credit profile of Customers' related loan portfolio.

### Loans Pledged as Collateral

Customers has pledged eligible real estate loans as collateral for potential borrowings from the FHLB and FRB in the amount of \$5.4 billion and \$5.5 billion at December 31, 2018 and 2017, respectively.

**NOTE 8 – BANK PREMISES AND EQUIPMENT**

The components of bank premises and equipment as of December 31, 2018 and 2017, were as follows:

|   | Expected Useful Life | December 31,     |                  |
|---|----------------------|------------------|------------------|
|   |                      | 2018             | 2017             |
| (amounts in thousands)                    |                      |                  |                  |
| Leasehold improvements                    | 3 to 25 years        | \$ 14,080        | \$ 14,028        |
| Furniture, fixtures and equipment         | 5 to 10 years        | 7,110            | 6,447            |
| IT equipment                              | 3 to 5 years         | 8,645            | 8,002            |
| Automobiles                               | 3 to 5 years         | 455              | 506              |
|   |                      | <u>30,290</u>    | <u>28,983</u>    |
| Accumulated depreciation and amortization |                      | (19,227)         | (17,028)         |
| Total                                     |                      | <u>\$ 11,063</u> | <u>\$ 11,955</u> |

Depreciation expense and amortization of leasehold improvements, which are included on the consolidated statements of income in occupancy expenses, were \$2.7 million, \$2.8 million and \$2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Future minimum rental commitments pursuant to non-cancelable leases as of December 31, 2018, were as follows:

|                        | December 31, 2018 |
|------------------------|-------------------|
| (amounts in thousands) |                   |
| 2019                   | \$ 5,577          |
| 2020                   | 5,135             |
| 2021                   | 4,513             |
| 2022                   | 3,885             |
| 2023                   | 2,856             |
| Thereafter             | 4,699             |
| Total minimum payments | <u>\$ 26,665</u>  |

Rent expense was approximately \$5.8 million, \$5.2 million and \$4.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. A majority of the leases provide for the payment of taxes, maintenance, insurance and certain other expenses applicable to the leased premises. Many of the leases contain extension provisions and escalation clauses. These leases are generally renewable and may, in certain cases, contain renewal provisions and options to expand and contract space and terminate the leases at predetermined contractual dates. In addition, escalation clauses may exist, which are tied to a predetermined rate or may change based on a specified percentage increase or the Consumer Price Index.

**NOTE 9 – DEPOSITS**

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

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| (amounts in thousands)                           |                     |                     |
| Demand, non-interest bearing                     | \$ 1,122,171        | \$ 1,052,115        |
| Demand, interest bearing                         | 803,948             | 523,848             |
| Savings, including money market deposit accounts | 3,481,936           | 3,318,486           |
| Time, \$100,000 and over                         | 792,370             | 1,284,855           |
| Time, other                                      | 941,811             | 620,838             |
| Total deposits                                   | <u>\$ 7,142,236</u> | <u>\$ 6,800,142</u> |

The scheduled maturities for time deposits at December 31, 2018, were as follows:

|                        | December 31, 2018   |
|------------------------|---------------------|
| (amounts in thousands) |                     |
| 2019                   | \$ 1,459,919        |
| 2020                   | 172,903             |
| 2021                   | 81,148              |
| 2022                   | 17,147              |
| 2023                   | 3,064               |
| Total time deposits    | <u>\$ 1,734,181</u> |

Time deposits greater than \$250,000 totaled \$0.5 billion and \$0.8 billion at December 31, 2018 and 2017, respectively.

Included in the savings and MMDA balances above were \$556.5 million and \$654.8 million of brokered money market deposits at December 31, 2018 and 2017, respectively. Also included in time, other balances above were \$800.2 million and \$504.3 million of brokered time deposits, respectively, at December 31, 2018 and 2017.

Demand deposit overdrafts reclassified as loans were \$3.4 million and \$2.0 million at December 31, 2018 and 2017, respectively.

**NOTE 10 – BORROWINGS**

**Short-term debt**

Short-term debt at December 31, 2018 and 2017, was as follows:

|                         | December 31,        |       |                     |       |
|-------------------------|---------------------|-------|---------------------|-------|
|                         | 2018                |       | 2017                |       |
|                         | Amount              | Rate  | Amount              | Rate  |
| (amounts in thousands)  |                     |       |                     |       |
| FHLB advances           | \$ 1,248,070        | 2.62% | \$ 1,611,860        | 1.47% |
| Federal funds purchased | 187,000             | 2.60% | 155,000             | 1.50% |
| Total short-term debt   | <u>\$ 1,435,070</u> |       | <u>\$ 1,766,860</u> |       |

The following is a summary of additional information relating to Customers' short-term debt:

|  | December 31, |              |              |
|--|--------------|--------------|--------------|
|  | 2018         | 2017         | 2016         |
| (amounts in thousands)                         |              |              |              |
| <b>FHLB advances</b>                           |              |              |              |
| Maximum outstanding at any month end           | \$ 2,622,165 | \$ 2,283,250 | \$ 1,697,800 |
| Average balance during the year                | 1,526,180    | 1,415,755    | 965,293      |
| Weighted-average interest rate during the year | 2.05%        | 1.44%        | 0.95%        |
| <b>Federal funds purchased</b>                 |              |              |              |
| Maximum outstanding at any month end           | 195,000      | 238,000      | 137,000      |
| Average balance during the year                | 156,652      | 163,466      | 84,514       |
| Weighted-average interest rate during the year | 1.92%        | 1.19%        | 0.58%        |

At December 31, 2018 and 2017, Customers Bank had aggregate availability under federal funds lines totaling \$522.0 million and \$310.0 million, respectively.

## **Long-term debt**

### *FHLB advances*

Customers had a total maximum borrowing capacity with the FHLB of \$4.1 billion and with the FRB of \$102.5 million at December 31, 2018. Customers had a total maximum borrowing capacity with the FHLB of \$4.3 billion and with the FRB of \$142.5 million at December 31, 2017. Amounts can be borrowed as short-term or long-term. As of December 31, 2018 and 2017, advances under these arrangements were secured by certain assets, which included qualifying loans of Customers Bank of \$5.2 billion and \$5.5 billion, respectively.

### *Senior notes*

In July 2018, the 6.375% senior notes with an aggregate principal amount of \$63.3 million issued by Customers Bancorp in July and August 2013 matured and were paid in full.

In June 2017, Customers Bancorp issued \$100 million of senior notes at 99.775% of face value. The price to purchasers represents a yield-to-maturity of 4.0% on the fixed coupon rate of 3.95%. The senior notes mature in June 2022. The net proceeds to Customers Bancorp after deducting the underwriting discount and offering expenses were \$98.6 million. The net proceeds were contributed to Customers Bank for purposes of its working capital needs and the funding of its organic growth.

On June 26, 2014, Customers Bancorp closed a private placement transaction in which it issued \$25.0 million of 4.625% senior notes that will mature in June 2019. Interest is paid semi-annually in arrears in June and December.

### *Subordinated debt*

On June 26, 2014, Customers Bank closed a private-placement transaction in which it issued \$110.0 million of fixed-to-floating rate subordinated notes due in 2029. The subordinated notes bear interest at an annual fixed rate of 6.125% until June 26, 2024, and interest is paid semiannually. From June 26, 2024, the subordinated notes will bear an annual interest rate equal to three-month LIBOR plus 344.3 basis points until maturity on June 26, 2029. Customers Bank has the ability to call the subordinated notes, in whole or in part, at a redemption price equal to 100% of the principal balance at certain times on or after June 26, 2024. The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

## **NOTE 11 – SHAREHOLDERS' EQUITY**

### **Common Stock**

During 2018 and 2017, Customers Bancorp did not issue any shares of its common stock pursuant to public offerings.

During 2016, Customers Bancorp issued shares of its common stock pursuant to the following public offerings:

On November 9, 2016, Customers Bancorp issued 2,415,000 shares of common stock at a price to the public of \$25.00 per share as part of an underwritten public offering. Customers received proceeds of \$58.3 million from the offering, after deducting offering costs.

On August 11, 2016, Customers Bancorp entered into an At Market Issuance Sales Agreement with FBR Capital Markets & Co., Keefe, Bruyette & Woods, Inc. and Maxim Group LLC. Customers Bancorp has authorized the sale, at its discretion, of shares of its common stock, in an aggregate offering amount up to \$50 million under the Sales Agreement. Customers issued 219,386 shares in connection with this Sales Agreement during 2016 receiving proceeds of \$5.5 million, net of offering costs.

The net proceeds from the common stock offerings was used for general corporate purposes, which included working capital and the funding of organic growth at Customers Bank.

In November 2013, Customers Bancorp announced that its Board of Directors had authorized a stock repurchase plan in which it could acquire up to 5% of its current outstanding shares at prices not to exceed a 20% premium over the then current book value. In December 2018, Customers Bancorp announced that its Board of Directors amended the terms of the November 2013 stock repurchase plan to allow purchases to be made at prices not to exceed the book value per share of Customers' common stock measured as of September 30, 2018. The repurchase program may be suspended, modified or discontinued at any time, and the Bancorp has no obligation to repurchase any amount of its common stock under the program. In December 2018, Customers Bancorp repurchased 719,200 shares of its common stock at a weighted average price of \$18.04. There was no stock repurchased during 2017 or 2016.

At December 31, 2018, there were no warrants outstanding to purchase shares of Customers Bancorp's common stock. At December 31, 2017, there were 35,187 warrants outstanding to purchase shares of Customers Bancorp's common stock at a price of \$21.38.

## Preferred Stock

Customers Bancorp currently has four series of preferred stock outstanding. During 2018 and 2017, Customers Bancorp did not issue any preferred stock.

Preferred stock issued during 2016 included the following:

On September 16, 2016, Customers Bancorp issued 3,400,000 shares of Series F Preferred Stock par value \$1.00 per share, at a price of \$25.00 per share in a public offering. Dividends on the Series F Preferred Stock accrue and are payable quarterly in arrears, at a fixed rate per annum equal to 6.00% from the original issue date to, but excluding, December 15, 2021, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 4.762% per annum. Customers received proceeds of \$82.2 million from the offering, after deducting offering costs.

On April 28, 2016, Customers Bancorp issued 2,300,000 shares of Series E Preferred Stock par value \$1.00 per share, at a price of \$25.00 per share in a public offering. Dividends on the Series E Preferred Stock accrue and are payable quarterly in arrears, at a fixed rate per annum equal to 6.45% from the original issue date to, but excluding, June 15, 2021, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.14% per annum. Customers received proceeds of \$55.6 million from the offering, after deducting offering costs.

On January 29, 2016, Customers Bancorp issued 1,000,000 shares of Series D Preferred Stock par value \$1.00 per share, at a price of \$25.00 per share in a public offering. Dividends on the Series D Preferred Stock accrue and are payable quarterly in arrears, at a fixed rate per annum equal to 6.50% from the original issue date to, but excluding, March 15, 2021, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.09% per annum. Customers received proceeds of \$24.1 million from the offering, after deducting offering costs.

Preferred stock issued during 2015 included the following:

On May 18, 2015, Customers Bancorp issued 2,300,000 shares of Series C Preferred Stock par value \$1.00 per share, at a price of \$25.00 per share in a public offering. Dividends on the Series C Preferred Stock accrue and are payable quarterly in arrears, at a fixed rate per annum equal to 7.00% from the original issue date to, but excluding, June 15, 2020, and thereafter at a floating rate per annum equal to three-month LIBOR on the related dividend determination date plus a spread of 5.30% per annum. Customers received proceeds of \$55.6 million from the offering, after deducting offering costs.

The net proceeds from the preferred stock offerings were used for general corporate purposes, which included working capital and the funding of organic growth at Customers Bank.

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

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

Preferred stock dividends paid during 2018 included the following:

On December 17, 2018, Customers made the following dividend payments to preferred shareholders of record as of November 30, 2018:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On September 17, 2018, Customers made the following dividend payments to preferred shareholders of record as of August 31, 2018:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On June 15, 2018, Customers made the following dividend payments to preferred shareholders of record as of May 31, 2018:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On March 15, 2018, Customers made the following dividend payments to preferred shareholders of record as of February 28, 2018:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

Preferred stock dividends paid during 2017 included the following:

On December 15, 2017, Customers made the following dividend payments to preferred shareholders of record as of November 30, 2017:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On September 15, 2017, Customers made the following dividend payments to preferred shareholders of record as of August 31, 2017:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On June 15, 2017, Customers made the following dividend payments to preferred shareholders of record as of May 31, 2017:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;

- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

On March 15, 2017, Customers made the following dividend payments to preferred shareholders of record as of February 28, 2017:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.375 per share.

Preferred stock dividends paid during 2016 included the following:

On December 15, 2016, Customers made the following dividend payments to preferred shareholders of record as of November 30, 2016:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share;
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share; and
- a cash dividend on its Series F Preferred Stock of \$0.370833 per share.

On September 15, 2016, Customers made the following dividend payments to preferred shareholders of record as of August 31, 2016:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share; and
- a cash dividend on its Series E Preferred Stock of \$0.403125 per share.

On June 15, 2016, Customers made the following dividend payments to preferred shareholders of record as of May 31, 2016:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share;
- a cash dividend on its Series D Preferred Stock of \$0.40625 per share; and
- a cash dividend on its Series E Preferred Stock of \$0.210521 per share.

On March 15, 2016, Customers made the following dividend payments to preferred shareholders of record as of February 29, 2016:

- a cash dividend on its Series C Preferred Stock of \$0.4375 per share and
- a cash dividend on its Series D Preferred Stock of \$0.2076 per share.

## **NOTE 12 – EMPLOYEE BENEFIT PLANS**

### *401(k) Plan*

Customers has a 401(k) profit sharing plan whereby eligible team members may contribute amounts up to the annual IRS statutory contribution limit. Customers provides a matching contribution equal to 50% of the first 6% of the contribution made by the team member. Employer contributions for the years ended December 31, 2018, 2017 and 2016, were \$2.1 million, \$1.9 million, and \$1.6 million, respectively.

### *Supplemental Executive Retirement Plan*

Customers entered into a SERP with its Chairman and CEO that provides annual retirement benefits for a 15-year period upon the later of his reaching the age of 65 or when he terminates employment. The SERP is a defined-contribution type of deferred-compensation arrangement that is designed to provide a target annual retirement benefit of \$300,000 per year for 15 years starting at age 65, based on an assumed constant rate of return of 7% per year. The level of retirement benefit is not guaranteed by Customers, and the ultimate retirement benefit can be less than or greater than the target. Customers funds its obligations under the SERP with the increase in cash surrender value of a life insurance policy on the life of the Chairman and CEO which



it owns. The present value of the amount owed as of December 31, 2018 and 2017 was \$4.3 million and \$4.6 million, respectively, and was included in other liabilities.

## **NOTE 13 – SHARE-BASED COMPENSATION PLANS**

### *Summary*

During 2010, the shareholders of Customers Bancorp approved the 2010 Plan, and during 2012, the shareholders of Customers Bancorp approved the 2004 Plan. The purpose of these plans is to promote the success and enhance the value of Customers Bancorp by linking the personal interests of the members of the Board of Directors, team members, officers and executives of Customers to those of the shareholders of Customers and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to shareholders of Customers. The 2010 Plan and 2004 Plan are intended to provide flexibility to Customers in its ability to motivate, attract and retain the services of members of the Board of Directors, team members, officers and executives of Customers. Stock options and restricted stock units normally vest on the third or fifth anniversary of the grant date provided the grantee remains employed by Customers or continues to serve on the Board. With respect to certain stock options granted under the 2010 Plan, vested options shall be exercisable only when Customers' fully diluted tangible book value will have increased by 50% from the date of grant. Share-based awards generally provide for accelerated vesting if there is a change in control (as defined in the Plans). No stock options may be exercisable for more than 10 years from the date of grant.

The 2010 and 2004 Plans are administered by the Compensation Committee of the Board of Directors. The 2010 Plan provides exclusively for the grant of stock options, some or all of which may be structured to qualify as Incentive Stock Options, to team members, officers and executives. The maximum number of shares of common stock which may be issued under the 2010 Plan is 3,666,667 shares. The 2004 Plan provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to team members, stock appreciation rights, restricted stock, restricted stock units and unrestricted stock to team members, officers, executives and members of the Board of Directors. The maximum number of shares of common stock which may be issued under the 2004 Plan is 2,750,000 shares. At December 31, 2018, the aggregate number of shares of common stock available for grant under these plans was 1,311,743 shares.

On January 1, 2011, Customers initiated a BRRP. This is a restricted stock unit plan. Team members eligible to participate in the BRRP include the CEO and other senior management and highly compensated team members as determined by the Compensation Committee at its sole discretion. Under the BRRP, a participant may elect to defer not less than 25%, nor more than 50%, of his or her bonus payable with respect to each year of participation. Shares of common stock having a value equal to the portion of the bonus deferred by a participant are allocated to an annual deferral account, and a matching amount equal to an identical number of shares of common stock is also allocated to the annual deferral account. A participant becomes 100% vested in the annual deferral account on the fifth anniversary date of the initial funding of the account, provided he or she remains continuously employed by Customers from the date of funding to the anniversary date.

Vesting is accelerated in the event of involuntary termination other than for cause, retirement at or after age 65, death, termination on account of disability or a change in control of Customers. Participants were first eligible to make elections under the BRRP with respect to their bonuses for 2011, which were payable in first quarter 2012. The BRRP does not provide for a specific number of shares to be reserved; by its terms, the award of restricted stock units under this plan is limited by the amount of cash bonuses paid to the participants in the plan. At December 31, 2018, non-vested restricted stock units outstanding under this plan totaled 254,976.

Share-based-compensation expense relating to stock options and restricted stock units is recognized on a straight-line basis over the vesting periods of the awards and is a component of salaries and employee benefits expense. Total share-based-compensation expense for 2018, 2017 and 2016, was \$8.6 million, \$6.1 million and \$6.2 million, respectively. At December 31, 2018, there was \$20.4 million of unrecognized compensation cost related to all non-vested share-based-compensation awards. This cost is expected to be recognized through December 2023.

In 2014, the shareholders of Customers Bancorp approved the 2014 ESPP. The ESPP is intended to encourage team member participation in the ownership and economic progress of Customers. This plan is intended to qualify as an ESPP within the meaning of the Internal Revenue Code and is administered by the Compensation Committee of the Board of Directors.

Under the ESPP, team members may elect to purchase shares of Customers' common stock through payroll deduction. Because the purchase price under the plan is 85% of the fair market value of a share of common stock on the first day of each quarterly subscription period (a 15% discount to the market price), Customers' ESPP is considered to be a compensatory plan under current accounting guidance. Therefore, the entire amount of the discount is recognizable compensation expense. ESPP expense for 2018, 2017 and 2016 was \$141 thousand, \$132 thousand, and \$103 thousand, respectively.

*Stock Options*

Customers estimated the fair value of each option on the date of grant generally using the Black-Scholes option pricing model. The risk-free interest rate was based upon the zero-coupon Treasury rates in effect on the grant date of the options based on the expected life of the option. Expected volatility was based upon limited historical information because Customers' common stock has only been traded since February 2012. Expected life was management's estimate which took into consideration the vesting requirement, generally three or five years.

During 2018, options to purchase an aggregate of 10,000 shares of Customers Bancorp voting common stock were granted to certain officers and team members. The exercise price for the options granted was equal to the closing price of Customers Bancorp's voting common stock on the date of grant. The options issued are subject to a three-year waterfall vesting and expire after ten years.

The following table presents the weighted-average assumptions used and the resulting weighted-average fair value of each option granted for the periods presented.

|  | 2018     | 2017    | 2016    |
|--|----------|---------|---------|
| Weighted-average risk-free interest rate           | 2.87%    | 2.35%   | 1.84%   |
| Expected dividend yield                            | —%       | —%      | —%      |
| Weighted-average expected volatility               | 25.47%   | 25.05%  | 23.39%  |
| Weighted-average expected life (in years)          | 7.00     | 7.00    | 7.00    |
| Weighted-average fair value of each option granted | \$ 10.05 | \$ 8.68 | \$ 7.61 |

The following table summarizes stock option activity for the year ended December 31, 2018:

|   | Number<br>of Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term<br>in Years | Aggregate<br>Intrinsic<br>Value |
|---|---------------------|---|--|---------------------------------|
| <i>(dollars in thousands, except weighted-average exercise price)</i> |                     |   |  |                                 |
| Outstanding, December 31, 2017  | 2,718,694           | \$ 21.52                                  |  |                                 |
| Granted   | 10,000              | 29.48                                     |  |                                 |
| Exercised   | (197,918)           | 14.06                                     |  | \$ 3,123                        |
| Forfeited   | (10,250)            | 21.96                                     |  |                                 |
| Outstanding, December 31, 2018  | 2,520,526           | \$ 22.13                                  | 6.40   | \$ 2,311                        |
| Exercisable at December 31, 2018                                      | 849,303             | \$ 16.29                                  | 3.68   | \$ 2,276                        |

Cash received from the exercise of the stock options during the year ended December 31, 2018 was \$2.8 million. The tax benefit realized for the tax deductions from option exercises totaled \$0.7 million in 2018.

A summary of the status of Customers' non-vested options at December 31, 2018, and changes during the year ended December 31, 2018, is as follows:

|                                 | Options   | Weighted-<br>Average<br>exercise price |
|---------------------------------|-----------|--|
| Non-vested at December 31, 2017 | 2,621,731 | \$ 21.85                               |
| Granted                         | 10,000    | 29.48                                  |
| Vested                          | (950,258) | 16.22                                  |
| Forfeited                       | (10,250)  | 21.96                                  |
| Non-vested at December 31, 2018 | 1,671,223 | 25.10                                  |

*Restricted Stock Units*

The fair value of restricted stock units granted under the 2004 Plan is generally determined based on the closing market price of Customers' common stock on the date of grant. The fair value of restricted stock units granted under the BRRP is measured as of the date on which such portion of the bonus would have been paid had the deferral not been elected.

Beginning in 2018, the Compensation Committee recommended and the Board of Directors approved a new compensation plan which incorporates performance metrics into the restricted stock awards for certain of Customers' key officers. Specifically, 40% of the restricted stock units granted as long term incentive compensation will vest ratably over three years. The remaining

60% will vest upon Customers meeting certain performance metrics, including total shareholder return, return on average common equity, and average NPAs to total assets over a three-year period relative to the performance of its peer group. The performance conditions are considered probable.

There were 433,614 restricted stock units granted during the year ended December 31, 2018. Of the aggregate restricted stock units granted, 17,373 were granted under the BRRP and are subject to five-year cliff vesting. The remaining 416,241 units were granted under the 2004 Plan and are subject to either a three-year waterfall vesting (with one third of the amount vesting annually) or a three-year cliff vesting, with 31,257 of those units also subject to the performance metrics described above.

The table below presents the status of the restricted stock units at December 31, 2018, and changes during the year ended December 31, 2018:

|   | Restricted<br>Stock Units | Weighted-<br>Average Grant-<br>Date Fair Value |
|---|---------------------------|--|
| Outstanding and unvested at December 31, 2017 | 590,036                   | \$ 24.74                                       |
| Granted                                       | 433,614                   | 23.63  |
| Vested  | (97,414)                  | 25.66  |
| Forfeited                                     | (41,577)                  | 27.05  |
| Outstanding and unvested at December 31, 2018 | <u>884,659</u>            | <u>23.99</u>                                   |

Customers has a policy that permits its directors to elect to receive shares of common stock in lieu of their cash retainers. During the year ended December 31, 2018, Customers issued 37,377 shares of common stock with a fair value of \$1.0 million to the directors as compensation for their services. The fair values were generally determined based on the closing price of the common stock the day before the shares were issued.

#### NOTE 14 – INCOME TAXES

The components of income tax expense were as follows:

|                        | For the Years Ended December 31, |                  |                  |
|------------------------|----------------------------------|------------------|------------------|
|                        | 2018                             | 2017             | 2016             |
| (amounts in thousands) |                                  |                  |                  |
| Current                | \$ 10,056                        | \$ 29,924        | \$ 48,472        |
| Deferred               | 9,303                            | 15,118           | (2,579)          |
| Income tax expense     | <u>\$ 19,359</u>                 | <u>\$ 45,042</u> | <u>\$ 45,893</u> |

Effective tax rates differ from the federal statutory rate of 21% at December 31, 2018, and at 35% at December 31, 2017 and 2016, which was applied to income before income tax expense, due to the following:

|   | For the Years Ended December 31, |                       |                  |                       |                  |                       |
|---|----------------------------------|-----------------------|------------------|-----------------------|------------------|-----------------------|
|   | 2018                             |                       | 2017             |                       | 2016             |                       |
|   | Amount                           | % of pretax<br>income | Amount           | % of pretax<br>income | Amount           | % of pretax<br>income |
| (amounts in thousands)                              |                                  |                       |                  |                       |                  |                       |
| Federal income tax at statutory rate                | \$ 19,121                        | 21.00 %               | \$ 43,357        | 35.00 %               | \$ 43,608        | 35.00 %               |
| State income tax, net of federal benefit            | 4,067                            | 4.47                  | 3,835            | 3.10                  | 4,548            | 3.65                  |
| Tax-exempt interest, net of disallowance            | (360)                            | (0.40)                | (381)            | (0.31)                | (237)            | (0.19)                |
| Bank-owned life insurance                           | (1,547)                          | (1.70)                | (2,675)          | (2.16)                | (1,716)          | (1.38)                |
| Equity-based compensation                           | (547)                            | (0.60)                | (10,741)         | (8.67)                | (3,659)          | (2.94)                |
| Non-deductible executive compensation               | 230                              | 0.25                  | 654              | 0.53                  | —                | —                     |
| Unrecorded basis difference in foreign subsidiaries | 343                              | 0.38                  | 4,527            | 3.65                  | 2,830            | 2.27                  |
| Enactment of federal tax reform                     | (21)                             | (0.02)                | 5,505            | 4.44                  | —                | —                     |
| Other   | (1,927)                          | (2.12)                | 961              | 0.78                  | 519              | 0.42                  |
| Effective income tax rate                           | <u>\$ 19,359</u>                 | <u>21.26 %</u>        | <u>\$ 45,042</u> | <u>36.36 %</u>        | <u>\$ 45,893</u> | <u>36.83 %</u>        |

Customers accounts for income taxes under the liability method of accounting for income taxes. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Customers determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

A tax position is recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

At December 31, 2018 and 2017, Customers had no ASC 740-10 unrecognized tax benefits. Customers does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. Customers recognizes interest and penalties on unrecognized tax benefits in other expense.

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carry-back period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income and the projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance was necessary at December 31, 2018 and 2017.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act, was signed into law. The Tax Act includes many provisions that affected Customers' income tax expenses, including reducing its corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result of the rate reduction, Customers was required to re-measure, through income tax expense in the period of enactment, its deferred tax assets and liabilities using the enacted rate at which Customers expected them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of \$5.5 million during fourth quarter 2017.

Also on December 22, 2017, the SEC released SAB 118 to address any uncertainty or diversity of views in practice in accounting for the income tax effects of the Tax Act in situations where a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB 118 allowed for a measurement period not to extend beyond one year from the Tax Act's enactment date to complete the necessary accounting.

Customers recorded provisional amounts of deferred income taxes using reasonable estimates in three areas where information necessary to complete the accounting was not available, prepared or analyzed as follows: (i) the deferred tax liability for temporary differences between the tax and financial reporting bases of fixed assets principally due to the accelerated depreciation under the Tax Act which allowed for full expensing of qualified property purchased and placed in service after September 27, 2017; (ii) the deferred tax asset for temporary differences associated with accrued compensation was awaiting final determinations of amounts that were paid and deducted on the 2017 income tax returns and (iii) the deferred tax liability for temporary differences associated with equity investments in partnerships were awaiting receipt of Schedules K-1 from outside preparers, which was necessary to determine the 2017 tax impact from these investments.

In a fourth area, Customers made no adjustments to deferred tax assets representing future deductions for accrued compensation that were subject to new limitations under Internal Revenue Code Section 162(m) which, generally, limits the annual deduction for certain compensation paid to certain team members to \$1 million. There was uncertainty in applying the newly enacted rules to existing contracts, and Customers was seeking further clarifications before completing its analysis.

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

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for tax reporting and financial statement purposes, principally because certain items are recognized in different periods for financial reporting and tax return purposes. The following represents Customers' deferred tax asset and liabilities as December 31, 2018 and 2017:

|  | December 31,     |                  |
|--|------------------|------------------|
|  | 2018             | 2017             |
| (amounts in thousands)                 |                  |                  |
| <b>Deferred tax assets</b>             |                  |                  |
| Allowance for loan losses              | \$ 10,449        | \$ 9,738         |
| Net unrealized losses on securities    | 7,639            | 512              |
| OREO write-downs                       | 91               | 748              |
| Non-accrual interest                   | 539              | 515              |
| Net operating losses                   | 1,212            | 1,199            |
| Deferred compensation                  | 1,129            | 1,181            |
| Equity-based compensation              | 4,049            | 2,748            |
| Cash flow hedge                        | 324              | 84               |
| Incentive compensation                 | 1,056            | 634              |
| Net deferred loan fees                 | 671              | 47               |
| Other                                  | 3,028            | 2,215            |
| Total deferred tax assets              | <u>30,187</u>    | <u>19,621</u>    |
| <b>Deferred tax liabilities</b>        |                  |                  |
| Fair value adjustments on acquisitions | (569)            | (618)            |
| Bank premises and equipment            | (884)            | (986)            |
| Lease adjustments                      | (17,786)         | (4,899)          |
| Other                                  | (746)            | (980)            |
| Total deferred tax liabilities         | <u>(19,985)</u>  | <u>(7,483)</u>   |
| Net deferred tax asset                 | <u>\$ 10,202</u> | <u>\$ 12,138</u> |

Customers had approximately \$5.2 million of federal and state net operating loss carryovers subject to the annual limitation under Internal Revenue code Section 382 at December 31, 2018, that begin to expire in 2027. Customers also has state net operating loss carryovers for some states that begin to expire in 2037.

Customers is subject to U.S. federal income tax as well as income tax in various state and local taxing jurisdictions. Generally, Customers is no longer subject to examination by federal, state, and local taxing authorities for years prior to the year ended December 31, 2015.

#### NOTE 15 – TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL SHAREHOLDERS

Customers has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties). The activity relating to loans to such persons was as follows:

|                            | For the Years Ended December 31, |             |               |
|----------------------------|----------------------------------|-------------|---------------|
|                            | 2018                             | 2017        | 2016          |
| (amounts in thousands)     |                                  |             |               |
| Balance as of December 31, | \$ —                             | \$ 238      | \$ 220        |
| Additions                  | 27                               | 99          | 1,160         |
| Repayments                 | (22)                             | (337)       | (1,142)       |
| Balance as of December 31, | <u>\$ 5</u>                      | <u>\$ —</u> | <u>\$ 238</u> |

As of December 31, 2018 and 2017, Customers Bank had an outstanding commitment to a related party to provide a letter of credit in the amount of \$0.5 million. As of December 31, 2017, Customers Bank had an outstanding commitment to one of its related parties to provide short-term commercial real estate financing, subject to certain terms and conditions, not to exceed \$8.0 million.

Some current directors, nominees for director and executive officers of Customers and entities or organizations in which they were executive officers or the equivalent or owners of more than 10% of the equity, were customers of and had transactions with or involving Customers in the ordinary course of business during the fiscal year ended December 31, 2018. None of these transactions involved amounts in excess of 5% of Customers' gross revenues during 2018, nor was Customers indebted to any

of the foregoing persons or entities in an aggregate amount in excess of 5% of Customers' total assets at December 31, 2018. Additional transactions with such persons and entities may be expected to take place in the ordinary course of business in the future.

At December 31, 2018 and 2017, Customers had approximately \$15.3 million and \$10.6 million, respectively, in deposits from related parties, including directors and certain executive officers.

#### NOTE 16 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

As of December 31, 2018 and 2017, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

|   | December 31, |            |
|---|--------------|------------|
|   | 2018         | 2017       |
| (amounts in thousands)                                      |              |            |
| Commitments to fund loans                                   | \$ 345,608   | \$ 333,874 |
| Unfunded commitments to fund mortgage warehouse loans       | 1,537,900    | 1,567,139  |
| Unfunded commitments under lines of credit and credit cards | 867,131      | 485,345    |
| Letters of credit   | 55,659       | 39,890     |
| Other unused commitments                                    | 4,822        | 6,679      |

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

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

Mortgage warehouse loan commitments are agreements to fund the pipelines of mortgage banking businesses from closing of individual mortgage loans until their sale into the secondary market. Most of the individual mortgage loans are insured or guaranteed by the U.S. government through one of its programs such as FHA, VA, or are conventional loans eligible for sale to Fannie Mae and Freddie Mac. These commitments generally fluctuate monthly based on changes in interest rates, refinance activity, new home sales and laws and regulation.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit may obligate the Bank to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The current amount of the liabilities as of December 31, 2018 and 2017 for guarantees under standby letters of credit issued was not material.

#### NOTE 17 – REGULATORY MATTERS

The Bank and the Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary, actions

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bancorp to maintain minimum amounts and ratios (set forth in the following table) of common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and Tier 1 capital to average assets (as defined in the regulations). At December 31, 2018 and 2017, the Bank and the Bancorp satisfied all capital requirements to which they were subject.

Generally, to comply with the regulatory definition of adequately capitalized, or well capitalized, respectively, or to comply with the Basel III capital requirements, an institution must at least maintain the common equity Tier 1, Tier 1 and total risk-based capital ratios and the Tier 1 leverage ratio in excess of the related minimum ratios set forth in the following table:

|   | Minimum Capital Levels to be Classified as: |         |                        |        |                  |         |                     |        |
|---|---|---------|------------------------|--------|------------------|---------|---------------------|--------|
|   | Actual                                      |         | Adequately Capitalized |        | Well Capitalized |         | Basel III Compliant |        |
|   | Amount                                      | Ratio   | Amount                 | Ratio  | Amount           | Ratio   | Amount              | Ratio  |
| (amounts in thousands)                                |   |         |                        |        |                  |         |                     |        |
| <b>December 31, 2018</b>                              |   |         |                        |        |                  |         |                     |        |
| <b>Common equity Tier 1 (to risk-weighted assets)</b> |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 745,795                                  | 8.964%  | \$ 374,388             | 4.500% | N/A              | N/A     | \$ 530,384          | 6.375% |
| Customers Bank  | \$ 1,066,121                                | 12.822% | \$ 374,160             | 4.500% | \$ 540,453       | 6.500%  | \$ 530,059          | 6.375% |
| <b>Tier 1 capital (to risk-weighted assets)</b>       |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 963,266                                  | 11.578% | \$ 499,185             | 6.000% | N/A              | N/A     | \$ 655,180          | 7.875% |
| Customers Bank  | \$ 1,066,121                                | 12.822% | \$ 498,879             | 6.000% | \$ 665,173       | 8.000%  | \$ 654,779          | 7.875% |
| <b>Total capital (to risk-weighted assets)</b>        |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 1,081,962                                | 13.005% | \$ 665,580             | 8.000% | N/A              | N/A     | \$ 821,575          | 9.875% |
| Customers Bank  | \$ 1,215,522                                | 14.619% | \$ 665,173             | 8.000% | \$ 831,466       | 10.000% | \$ 821,072          | 9.875% |
| <b>Tier 1 capital (to average assets)</b>             |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 963,266                                  | 9.665%  | \$ 398,668             | 4.000% | N/A              | N/A     | \$ 398,668          | 4.000% |
| Customers Bank  | \$ 1,066,121                                | 10.699% | \$ 398,570             | 4.000% | \$ 498,212       | 5.000%  | \$ 398,570          | 4.000% |
| <b>December 31, 2017</b>                              |   |         |                        |        |                  |         |                     |        |
| <b>Common equity Tier 1 (to risk-weighted assets)</b> |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 689,494                                  | 8.805%  | \$ 352,368             | 4.500% | N/A              | N/A     | \$ 450,248          | 5.750% |
| Customers Bank  | \$ 1,023,564                                | 13.081% | \$ 352,122             | 4.500% | \$ 508,621       | 6.500%  | \$ 449,934          | 5.750% |
| <b>Tier 1 capital (to risk-weighted assets)</b>       |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 906,963                                  | 11.583% | \$ 469,824             | 6.000% | N/A              | N/A     | \$ 567,704          | 7.250% |
| Customers Bank  | \$ 1,023,564                                | 13.081% | \$ 469,496             | 6.000% | \$ 625,994       | 8.000%  | \$ 567,307          | 7.250% |
| <b>Total capital (to risk-weighted assets)</b>        |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 1,021,601                                | 13.047% | \$ 626,432             | 8.000% | N/A              | N/A     | \$ 724,313          | 9.250% |
| Customers Bank  | \$ 1,170,666                                | 14.961% | \$ 625,994             | 8.000% | \$ 782,493       | 10.000% | \$ 723,806          | 9.250% |
| <b>Tier 1 capital (to average assets)</b>             |   |         |                        |        |                  |         |                     |        |
| Customers Bancorp, Inc.                               | \$ 906,963                                  | 8.937%  | \$ 405,949             | 4.000% | N/A              | N/A     | \$ 405,949          | 4.000% |
| Customers Bank  | \$ 1,023,564                                | 10.092% | \$ 405,701             | 4.000% | \$ 507,126       | 5.000%  | \$ 405,701          | 4.000% |

The Basel III risk-based capital rules adopted effective January 1, 2015, require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio" or certain elective distributions would be limited. The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is being phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter.

Effective January 1, 2018, the capital level required to avoid limitation on elective distributions applicable to the Bancorp and the Bank were as follows:

- (i) a common equity Tier 1 risk-based capital ratio of 6.375%;
- (ii) a Tier 1 risk-based capital ratio of 7.875% and
- (iii) a Total risk-based capital ratio of 9.875%.

Failure to maintain the required capital conservation buffer will result in limitations on elective distributions, including capital distributions and discretionary bonuses to executive officers.

#### **NOTE 18 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

Customers uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For Customers, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. For fair value disclosure purposes, Customers utilized certain fair value measurement criteria under the FASB ASC 820, *Fair Value Measurements and Disclosures*, as explained below.

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

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

The fair value guidance also establishes a fair value hierarchy and describes the following three levels used to classify fair value measurements:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

The following methods and assumptions were used to estimate the fair values of Customers' financial instruments as of December 31, 2018 and 2017:

#### ***Financial Instruments Recorded at Fair Value on a Recurring Basis***

##### **Investment securities:**

The fair values of equity securities and available-for-sale debt securities are determined by obtaining quoted market prices on nationally recognized and foreign securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific



securities, but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are classified as Level 1, 2 or 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

**Loans held for sale - Consumer residential mortgage loans (fair value option):**

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

**Loans receivable - Commercial mortgage warehouse loans (fair value option):**

The fair value of commercial mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by mortgage companies as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized since at inception of the transaction the underlying loans have already been sold to an approved investor. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 23 days from purchase to sale. These assets are classified as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

**Derivatives (Assets and Liabilities):**

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

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

Derivative assets and liabilities are presented in "Other assets" and "Accrued interest payable and other liabilities" on the consolidated balance sheet.

The following information should not be interpreted as an estimate of Customers' fair value in its entirety because fair value calculations are only provided for a limited portion of Customers' assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making these estimates, comparisons between Customers' disclosures and those of other companies may not be meaningful.

***Financial Instruments Recorded at Fair Value on a Nonrecurring Basis***

**Impaired loans:**

Impaired loans are those loans that are accounted for under ASC 310, Receivables, in which the Bank has measured impairment generally based on the fair value of the loan's collateral or discounted cash flow analysis. Fair value is generally determined based upon independent third-party appraisals of the properties that collateralize the loans or discounted cash flows based upon the expected proceeds. These assets are generally classified as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The estimated fair values of Customers' financial instruments at December 31, 2018 and 2017 were as follows:

|  | Carrying Amount | Estimated Fair Value | Fair Value Measurements at December 31, 2018                   |   |   |
|--|-----------------|----------------------|--|---|---|
|  |                 |                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (amounts in thousands)                                   |                 |                      |  |   |   |
| <b>Assets</b>  |                 |                      |  |   |   |
| Cash and cash equivalents                                | \$ 62,135       | \$ 62,135            | \$ 62,135  | \$ —  | \$ —                                      |
| Debt securities, available for sale                      | 663,294         | 663,294              | —  | 663,294                                       | —   |
| Equity securities  | 1,718           | 1,718                | 1,718  | —   | —   |
| Loans held for sale                                      | 1,507           | 1,507                | —  | 1,507   | —   |
| Total loans receivable, net of allowance for loan losses | 8,503,522       | 8,481,128            | —  | 1,405,420                                     | 7,075,708                                 |
| FHLB, Federal Reserve Bank and other restricted stock    | 89,685          | 89,685               | —  | 89,685  | —   |
| Derivatives  | 14,693          | 14,693               | —  | 14,624  | 69  |
| <b>Liabilities</b>                                       |                 |                      |  |   |   |
| Deposits   | \$ 7,142,236    | \$ 7,136,009         | \$ 5,408,055   | \$ 1,727,954                                  | \$ —                                      |
| Federal funds purchased                                  | 187,000         | 187,000              | 187,000  | —   | —   |
| FHLB advances  | 1,248,070       | 1,248,046            | 998,070  | 249,976                                       | —   |
| Other borrowings   | 123,871         | 121,718              | —  | 121,718                                       | —   |
| Subordinated debt  | 108,977         | 110,550              | —  | 110,550                                       | —   |
| Derivatives  | 16,286          | 16,286               | —  | 16,286  | —   |

|  | Carrying Amount | Estimated Fair Value | Fair Value Measurements at December 31, 2017                   |   |   |
|--|-----------------|----------------------|--|---|---|
|  |                 |                      | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (amounts in thousands)                                   |                 |                      |  |   |   |
| <b>Assets</b>  |                 |                      |  |   |   |
| Cash and cash equivalents                                | \$ 146,323      | \$ 146,323           | \$ 146,323   | \$ —  | \$ —                                      |
| Investment securities, available for sale                | 471,371         | 471,371              | 3,352  | 468,019                                       | —   |
| Loans held for sale                                      | 146,077         | 146,251              | —  | 1,886   | 144,365                                   |
| Total loans receivable, net of allowance for loan losses | 8,523,651       | 8,470,171            | —  | 1,793,408                                     | 6,676,763                                 |
| FHLB, Federal Reserve Bank, and other restricted stock   | 105,918         | 105,918              | —  | 105,918                                       | —   |
| Derivatives  | 9,752           | 9,752                | —  | 9,692   | 60  |
| <b>Liabilities</b>                                       |                 |                      |  |   |   |
| Deposits   | \$ 6,800,142    | \$ 6,796,095         | \$ 4,894,449   | \$ 1,901,646                                  | \$ —                                      |
| Federal funds purchased                                  | 155,000         | 155,000              | 155,000  | —   | —   |
| FHLB advances  | 1,611,860       | 1,611,603            | 881,860  | 729,743                                       | —   |
| Other borrowings   | 186,497         | 193,557              | 65,072   | 128,485                                       | —   |
| Subordinated debt  | 108,880         | 115,775              | —  | 115,775                                       | —   |
| Derivatives  | 10,074          | 10,074               | —  | 10,074  | —   |

For financial assets and liabilities measured at fair value on a recurring and non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and 2017, were as follows:

|  |           | December 31, 2018   |   |   |                     |
|--|-----------|---|---|---|---------------------|
|  |           | Fair Value Measurements at the End of the Reporting Period Using        |   |   |                     |
|  |           | Quoted Prices in<br>Active Markets for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total               |
| (amounts in thousands)                                     |           |   |   |   |                     |
| <b>Measured at Fair Value on a Recurring Basis</b>         |           |   |   |   |                     |
| <b>Assets</b>  |           |   |   |   |                     |
| Available-for-sale securities                              |           |   |   |   |                     |
| Agency-guaranteed residential mortgage-backed securities   | \$        | —   | \$ 305,374  | \$ —  | \$ 305,374          |
| Corporate notes  |           | —   | 357,920   | —   | 357,920             |
| Equity securities  |           | 1,718   | —   | —   | 1,718               |
| Derivatives  |           | —   | 14,624  | 69  | 14,693              |
| Loans held for sale – fair value option                    |           | —   | 1,507   | —   | 1,507               |
| Loans receivable, mortgage warehouse – fair value option   |           | —   | 1,405,420   | —   | 1,405,420           |
| <b>Total assets - recurring fair value measurements</b>    | <b>\$</b> | <b>1,718</b>  | <b>\$ 2,084,845</b>                                 | <b>\$ 69</b>                                    | <b>\$ 2,086,632</b> |
| <b>Liabilities</b>   |           |   |   |   |                     |
| Derivatives  | \$        | —   | \$ 16,286   | \$ —  | \$ 16,286           |
| <b>Measured at Fair Value on a Nonrecurring Basis</b>      |           |   |   |   |                     |
| <b>Assets</b>  |           |   |   |   |                     |
| Impaired loans, net of specific reserves of \$845          | \$        | —   | \$ —  | \$ 10,876                                       | \$ 10,876           |
| Other real estate owned                                    |           | —   | —   | 621   | 621                 |
| <b>Total assets - nonrecurring fair value measurements</b> | <b>\$</b> | <b>—</b>  | <b>\$ —</b>   | <b>\$ 11,497</b>                                | <b>\$ 11,497</b>    |
|  |           | December 31, 2017   |   |   |                     |
|  |           | Fair Value Measurements at the End of the Reporting Period Using        |   |   |                     |
|  |           | Quoted Prices in<br>Active Markets for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total               |
| (amounts in thousands)                                     |           |   |   |   |                     |
| <b>Measured at Fair Value on a Recurring Basis</b>         |           |   |   |   |                     |
| <b>Assets</b>  |           |   |   |   |                     |
| Available-for-sale securities:                             |           |   |   |   |                     |
| Agency-guaranteed residential mortgage-backed securities   | \$        | —   | \$ 183,458  | \$ —  | \$ 183,458          |
| Agency-guaranteed commercial mortgage-backed securities    |           | —   | 238,472   | —   | 238,472             |
| Corporate notes  |           | —   | 46,089  | —   | 46,089              |
| Equity securities  |           | 3,352   | —   | —   | 3,352               |
| Derivatives  |           | —   | 9,692   | 60  | 9,752               |
| Loans held for sale – fair value option                    |           | —   | 1,886   | —   | 1,886               |
| Loans receivable, mortgage warehouse – fair value option   |           | —   | 1,793,408   | —   | 1,793,408           |
| <b>Total assets - recurring fair value measurements</b>    | <b>\$</b> | <b>3,352</b>  | <b>\$ 2,273,005</b>                                 | <b>\$ 60</b>                                    | <b>\$ 2,276,417</b> |
| <b>Liabilities</b>   |           |   |   |   |                     |
| Derivatives  | \$        | —   | \$ 10,074   | \$ —  | \$ 10,074           |
| <b>Measured at Fair Value on a Nonrecurring Basis</b>      |           |   |   |   |                     |
| <b>Assets</b>  |           |   |   |   |                     |
| Impaired loans, net of specific reserves of \$1,451        | \$        | —   | \$ —  | \$ 13,902                                       | \$ 13,902           |
| Other real estate owned                                    |           | —   | —   | 1,449   | 1,449               |
| <b>Total assets - nonrecurring fair value measurements</b> | <b>\$</b> | <b>—</b>  | <b>\$ —</b>   | <b>\$ 15,351</b>                                | <b>\$ 15,351</b>    |

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017, are summarized as follows in the tables below. Additional information about residential mortgage loan commitments can be found in NOTE 19 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES.

|                         | For the Years Ended December 31,      |       |
|-------------------------|---------------------------------------|-------|
|                         | 2018                                  | 2017  |
|                         | Residential Mortgage Loan Commitments |       |
| (amounts in thousands)  |                                       |       |
| Balance at December 31, | \$ 60                                 | \$ 45 |
| Issuances               | 407                                   | 360   |
| Settlements             | (398)                                 | (345) |
| Balance at December 31, | \$ 69                                 | \$ 60 |

There were no transfers between levels during the years ended December 31, 2018 and 2017.

The following table summarizes financial assets and financial liabilities measured at fair value as of December 31, 2018 and 2017 on a recurring and nonrecurring basis for which Customers utilized Level 3 inputs to measure fair value. The unobservable Level 3 inputs noted below contain a level of uncertainty that may differ from what is realized in an immediate settlement of the assets. Therefore, Customers may realize a value higher or lower than the current estimated fair value of the assets.

| Quantitative Information about Level 3 Fair Value Measurements |                     |   |   |                              |
|--|---------------------|---|---|------------------------------|
| <b>December 31, 2018</b>                                       |                     |   |   |                              |
|  | Fair Value Estimate | Valuation Technique                     | Unobservable Input                                  | Range (Weighted Average) (4) |
| (dollars in thousands)   |                     |   |   |                              |
| Impaired loans - real estate                                   | \$ 10,260           | Collateral appraisal <sup>(1)</sup>     | Liquidation expenses <sup>(2)</sup>                 | 8% - 8% (8%)                 |
| Impaired loans - Commercial & Industrial                       | 616                 | Business asset valuation <sup>(3)</sup> | Business asset valuation adjustments <sup>(4)</sup> | 8% - 50% (26%)               |
| Other real estate owned  | 621                 | Collateral appraisal <sup>(1)</sup>     | Liquidation expenses <sup>(2)</sup>                 | 8% - 8% (8%)                 |
| Residential mortgage loan commitments                          | 69                  | Adjusted market bid                     | Pull-through rate                                   | 90% - 90% (90%)              |

| Quantitative Information about Level 3 Fair Value Measurements |                     |                                     |                                     |                              |
|--|---------------------|-------------------------------------|-------------------------------------|------------------------------|
| <b>December 31, 2017</b>                                       |                     |                                     |                                     |                              |
|  | Fair Value Estimate | Valuation Technique                 | Unobservable Input                  | Range (Weighted Average) (4) |
| (dollars in thousands)   |                     |                                     |                                     |                              |
| Impaired loans   | \$ 13,902           | Collateral appraisal <sup>(1)</sup> | Liquidation expenses <sup>(2)</sup> | 8% - 8% (8%)                 |
| Other real estate owned  | 1,449               | Collateral appraisal <sup>(1)</sup> | Liquidation expenses <sup>(2)</sup> | 8% - 8% (8%)                 |
| Residential mortgage loan commitments                          | 60                  | Adjusted market bid                 | Pull-through rate                   | 90% - 90% (90%)              |

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

(2) Appraisals are adjusted by management for liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percentage of the appraisal.

(3) Business asset valuation obtained from independent party.

(4) Business asset valuations may be adjusted by management for qualitative factors including economic conditions and the condition of the business assets. The range and weighted average of the business asset adjustments are presented as a percent of the business asset valuation.

## NOTE 19 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Risk Management Objectives of Using Derivatives

Customers is exposed to certain risks arising from both its business operations and economic conditions. Customers manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and durations of its

assets and liabilities. Specifically, Customers enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the values of which are determined by interest rates. Customers' derivative financial instruments are used to manage differences in the amount, timing and duration of Customers' known or expected cash receipts and its known or expected cash payments principally related to certain borrowings. Customers also has interest-rate derivatives resulting from a service provided to certain qualifying customers, and therefore, they are not used to manage Customers' interest-rate risk in assets or liabilities. Customers manages a matched book with respect to its derivative instruments used in this customer service in order to minimize its net risk exposure resulting from such transactions.

### **Cash Flow Hedges of Interest-Rate Risk**

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

The changes in the fair value of derivatives designated and qualifying as cash flow hedges are recorded in AOCI and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. To date, such derivatives were used to hedge the variable cash flows associated with the forecasted issuances of debt.

Customers discontinues cash flow hedge accounting if it is probable the forecasted hedged transactions will not occur in the initially identified time period. At such time, the associated gains and losses deferred in AOCI are reclassified immediately into earnings and any subsequent changes in the fair value of such derivatives are recognized directly in earnings. During the year ended December 31, 2018, Customers recognized gains of \$4.8 million in other non-interest income on discontinued cash flow hedge accounting for and subsequent termination of three interest rate swaps with notional amounts totaling \$500 million.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on Customers' variable-rate debt. Customers expects to reclassify \$0.2 million from AOCI as a reduction to interest expense during the next 12 months.

Customers is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 30 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

At December 31, 2018, Customers had six outstanding interest rate derivatives with notional amounts totaling \$ 750.0 million that were designated as cash flow hedges of interest-rate risk. At December 31, 2017, Customers had nine outstanding interest rate derivatives with notional amounts totaling \$550.0 million that were designated as cash flow hedges of interest-rate risk. The hedges expire between January 2019 and July 2021.

### **Derivatives Not Designated as Hedging Instruments**

Customers executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating-rate loan for a fixed-rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that Customers executes with a third party in order to minimize interest-rate risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting third-party market swaps are recognized directly in earnings. At December 31, 2018, Customers had 98 interest rate swaps with an aggregate notional amount of \$ 1.0 billion related to this program. At December 31, 2017, Customers had 76 interest rate swaps with an aggregate notional amount of \$ 800.5 million related to this program.

Customers enters into residential mortgage loan commitments in connection with its consumer mortgage banking activities to fund mortgage loans at specified rates and times in the future. These commitments are short-term in nature and generally expire in 30 to 60 days. The residential mortgage loan commitments that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under applicable accounting guidance and are reported at fair value, with changes in fair value recorded directly in earnings. At December 31, 2018 and 2017, Customers had an outstanding notional balance of residential mortgage loan commitments of \$3.6 million and \$2.7 million, respectively.

Customers has also purchased and sold credit derivatives to either hedge or participate in the performance risk associated with some of its counterparties. These derivatives are not designated as hedging instruments and are reported at fair value, with changes in fair value reported directly in earnings. At December 31, 2018 and 2017, Customers had outstanding notional balances of credit derivatives of \$94.9 million and \$80.5 million, respectively.

### Fair Value of Derivative Instruments on the Balance Sheet

The following table presents the fair value of Customers' derivative financial instruments as well as their presentation on the consolidated balance sheets at December 31, 2018 and 2017.

|   | December 31, 2018      |            |                        |            |
|---|------------------------|------------|------------------------|------------|
|   | Derivative Assets      |            | Derivative Liabilities |            |
|   | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| (amounts in thousands)                            |                        |            |                        |            |
| Derivatives designated as cash flow hedges        |                        |            |                        |            |
| Interest rate swaps                               | Other assets           | \$ 256     | Other liabilities      | \$ 1,502   |
| Total   |                        | \$ 256     |                        | \$ 1,502   |
| Derivatives not designated as hedging instruments |                        |            |                        |            |
| Interest rate swaps                               | Other assets           | \$ 14,300  | Other liabilities      | \$ 14,730  |
| Credit contracts                                  | Other assets           | 68         | Other liabilities      | 54         |
| Residential mortgage loan commitments             | Other assets           | 69         | Other liabilities      | —          |
| Total   |                        | \$ 14,437  |                        | \$ 14,784  |

|   | December 31, 2017      |            |                        |            |
|---|------------------------|------------|------------------------|------------|
|   | Derivative Assets      |            | Derivative Liabilities |            |
|   | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| (amounts in thousands)                            |                        |            |                        |            |
| Derivatives designated as cash flow hedges        |                        |            |                        |            |
| Interest rate swaps                               | Other assets           | \$ 816     | Other liabilities      | \$ 1,140   |
| Total   |                        | \$ 816     |                        | \$ 1,140   |
| Derivatives not designated as hedging instruments |                        |            |                        |            |
| Interest rate swaps                               | Other assets           | \$ 8,776   | Other liabilities      | \$ 8,897   |
| Credit contracts                                  | Other assets           | 100        | Other liabilities      | 37         |
| Residential mortgage loan commitments             | Other assets           | 60         | Other liabilities      | —          |
| Total   |                        | \$ 8,936   |                        | \$ 8,934   |

### Effect of Derivative Instruments on Comprehensive Income

The following table presents the effect of Customers' derivative financial instruments on comprehensive income for the years ended December 31, 2018, 2017 and 2016.

|   | For the Year Ended December 31, 2018 |   |
|---|--------------------------------------|---|
|   | Income Statement Location            | Amount of Income Recognized in Earnings |
| (amounts in thousands)                            |                                      |   |
| Derivatives not designated as hedging instruments |                                      |   |
| Interest rate swaps <sup>(1)</sup>                | Other non-interest income            | \$ 3,409                                |
| Credit contracts                                  | Other non-interest income            | 127                                     |
| Residential mortgage loan commitments             | Mortgage banking income              | 9                                       |
| Total   |                                      | \$ 3,545                                |

(1) Includes income recognized from the termination of interest rate swaps.

For the Year Ended December 31, 2017

|  | Income Statement Location | Amount of Income Recognized in Earnings |
|--|---------------------------|---|
| (amounts in thousands)                                   |                           |   |
| <b>Derivatives not designated as hedging instruments</b> |                           |   |
| Interest rate swaps                                      | Other non-interest income | \$ 604                                  |
| Credit contracts   | Other non-interest income | 171                                     |
| Residential mortgage loan commitments                    | Mortgage banking income   | 15                                      |
| <b>Total</b>   |                           | <b>\$ 790</b>                           |

For the Year Ended December 31, 2016

|  | Income Statement Location | Amount of Income Recognized in Earnings |
|--|---------------------------|---|
| (amounts in thousands)                                   |                           |   |
| <b>Derivatives not designated as hedging instruments</b> |                           |   |
| Interest rate swaps                                      | Other non-interest income | \$ 2,955                                |
| Credit contracts   | Other non-interest income | 163                                     |
| Residential mortgage loan commitments                    | Mortgage banking income   | —                                       |
| <b>Total</b>   |                           | <b>\$ 3,118</b>                         |

For the Year Ended December 31, 2018

|  | Amount of Gain (Loss) Recognized in OCI on Derivatives <sup>(1)</sup> | Location of Gain (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income |
|--|---|---|---|
| (amounts in thousands)                                 |   |   |   |
| <b>Derivatives in cash flow hedging relationships:</b> |   |   |   |
| Interest rate swaps                                    | \$ 1,477  | Interest expense  | \$ 95   |
|  |   | Other non-interest income <sup>(2)</sup>                              | 2,822   |
|  |   |   | <b>\$ 2,917</b>   |

(1) Amounts presented are net of taxes. See Note 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for the total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges.

(2) Includes income recognized from the termination of interest rate swaps.

For the Year Ended December 31, 2017

|  | Amount of Gain (Loss) Recognized in OCI on Derivatives <sup>(1)</sup> | Location of Gain (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income |
|--|---|---|---|
| (amounts in thousands)                               |   |   |   |
| <b>Derivative in cash flow hedging relationship:</b> |   |   |   |
| Interest rate swaps                                  | \$ 406  | Interest expense  | \$ (2,634)  |

(1) Amounts presented are net of taxes. See Note 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for the total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges.

For the Year Ended December 31, 2016

| Amount of Gain (Loss)<br>Recognized in OCI on<br>Derivatives <sup>(1)</sup> | Location of Gain<br>(Loss) Reclassified<br>from Accumulated<br>OCI into Income | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated OCI into<br>Income |
|---|--|--|
|---|--|--|

(amounts in thousands)

Derivative in cash flow hedging relationship:

|                     |          |                  |            |
|---------------------|----------|------------------|------------|
| Interest rate swaps | \$ (629) | Interest expense | \$ (1,946) |
|---------------------|----------|------------------|------------|

(1) Amounts presented are net of taxes. See Note 4 - CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) for the total effect on other comprehensive income (loss) from derivatives designated as cash flow hedges.

**Credit-risk-related Contingent Features**

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

Agreements with major derivative dealer counterparties contain provisions whereby default on any of Customers' indebtedness would be considered a default on its derivative obligations. Customers also has entered into agreements that contain provisions under which the counterparty could require Customers to settle its obligations if Customers fails to maintain its status as a well/adequately capitalized institution. As of December 31, 2018, the fair value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was \$2.6 million. In addition, Customers has collateral posting thresholds with certain of these counterparties and at December 31, 2018, had posted \$ 0.7 million of cash as collateral. Customers records cash posted as collateral as a reduction in the outstanding balance of cash and cash equivalents and an increase in the balance of other assets.

**Disclosures about Offsetting Assets and Liabilities**

The following tables present derivative instruments that are subject to enforceable master netting arrangements. Customers' interest rate swaps with institutional counterparties are subject to master netting arrangements and are included in the table below. Interest rate swaps with commercial banking customers and residential mortgage loan commitments are not subject to master netting arrangements and are excluded from the table below. Customers has not made a policy election to offset its derivative positions.

Offsetting of Financial Assets and Derivative Assets at  
December 31, 2018

| Gross Amount of<br>Recognized<br>Assets | Gross Amounts Offset<br>in the Consolidated<br>Balance Sheet | Net Amounts of<br>Assets Presented in<br>the Consolidated<br>Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                             |            |
|---|--|--|--|-----------------------------|------------|
|   |  |  | Financial Instruments                                      | Cash Collateral<br>Received | Net Amount |

(amounts in thousands)

Description

|   |          |      |          |      |          |          |
|---|----------|------|----------|------|----------|----------|
| Interest rate swap derivatives<br>with institutional counterparties | \$ 7,529 | \$ — | \$ 7,529 | \$ — | \$ 1,860 | \$ 5,669 |
|---|----------|------|----------|------|----------|----------|



Offsetting of Financial Assets and Derivative Assets at

December 31, 2017

|  | Gross Amount of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                          |            |
|--|-----------------------------------|--|---|--|--------------------------|------------|
|  |                                   |  |   | Financial Instruments                                      | Cash Collateral Received | Net Amount |
| (amounts in thousands)   |                                   |  |   |  |                          |            |
| <b>Description</b>   |                                   |  |   |  |                          |            |
| Interest rate swap derivatives with institutional counterparties | \$ 5,930                          | \$ —   | \$ 5,930  | \$ —   | \$ 5,070                 | \$ 860     |

Offsetting of Financial Liabilities and Derivative Liabilities at

December 31, 2018

|  | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                         |            |
|--|--|--|--|--|-------------------------|------------|
|  |  |  |  | Financial Instruments                                      | Cash Collateral Pledged | Net Amount |
| (amounts in thousands)   |  |  |  |  |                         |            |
| <b>Description</b>   |  |  |  |  |                         |            |
| Interest rate swap derivatives with institutional counterparties | \$ 9,077                               | \$ —   | \$ 9,077   | \$ —   | \$ 702                  | \$ 8,375   |

Offsetting of Financial Liabilities and Derivative Liabilities at

December 31, 2017

|  | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts Not Offset in the Consolidated Balance Sheet |                         |            |
|--|--|--|--|--|-------------------------|------------|
|  |  |  |  | Financial Instruments                                      | Cash Collateral Pledged | Net Amount |
| (amounts in thousands)   |  |  |  |  |                         |            |
| <b>Description</b>   |  |  |  |  |                         |            |
| Interest rate swap derivatives with institutional counterparties | \$ 5,058                               | \$ —   | \$ 5,058   | \$ —   | \$ 4,872                | \$ 186     |

**NOTE 20 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY**

The following tables present the condensed financial statements for Customers Bancorp, Inc. (parent company only) as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016.

**Balance Sheets**

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| (amounts in thousands)                               |                     |                     |
| <b>Assets</b>  |                     |                     |
| Cash in subsidiary bank                              | \$ 16,684           | \$ 67,231           |
| Investments in and receivables due from subsidiaries | 1,061,389           | 1,039,883           |
| Other assets   | 3,417               | 3,160               |
| <b>Total assets</b>                                  | <b>\$ 1,081,490</b> | <b>\$ 1,110,274</b> |
| <b>Liabilities and Shareholders' equity</b>          |                     |                     |
| Borrowings   | \$ 123,871          | \$ 186,497          |
| Other liabilities                                    | 803                 | 2,813               |
| <b>Total liabilities</b>                             | <b>124,674</b>      | <b>189,310</b>      |
| Shareholders' equity                                 | 956,816             | 920,964             |
| <b>Total Liabilities and Shareholders' Equity</b>    | <b>\$ 1,081,490</b> | <b>\$ 1,110,274</b> |

**Income and Comprehensive Income Statements**

|  | For the Years Ended December 31, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2018                             | 2017             | 2016             |
| (amounts in thousands)                                       |                                  |                  |                  |
| <b>Operating income:</b>                                     |                                  |                  |                  |
| Other, including dividends from Bank                         | \$ 45,422                        | \$ 38,200        | \$ 25,400        |
| <b>Total operating income</b>                                | <b>45,422</b>                    | <b>38,200</b>    | <b>25,400</b>    |
| <b>Operating expense:</b>                                    |                                  |                  |                  |
| Interest   | 8,178                            | 7,984            | 5,854            |
| Other  | 1,722                            | 1,742            | 4,570            |
| <b>Total operating expense</b>                               | <b>9,900</b>                     | <b>9,726</b>     | <b>10,424</b>    |
| Income before taxes and undistributed income of subsidiaries | 35,522                           | 28,474           | 14,976           |
| Income tax benefit   | 2,335                            | 3,620            | 3,961            |
| Income before undistributed income of subsidiaries           | 37,857                           | 32,094           | 18,937           |
| Equity in undistributed income of subsidiaries               | 33,838                           | 46,743           | 59,765           |
| <b>Net income</b>  | <b>71,695</b>                    | <b>78,837</b>    | <b>78,702</b>    |
| <b>Preferred stock dividends</b>                             | <b>14,459</b>                    | <b>14,459</b>    | <b>9,515</b>     |
| <b>Net income available to common shareholders</b>           | <b>57,236</b>                    | <b>64,378</b>    | <b>69,187</b>    |
| <b>Comprehensive income</b>                                  | <b>\$ 50,730</b>                 | <b>\$ 83,370</b> | <b>\$ 81,794</b> |

**Statements of Cash Flows**

| (amounts in thousands)  | For the Years Ended December 31, |                  |                  |
|---|----------------------------------|------------------|------------------|
|   | 2018                             | 2017             | 2016             |
| <b>Cash Flows from Operating Activities:</b>  |                                  |                  |                  |
| Net income  | \$ 71,695                        | \$ 78,837        | \$ 78,702        |
| Adjustments to reconcile net income to net cash provided by operating activities:     |                                  |                  |                  |
| Equity in undistributed earnings of subsidiaries, net of dividends received from Bank | (33,838)                         | (46,743)         | (59,765)         |
| Loss on sale of available for sale investment securities                              | —                                | —                | 1                |
| (Increase) decrease in other assets   | (256)                            | 7,624            | (7,721)          |
| (Decrease) increase in other liabilities  | (251)                            | (1,322)          | 54               |
| <b>Net Cash Provided By Operating Activities</b>                                      | <b>37,350</b>                    | <b>38,396</b>    | <b>11,271</b>    |
| <b>Cash Flows from Investing Activities:</b>  |                                  |                  |                  |
| Proceeds from sales of investment securities available for sale                       | —                                | —                | 4                |
| Payments for investments in and advances to subsidiaries                              | (29)                             | (98,725)         | (230,872)        |
| <b>Net Cash Used in Investing Activities</b>  | <b>(29)</b>                      | <b>(98,725)</b>  | <b>(230,868)</b> |
| <b>Cash Flows from Financing Activities:</b>  |                                  |                  |                  |
| Proceeds from issuance of common stock  | 3,585                            | 2,716            | 70,985           |
| Proceeds from issuance of preferred stock   | —                                | —                | 161,902          |
| (Repayment of) proceeds from issuance of long-term debt                               | (63,250)                         | 98,564           | —                |
| Exercise and redemption of warrants   | 112                              | 1,059            | 1,532            |
| Purchase of common stock - repurchase program   | (12,976)                         | —                | —                |
| Payments of employee taxes withheld from share-based awards                           | (880)                            | (14,761)         | (5,897)          |
| Preferred stock dividends paid  | (14,459)                         | (14,459)         | (9,051)          |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                            | <b>(87,868)</b>                  | <b>73,119</b>    | <b>219,471</b>   |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                           | <b>(50,547)</b>                  | <b>12,790</b>    | <b>(126)</b>     |
| <b>Cash and Cash Equivalents - Beginning</b>  | <b>67,231</b>                    | <b>54,441</b>    | <b>54,567</b>    |
| <b>Cash and Cash Equivalents - Ending</b>   | <b>\$ 16,684</b>                 | <b>\$ 67,231</b> | <b>\$ 54,441</b> |

**NOTE 21 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table presents selected quarterly data for the years ended December 31, 2018 and 2017.

| Quarter Ended                                 | 2018        |              |            |           |
|---|-------------|--------------|------------|-----------|
|   | December 31 | September 30 | June 30    | March 31  |
| (amounts in thousands, except per share data) |             |              |            |           |
| Interest income                               | \$ 103,303  | \$ 110,045   | \$ 107,639 | \$ 96,964 |
| Interest expense                              | 41,779      | 46,044       | 40,317     | 31,933    |
| Net interest income                           | 61,524      | 64,001       | 67,322     | 65,031    |
| Provision for loan losses                     | 1,385       | 2,924        | (784)      | 2,117     |
| Non-interest income <sup>(1)</sup>            | 19,877      | 2,084        | 16,127     | 20,910    |
| Non-interest expenses                         | 57,045      | 57,104       | 53,750     | 52,280    |
| Income before income taxes                    | 22,971      | 6,057        | 30,483     | 31,544    |
| Provision for income taxes                    | 5,109       | 28           | 6,820      | 7,402     |
| Net income                                    | 17,862      | 6,029        | 23,663     | 24,142    |
| Preferred stock dividends                     | 3,615       | 3,615        | 3,615      | 3,615     |
| Net income available to common shareholders   | \$ 14,247   | \$ 2,414     | \$ 20,048  | \$ 20,527 |
| Earnings per common share:                    |             |              |            |           |
| Basic earnings per common share               | \$ 0.45     | \$ 0.08      | \$ 0.64    | \$ 0.65   |
| Diluted earnings per common share             | \$ 0.44     | \$ 0.07      | \$ 0.62    | \$ 0.64   |

(1) The quarter ended September 30, 2018 included an \$18.7 million loss on sale of investment securities.

2017

| Quarter Ended                                 | December 31 | September 30 | June 30   | March 31  |
|---|-------------|--------------|-----------|-----------|
| (amounts in thousands, except per share data) |             |              |           |           |
| Interest income                               | \$ 97,619   | \$ 98,285    | \$ 93,852 | \$ 83,094 |
| Interest expense                              | 29,319      | 30,266       | 25,246    | 20,676    |
| Net interest income                           | 68,300      | 68,019       | 68,606    | 62,418    |
| Provision for loan losses                     | 831         | 2,352        | 535       | 3,050     |
| Non-interest income                           | 19,740      | 18,026       | 18,391    | 22,754    |
| Non-interest expenses                         | 54,788      | 61,040       | 50,413    | 49,366    |
| Income before income taxes                    | 32,421      | 22,653       | 36,049    | 32,756    |
| Provision for income taxes                    | 10,806      | 14,899       | 12,327    | 7,009     |
| Net income                                    | 21,615      | 7,754        | 23,722    | 25,747    |
| Preferred stock dividends                     | 3,615       | 3,615        | 3,615     | 3,615     |
| Net income available to common shareholders   | \$ 18,000   | \$ 4,139     | \$ 20,107 | \$ 22,132 |
| Earnings per common share:                    |             |              |           |           |
| Basic earnings per common share               | \$ 0.58     | \$ 0.13      | \$ 0.66   | \$ 0.73   |
| Diluted earnings per common share             | \$ 0.55     | \$ 0.13      | \$ 0.62   | \$ 0.67   |

## NOTE 22 – BUSINESS SEGMENTS

Customers' segment financial reporting reflects the manner in which its chief operating decision makers allocate resources and assess performance. Management has determined that Customers' operations consist of two reportable segments - Customers Bank Business Banking and BankMobile. Each segment generates revenues, manages risk and offers distinct products and services to targeted customers through different delivery channels. The strategy, marketing and analysis of these segments vary considerably.

The Customers Bank Business Banking segment is delivered predominately to commercial customers in Southeastern Pennsylvania, New York, New Jersey, Massachusetts, Rhode Island, New Hampshire, Washington D.C., and Illinois through a single-point-of-contact business model and provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Lending and deposit gathering activities are focused primarily on privately held businesses, high-net-worth families, selected commercial real estate lending, commercial mortgage companies and equipment finance. Revenues are generated primarily through net interest income (the difference between interest earned on loans, investments and other interest earning assets and interest paid on deposits and other borrowed funds) and other non-interest income, such as mortgage warehouse transactional fees and BOLI.

The BankMobile segment provides state-of-the-art high-tech digital banking and disbursement services to consumers, students and the "under banked" nationwide, along with "Banking as a Service" offerings with white label partners. BankMobile is a full-service banking platform that is accessible to customers anywhere and anytime through the customer's smartphone or other web-enabled device. Revenues are currently being generated primarily through interchange and card revenue, deposit and wire transfer fees and university fees. The majority of revenue and expenses for BankMobile are related to the segment's operation of the ongoing business acquired through the Disbursement business acquisition and costs associated with the development of white label products for its partners.

The following tables present the operating results for Customers' reportable business segments for the years ended December 31, 2018, 2017 and 2016. The segment financial results include directly attributable revenues and expenses. Consistent with the presentation of segment results to Customers' chief operating decision makers, overhead costs and preferred stock dividends are assigned to the Customers Bank Business Banking segment. The tax benefit assigned to BankMobile was based on an estimated effective tax rate of 24.56%, 37.67% and 38.00% for the years ended December 31, 2018, 2017 and 2016, respectively.

For the Year Ended December 31, 2018

| (amounts in thousands)                             | Customers Bank Business |             |              |
|--|-------------------------|-------------|--------------|
|  | Banking                 | BankMobile  | Consolidated |
| Interest income <sup>(1)</sup>                     | \$ 400,948              | \$ 17,003   | \$ 417,951   |
| Interest expense                                   | 159,674                 | 400         | 160,074      |
| Net interest income                                | 241,274                 | 16,603      | 257,877      |
| Provision for loan losses                          | 2,928                   | 2,714       | 5,642        |
| Non-interest income                                | 17,499                  | 41,499      | 58,998       |
| Non-interest expense                               | 146,946                 | 73,233      | 220,179      |
| Income (loss) before income taxes                  | 108,899                 | (17,845)    | 91,054       |
| Income tax expense (benefit)                       | 23,742                  | (4,383)     | 19,359       |
| Net income (loss)                                  | 85,157                  | (13,462)    | 71,695       |
| Preferred stock dividends                          | 14,459                  | —           | 14,459       |
| Net income (loss) available to common shareholders | \$ 70,698               | \$ (13,462) | \$ 57,236    |
| Goodwill and other intangibles                     | \$ 3,629                | \$ 12,870   | \$ 16,499    |
| Total assets                                       | \$ 9,688,146            | \$ 145,279  | \$ 9,833,425 |
| Total deposits                                     | \$ 6,766,378            | \$ 375,858  | \$ 7,142,236 |
| Total non-deposit liabilities                      | \$ 1,719,225            | \$ 15,148   | \$ 1,734,373 |

For the Year Ended December 31, 2017

| (amounts in thousands)                             | Customers Bank Business |             |              |
|--|-------------------------|-------------|--------------|
|  | Banking                 | BankMobile  | Consolidated |
| Interest income <sup>(1)</sup>                     | \$ 359,931              | \$ 12,919   | \$ 372,850   |
| Interest expense                                   | 105,438                 | 69          | 105,507      |
| Net interest income                                | 254,493                 | 12,850      | 267,343      |
| Provision for loan losses                          | 5,638                   | 1,130       | 6,768        |
| Non-interest income                                | 24,788                  | 54,122      | 78,910       |
| Non-interest expense                               | 128,604                 | 87,002      | 215,606      |
| Income (loss) before income taxes                  | 145,039                 | (21,160)    | 123,879      |
| Income tax expense (benefit)                       | 53,013                  | (7,971)     | 45,042       |
| Net income (loss)                                  | 92,026                  | (13,189)    | 78,837       |
| Preferred stock dividends                          | 14,459                  | —           | 14,459       |
| Net income (loss) available to common shareholders | \$ 77,567               | \$ (13,189) | \$ 64,378    |
| Goodwill and other intangibles                     | \$ 3,630                | \$ 12,665   | \$ 16,295    |
| Total assets                                       | \$ 9,769,996            | \$ 69,559   | \$ 9,839,555 |
| Total deposits                                     | \$ 6,400,310            | \$ 399,832  | \$ 6,800,142 |
| Total non-deposit liabilities                      | \$ 2,106,919            | \$ 11,530   | \$ 2,118,449 |

(1) Amounts reported include funds transfer pricing of \$15.7 million and \$12.9 million, respectively, for the years ended December 31, 2018 and 2017, credited to BankMobile for the value provided to the Customers Bank Business Banking segment for the net use of low/no-cost deposits.

For the Year Ended December 31, 2016

| (amounts in thousands)                             | Customers Bank Business |            |              |
|--|-------------------------|------------|--------------|
|  | Banking                 | BankMobile | Consolidated |
| Interest income <sup>(1)</sup>                     | \$ 315,643              | \$ 6,896   | \$ 322,539   |
| Interest expense                                   | 73,004                  | 38         | 73,042       |
| Net interest income                                | 242,639                 | 6,858      | 249,497      |
| Provision for loan losses                          | 2,246                   | 795        | 3,041        |
| Non-interest income                                | 23,165                  | 33,205     | 56,370       |
| Non-interest expense                               | 130,394                 | 47,837     | 178,231      |
| Income (loss) before income taxes                  | 133,164                 | (8,569)    | 124,595      |
| Income tax expense (benefit)                       | 49,149                  | (3,256)    | 45,893       |
| Net income (loss)                                  | 84,015                  | (5,313)    | 78,702       |
| Preferred stock dividends                          | 9,515                   | —          | 9,515        |
| Net income (loss) available to common shareholders | \$ 74,500               | \$ (5,313) | \$ 69,187    |
| Goodwill and other intangibles                     | \$ 3,639                | \$ 13,982  | \$ 17,621    |
| Total assets                                       | \$ 9,303,465            | \$ 79,271  | \$ 9,382,736 |
| Total deposits                                     | \$ 6,846,980            | \$ 456,795 | \$ 7,303,775 |
| Total non-deposit liabilities                      | \$ 1,195,087            | \$ 28,002  | \$ 1,223,089 |

(1) Amounts reported include funds transfer pricing of \$6.9 million for the year ended December 31, 2016, credited to BankMobile for the value provided to the Customers Bank Business Banking segment for the net use of low/no-cost deposits.

### NOTE 23 - NON-INTEREST REVENUES

As provided in NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION, Customers' adoption of ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*, on January 1, 2018, did not have a significant impact to Customers' consolidated financial statements and, as such, a cumulative effect adjustment to beginning retained earnings was not necessary. Customers determined that its debit and prepaid card interchange income, previously reported on a gross basis for periods prior to adoption, will need to be presented on a net basis under ASC 606. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the previous accounting guidance under ASC 605. Debit and prepaid card interchange expense for the years ended December 31, 2018, 2017, and 2016 amounted to \$5.5 million, \$5.9 million, and \$1.3 million, respectively.

In addition, as part of the enhanced disclosure requirements under the new guidance, Customers is presenting disaggregated revenue by business segment, nature of the revenue stream, and the pattern or timing of revenue recognition. The accounting treatment for interest-related revenues is covered under ASC 310 and is out of the scope of ASC 606.

The following tables present Customers' non-interest revenues affected by ASC 606 by business segment for the years ended December 31, 2018, 2017, and 2016:

| (amounts in thousands)                        | For the Year Ended December 31, 2018 |            |              |
|---|--------------------------------------|------------|--------------|
|   | Customers Bank Business Banking      | BankMobile | Consolidated |
| <b>Revenue from contracts with customers:</b> |                                      |            |              |
| Revenue recognized at point in time:          |                                      |            |              |
| Interchange and card revenue                  | \$ 794                               | \$ 29,901  | \$ 30,695    |
| Deposit fees                                  | 1,277                                | 6,547      | 7,824        |
| University fees - card and disbursement fees  | —                                    | 1,039      | 1,039        |
| Total revenue recognized at point in time     | 2,071                                | 37,487     | 39,558       |
| Revenue recognized over time:                 |                                      |            |              |
| University fees - subscription revenue        | —                                    | 3,681      | 3,681        |
| Total revenue recognized over time            | —                                    | 3,681      | 3,681        |
| Total revenue from contracts with customers   | \$ 2,071                             | \$ 41,168  | \$ 43,239    |

| (amounts in thousands)                        | For the Year Ended December 31, 2017 |            |              |
|---|--------------------------------------|------------|--------------|
|   | Customers Bank Business Banking      | BankMobile | Consolidated |
| <b>Revenue from contracts with customers:</b> |                                      |            |              |
| Revenue recognized at point in time:          |                                      |            |              |
| Interchange and card revenue                  | \$ 782                               | \$ 40,727  | \$ 41,509    |
| Deposit fees                                  | 1,190                                | 8,849      | 10,039       |
| University fees - card and disbursement fees  | —                                    | 1,141      | 1,141        |
| Total revenue recognized at point in time     | 1,972                                | 50,717     | 52,689       |
| Revenue recognized over time:                 |                                      |            |              |
| University fees - subscription revenue        | —                                    | 3,272      | 3,272        |
| Total revenue recognized over time            | —                                    | 3,272      | 3,272        |
| Total revenue from contracts with customers   | \$ 1,972                             | \$ 53,989  | \$ 55,961    |

| (amounts in thousands)                        | For the Year Ended December 31, 2016 |            |              |
|---|--------------------------------------|------------|--------------|
|   | Customers Bank Business Banking      | BankMobile | Consolidated |
| <b>Revenue from contracts with customers:</b> |                                      |            |              |
| Revenue recognized at point in time:          |                                      |            |              |
| Interchange and card revenue                  | \$ 620                               | \$ 24,061  | \$ 24,681    |
| Deposit fees                                  | 1,140                                | 6,927      | 8,067        |
| University fees - card and disbursement fees  | —                                    | 581        | 581          |
| Total revenue recognized at point in time     | 1,760                                | 31,569     | 33,329       |
| Revenue recognized over time:                 |                                      |            |              |
| University fees - subscription revenue        | —                                    | 1,567      | 1,567        |
| Total revenue recognized over time            | —                                    | 1,567      | 1,567        |
| Total revenue from contracts with customers   | \$ 1,760                             | \$ 33,136  | \$ 34,896    |

The following is a discussion of revenues within the scope of ASC 606:

#### *Card revenue*

Card revenue primarily relates to debit and prepaid card fees earned from interchange and ATM fees. Interchange fees are earned whenever Customers' issued debit and prepaid cards are processed through card payment networks. Interchange fees are recognized concurrent with the processing of the debit or prepaid card transaction.

#### *Deposit fees*

Deposit fees relate to service charges on deposit accounts for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop-payment charges, wire transfer fees, cashier and money order fees are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly

maintenance and account analysis fees, are earned on a monthly basis representing the period over which Customers satisfies its performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the depositor's account balance.

The revenues recognized at a point in time primarily consist of contracts with no specified terms, but which may be terminated at any time by the customer without penalty. Due to the transactional nature and indefinite term of these agreements, there were no related contract balances that were recorded for these revenue streams on Customers' consolidated balance sheets as of December 31, 2018 and 2017.

#### *University fees*

University fees represent revenues from higher education institutions and are generated from fees charged for the services provided. For higher education institution clients, Customers, through BankMobile, facilitates the distribution of financial aid and other refunds to students, while simultaneously enhancing the ability of the higher education institutions to comply with the federal regulations applicable to financial aid transactions. For these services, higher education institution clients are charged an annual subscription fee and/or per-transaction fee (e.g., new card, card replacement fees) for certain transactions. The annual subscription fee is recognized ratably over the period of service and the transaction fees are recognized when the transaction is completed. BankMobile also enters into long-term (generally three or five-year initial term) contracts with higher education institutions to provide these refund management disbursement services. Deferred revenue consists of amounts billed to or received from clients prior to the performance of services. The deferred revenues are earned over the service period on a straight-line basis. As of December 31, 2018 and 2017, Customers recorded deferred revenue of \$2.2 million and \$2.0 million, respectively, related to these university subscription contracts. At December 31, 2018 and 2017, Customers had accounts receivable of \$1.4 million and \$1.1 million, respectively, related to the university fee arrangements.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Customers Bancorp is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with United States generally accepted accounting principles. Management believes that the consolidated financial statements of Customers Bancorp fairly reflect the form and substance of transactions and that the financial statements fairly represent Customers Bancorp's financial position and results of operations. Management has included in Customers Bancorp's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent registered public accounting firm of BDO USA, LLP audits Customers Bancorp's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Board of Directors of Customers Bancorp has an Audit Committee composed of three independent directors. The Committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, internal control, auditing, corporate governance and financial reporting matters. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Management of Customers Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.



**Item 9A. Controls and Procedures**

**(a) Management's Evaluation of Disclosure Controls and Procedures.** Customers Bancorp maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its periodic filings under the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to its management on a timely basis to allow decisions regarding required disclosure. Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2018. Based upon that evaluation, Customers Bancorp's management concluded that its disclosure controls and procedures are effective as of December 31, 2018.

**Management's Annual Report on Internal Control over Financial Reporting.** Under the supervision and with the participation of management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, Customers Bancorp's management assessed the effectiveness of Customers Bancorp's internal control over financial reporting as of December 31, 2018. In making that assessment, management used the criteria set forth in the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, Customers Bancorp's management concluded that its internal control over financial reporting was effective as of December 31, 2018.

Management's Responsibility for Financial Statements and Report on Internal Control over Financial Reporting is included in Part II, Item 8, "Financial Statements and Supplementary Data," and is incorporated by reference herein. Customers Bancorp's independent registered public accounting firm, BDO USA, LLP, also attested to, and reported on, the effectiveness of internal control over financial reporting as of December 31, 2018. BDO USA, LLP's attestation report, which appears in Part II, Item 8, "Financial Statements and Supplementary Data," is incorporated by reference herein.

**(b) Changes in Internal Control Over Financial Reporting.** As previously disclosed in Item 9A of Customers Bancorp's amended Annual Report on Form 10-K/A for the year ended December 31, 2017, management identified a material weakness in internal control over financial reporting during third quarter 2018 solely relating to the classification and reporting of its commercial mortgage warehouse lending transactions on its consolidated balance sheets and statements of cash flows and concluded that its internal control over financial reporting was not effective as of December 31, 2017. Customers Bancorp made a similar conclusion with respect to its internal control over financial reporting as of March 31, 2018, June 30, 2018, and September 30, 2018, as disclosed in Item 4 of its amended Quarterly Reports on Form 10-Q/A for the quarters ended March 31, 2018 and June 30, 2018 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, respectively.

During fourth quarter 2018, Customers Bancorp conducted a comprehensive analysis of the classifications of cash flows within its consolidated statements of cash flows and established new accounting policies and disclosure control procedures for the classification and reporting of its commercial mortgage warehouse lending transactions on the consolidated balance sheets and statements of cash flows. After completing its testing of the design and operating effectiveness of these new accounting policies and disclosure control procedures, Customers Bancorp's management concluded that it had remediated the previously identified material weakness in internal control over financial reporting as of December 31, 2018. There were no other changes in Customers Bancorp's internal control over financial reporting during fourth quarter 2018 that have materially affected or are reasonably likely to materially affect Customers Bancorp's internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

***Item 10. Directors, Executive Officers and Corporate Governance***

The information required by this Item will be included in the Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections titled “Our Board of Directors and Management,” and “Board Governance,” and is incorporated herein by reference.

***Item 11. Executive Compensation***

The information required by this Item will be included in the Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections titled “Director Compensation,” “Executive Officer Compensation,” and “Board Governance,” and is incorporated herein by reference.

***Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item will be included in the Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections titled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” and is incorporated herein by reference.

***Item 13. Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item will be included in the Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections titled “Certain Relationships and Related Transactions” and “Board Governance” and is incorporated herein by reference.

***Item 14. Principal Accounting Fees and Services***

The information required by this Item will be included in the Proxy Statement for the 2019 Annual Meeting of Shareholders in the section titled “Proposal 2 — Ratification of Appointment of Independent Registered Public Accounting Firm,” and is incorporated herein by reference.

**PART IV****Item 15 Exhibits and Financial Statement Schedules**

## (a) 1. Financial Statements

Consolidated financial statements are included under Item 8 of Part II of this Form 10-K.

## (b) 2. Financial Statements Schedules

Financial statements schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

## (c) Exhibits

| <u>Exhibit<br/>No.</u> | <u>Description</u>   |
|------------------------|--|
| 2.1                    | <a href="#">Purchase and Assumption Agreement, dated as of July 9, 2010, by and among Customers Bank, the FDIC as Receiver of USA Bank, and the FDIC acting in its corporate capacity, incorporated by reference to Exhibit 2.3 to the Customers Bancorp Form S-1/A filed with the SEC on January 13, 2011</a>                                 |
| 2.2                    | <a href="#">Purchase and Assumption Agreement, dated as of September 17, 2010, by and among Customers Bank, the FDIC as Receiver of ISN Bank, and the FDIC acting in its corporate capacity, incorporated by reference to Exhibit 2.4 to the Customers Bancorp Form S-1/A filed with the SEC on January 13, 2011</a>                           |
| 2.3                    | <a href="#">Asset Purchase Agreement dated as of December 15, 2015 by and among Customers Bancorp, Customers Bank, Higher One, Inc. and Higher One Holdings, Inc., incorporated by reference to Exhibit 2.3 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016</a>   |
| 2.4                    | <a href="#">Purchase and Assumption Agreement dated as of March 7, 2017 among Flagship Community Bank, Customers Bank and Customers Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp 8-K filed with the SEC on March 8, 2017</a>   |
| 2.5                    | <a href="#">Amended and Restated Purchase and Assumption Agreement and Plan of Merger dated as of November 17, 2017 among Flagship Community Bank, BankMobile Technologies, Inc, Customers Bank and Customers Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp 8-K filed with the SEC on November 20, 2017</a> |
| 2.6                    | <a href="#">Letter Agreement, dated as of August 7, 2018, by and between Flagship Bank, BankMobile Technologies, Inc., Customers Bank, and Customers Bancorp, Inc., incorporated by reference to Exhibit 3.8 to Customers Bancorp Inc.'s Form 10-Q filed with the SEC on August 9, 2018</a>  |
| 3.1                    | <a href="#">Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012</a>   |
| 3.2                    | <a href="#">Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012</a>  |
| 3.3                    | <a href="#">Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, Inc., incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012</a>  |
| 3.4                    | <a href="#">Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on May 18, 2015</a>   |
| 3.5                    | <a href="#">Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on January 29, 2016</a>   |
| 3.6                    | <a href="#">Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on April 28, 2016</a>   |
| 3.7                    | <a href="#">Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on September 16, 2016</a>   |
| 4.1                    | <a href="#">Specimen stock certificate of Customers Bancorp, Inc. Voting Common Stock and Class B Non-Voting Common Stock, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012</a>  |

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 4.2                | <a href="#">Form of Warrant issued to investors in New Century Bank's March and February 2010 private offerings, 2009 private offering, and in partial exchange for New Century Bank's shares of 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock in June 2009, incorporated by reference to Exhibit 4.8 to the Customers Bancorp Form S-1 filed with the SEC on April 22, 2010</a> |
| 4.3                | <a href="#">Warrants issued to Jay S. Sidhu, June 30, 2009, incorporated by reference to Exhibit 4.9 to the Customers Bancorp Form S-1 filed with the SEC on April 22, 2010</a>  |
| 4.4                | <a href="#">Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013</a>  |
| 4.5                | <a href="#">First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013</a>   |
| 4.6                | <a href="#">6.375% Global Note in aggregate principal amount of \$55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on July 31, 2013</a>   |
| 4.7                | <a href="#">Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013</a>  |
| 4.8                | <a href="#">6.375% Global Note in aggregate principal amount of \$8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp Form 8-K filed with the SEC on August 29, 2013</a>  |
| 4.9                | <a href="#">Form of Note Subscription Agreement (including form of Subordinated Note Certificate and Senior Note Certificate), incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on June 26, 2014</a>   |
| 4.10               | <a href="#">Second Supplemental Indenture, dated as of June 30, 2017, by and between Customers Bancorp, Inc. as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp Form 8-K filed with the SEC on June 30, 2017</a>   |
| 10.1+              | <a href="#">Customers Bancorp, Inc. 2010 Stock Option Plan, incorporated by reference to Exhibit 10.2 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012</a>  |
| 10.2+              | <a href="#">Amended and Restated Employment Agreement, dated as of March 26, 2012, by and between Customers Bancorp, Inc. and Jay S. Sidhu, incorporated by reference to Exhibit 10.3 to the Customers Bancorp Form S-1 filed with the SEC on March 28, 2012</a>   |
| 10.3+              | <a href="#">Amended and Restated Employment Agreement, dated as of March 26, 2012, by and between Customers Bancorp, Inc. and Richard Ehst, incorporated by reference to Exhibit 10.4 to the Customers Bancorp Form S-1 filed with the SEC on March 28, 2012</a>   |
| 10.4+              | <a href="#">Amended and Restated Customers Bancorp, Inc. 2004 Incentive Equity and Deferred Compensation Plan, incorporated by reference to Exhibit 10.7 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012</a>   |
| 10.5+              | <a href="#">Form of Restricted Stock Unit Award Agreement for Employees relating to the 2012 Special Stock Reward Program, incorporated by reference to Exhibit 10.25 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012</a>  |
| 10.6+              | <a href="#">Bonus Recognition and Retention Plan, incorporated by reference to Exhibit 10.15 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012</a>   |
| 10.7+              | <a href="#">Supplemental Executive Retirement Plan of Jay S. Sidhu, incorporated by reference to Exhibit 10.15 to the Customers Bancorp Form S-1/A filed with the SEC on April 18, 2011</a>  |
| 10.8+              | <a href="#">Form of Restricted Stock Unit Award Agreement for Directors relating to the 2012 Special Stock Reward Program, incorporated by reference to Exhibit 10.26 to the Customers Bancorp Form S-1/A filed with the SEC on May 1, 2012</a>  |
| 10.9+              | <a href="#">Form of Stock Option Agreement, incorporated by reference to Exhibit 10.18 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012</a>   |
| 10.10+             | <a href="#">Form of Restricted Stock Unit Award Agreement, incorporated by reference to Exhibit 10.17 to the Customers Bancorp Form 10-K filed with the SEC on March 21, 2012</a>  |

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 10.11+             | <a href="#">Change of Control Agreement, dated as of January 30, 2013, by and between Customers Bancorp, Inc. and Glenn Hedde, incorporated by reference to Exhibit 10.29 to Customers Bancorp's Form 10-K filed with the SEC on March 18, 2013</a>                                       |
| 10.12+             | <a href="#">Change of Control Agreement, dated as of January 30, 2013, by and between Customers Bancorp, Inc. and Warren Taylor, incorporated by reference to Exhibit 10.30 to Customers Bancorp's Form 10-K filed with the SEC on March 18, 2013</a>                                     |
| 10.13+             | <a href="#">Change of Control Agreement, dated as of December 22, 2012, by and between Customers Bancorp, Inc. and Ken Keiser, incorporated by reference to Exhibit 10.14 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016</a>                                  |
| 10.14+             | <a href="#">Employment Agreement, dated as of August 5, 2013, by and between Customers Bancorp, Inc. and Robert Wahlman, incorporated by reference to Exhibit 10.15 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016</a>  |
| 10.15+             | <a href="#">Employment Agreement, dated as of March 1, 2014, by and between Customers Bancorp, Inc. and Steven Issa, incorporated by reference to Exhibit 10.16 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016</a>  |
| 10.16+             | <a href="#">Amendment to Employment Agreement, dated as of February 26, 2016, by and between Customers Bancorp, Inc. and Steven Issa, incorporated by reference to Exhibit 10.17 to the Customers Bancorp Form 10-K filed with the SEC on February 26, 2016</a>                           |
| 10.17              | <a href="#">Transition Services Agreement dated as of June 15, 2016 by and among Customers Bancorp, Customers Bank, Higher One, Inc. and Higher One Holdings, Inc., incorporated by reference to Exhibit 10.1 to the Customers Bancorp's Form 8-K filed with the SEC on June 16, 2016</a> |
| 10.18              | <a href="#">Order to Cease and Desist and Order of Assessment of Civil Money Penalty Issued Upon Consent Dated December 2, 2016, incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on December 7, 2016</a>                                   |
| 10.19+             | <a href="#">Amended and Restated Employment Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Richard Ehst, incorporated by reference to Exhibit 10.2 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016</a>                    |
| 10.20+             | <a href="#">Amended and Restated Employment Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Jay S. Sidhu, incorporated by reference to Exhibit 10.1 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016</a>                    |
| 10.21+             | <a href="#">Letter Agreement, dated as of December 30, 2016, by and between Customers Bancorp, Inc. and Jay S. Sidhu, incorporated by reference to Exhibit 10.3 to the Customers Bancorp Form 8-K filed with the SEC on December 30, 2016</a>   |
| 10.22*             | <a href="#">Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of February 24, 2017.</a>   |
| 10.23*             | <a href="#">First Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 30, 2017.</a>   |
| 10.24*             | <a href="#">Second Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of October 24, 2017.</a>  |
| 10.25*             | <a href="#">Third Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 21, 2017.</a>  |
| 10.26*             | <a href="#">Fourth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 1, 2018</a>   |
| 10.27*             | <a href="#">Fifth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of August 16, 2018.</a>  |
| 10.28*             | <a href="#">Sixth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018.</a>   |
| 10.29*             | <a href="#">Seventh Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018.</a>   |

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 10.30*             | <a href="#">Eighth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 9, 2018.</a>  |
| 10.31*             | <a href="#">Ninth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of September 28, 2018.</a>   |
| 10.32*             | <a href="#">Tenth Amendment to Private Label Banking Program Agreement by and between Customers Bank and T-Mobile USA, Inc. dated as of December 27, 2018.</a>  |
| 10.33+             | <a href="#">Separation of Employment dated as of December 7, 2018 by and between Customers Bancorp, Inc. and Robert Wahlman, incorporated by reference to Exhibit 10.1 to the Customers Bancorp, Inc. Form 8-K filed with the SEC on December 11, 2018</a>  |
| 10.34+             | <a href="#">Change of Control Agreement, dated as of August 14, 2017 by and between Customers Bancorp, Inc. and Carla A. Leibold</a>  |
| 21.1               | <a href="#">List of Subsidiaries of Customers Bancorp, Inc.</a>   |
| 23.1               | <a href="#">Consent of BDO USA, LLP, filed herewith</a>   |
| 31.1               | <a href="#">Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</a>  |
| 31.2               | <a href="#">Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</a>  |
| 32.1               | <a href="#">Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 32.2               | <a href="#">Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 101                | Interactive Data Files regarding (a) Balance Sheets as of December 31, 2018 and 2017, (b) Statements of Income for the years ended December 31, 2018, 2017 and 2016, (c) Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (d) Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, (e) Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016 and (f) Notes to Financial Statements for the years ended December 31, 2018, 2017 and 2016. |
| +                  | Management Contract or compensatory plan or arrangement   |
| *                  | Confidential treatment has been requested for certain information contained in this document. Such information has been omitted and filed separately with the Securities and Exchange Commission.   |

### SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

#### Customers Bancorp, Inc.

March 1, 2019

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

#### Customers Bancorp, Inc.

March 1, 2019

By: /s/ Carla A. Leibold  
Name: Carla A. Leibold  
Title: Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature:</u>                                     | <u>Title(s):</u>  | <u>Date:</u>  |
|---|---|---------------|
| <u>/s/ Jay S. Sidhu</u><br>Jay S. Sidhu               | Chairman, Chief Executive Officer and Director<br>(principal executive officer)                   | March 1, 2019 |
| <u>/s/ Carla A. Leibold</u><br>Carla A. Leibold       | Executive Vice President - Chief Financial Officer and Treasurer<br>(principal financial officer) | March 1, 2019 |
| <u>/s/ Jeffrey C. Skumin</u><br>Jeffrey C. Skumin     | Senior Vice President - Chief Accounting Officer and Controller<br>(principal accounting officer) | March 1, 2019 |
| <u>/s/ Andrea R. Allon</u><br>Andrea R. Allon         | Director  | March 1, 2019 |
| <u>/s/ Rick B. Burkey</u><br>Rick B. Burkey           | Director  | March 1, 2019 |
| <u>/s/ Bhanu Choudhrie</u><br>Bhanu Choudhrie         | Director  | March 1, 2019 |
| <u>/s/ Daniel K. Rothermel</u><br>Daniel K. Rothermel | Director  | March 1, 2019 |
| <u>/s/ T. Lawrence Way</u><br>T. Lawrence Way         | Director  | March 1, 2019 |
| <u>/s/ Steven J. Zuckerman</u><br>Steven J. Zuckerman | Director  | March 1, 2019 |

## PRIVATE LABEL BANKING PROGRAM AGREEMENT

This **PRIVATE LABEL BANKING PROGRAM AGREEMENT** (together with any exhibits, schedules, and attachments, collectively, this "Agreement" or the "Agreement") is dated this 24th day of February, 2017 (the "Effective Date") and is by and between **T- MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"). Company and Bank are collectively referred to as the "Parties" and are individually referred to as a "Party."

### RECITALS

- (a) Bank is a Pennsylvania chartered, FDIC-insured banking institution and member of the Federal Reserve System that, among other things, offers a variety of banking services to consumers.
- (b) Company is a wireless telecommunications company, which provides communications and other services and products to consumers.
- (c) Bank and Company desire to collaborate in developing, marketing, and offering the T- Mobile Financial Services to Company's customers, and Bank desires to provide the T- Mobile Financial Services to Company's customers (collectively, the "Program").

### TERMS OF AGREEMENT

**NOW, THEREFORE**, in consideration of the mutual covenants and conditions hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

**1. CERTAIN DEFINITIONS.** Capitalized terms used herein shall have the meanings ascribed to such terms in this Section 1 or in the body of this Agreement and such meanings shall be applicable to both the singular and the plural forms of such terms.

(a) "Account Agreement" means, collectively, the agreement(s) between Bank and a Customer governing the terms and use of a T-Mobile Customer Account or a Card and all related disclosures as may be required by Applicable Law or deemed necessary by Bank.

(b) "Account Terms and Conditions" has the meaning ascribed to such term in Section 3.1(a).

(c) "Active T-Mobile Customer" means (1) a T-Mobile Customer that has made a deposit or withdrawal to a T-Mobile Customer Account in the previous three (3) months; or (2) has an open account with a balance.

(d) "Advisory Board" has the meaning ascribed to such term in Section 15.4(c).



(e) "AML Program" has the meaning ascribed to such term in Section 3.2.

(f) "Applicable Law" means, as and to the extent applicable to a Party, (i) any international, federal, state, or local law, (ii) any regulation, rule, supervisory guidance, guideline, directive, or interpretation promulgated or published by any Regulatory Authority, or (iii) any order issued by a court having jurisdiction over a Party related to the issuance, sale, authorization or usage of the Cards or services to be provided under this Agreement.

(g) "Approval Rate" has the meaning ascribed to such term in Section 2(a) of Exhibit

D.

(h) "ATM" means automated teller machine.

(i) "Auditing Party" has the meaning ascribed to such term in Section 5.1(e).

(j) "Bank FinTech" has the meaning ascribed to such term in Section 14.1.

(k) "Bank Indemnified Party" has the meaning ascribed to such term in Section

15.1(a).

(l) "Bank Marks" means the Bank's Marks set forth in Exhibit 14.7, as such Marks may be modified or updated from time to time by Bank.

(m) "Bank User Interface" has the meaning ascribed to such term in Section 14.1.

(n) "Behavior Data" has the meaning ascribed to such term in Section 11.3.

(o) "Beta Launch Date" has the meaning ascribed to such term in Section 6.1.

(p) "Beta Program" has the meaning ascribed to such term in Section 10(e) of Exhibit

D.

(q) "Beta Version" has the meaning ascribed to such term in Section 10(e) of Exhibit

D.

(r) "Brokered Deposits" has the meaning ascribed to such term in Section 8.1(m).

(s) "Card" shall mean a debit card, physical or virtual, or other access device issued

by Bank to a T-Mobile Customer to allow the T-Mobile Customer to access the T-Mobile Customer Account.

(t) "Charges" means any and all charges related to services assessed against the T-Mobile Customer Accounts that are set by T-Mobile and administered by Bank.

(u) "Claim" has the meaning ascribed to such term in Section 15.1(a).

(v) "Company Indemnified Party" has the meaning ascribed to such term in Section 15.1(b).

(w) "Company Marks" means the Marks of Company set forth in Exhibit 0 and the Marks of Company for the Program, in each case, as such Marks may be modified or updated from time to time by Company.

(x) "Company Specific User Interface" has the meaning ascribed to such term in Section 14.2.

(y) "Confidential Information" has the meaning ascribed to such term in Section 11.1.

(z) "Control" means the occurrence of one or more of the following events: (i) a purchase, lease, or other acquisition of all or substantially all of the assets of a party; (ii) a purchase or other acquisition (including by way of merger, consolidation, share exchange, or otherwise) of securities representing fifty percent (50%) or more of the voting power of a party; or (iii) possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract, or otherwise) of a party.

(aa) "Customer Activation Process" has the meaning ascribed to such term in Section 10(d) of Exhibit D.

(bb) "Deposit Account" shall have the meaning set forth in Section 3(1) of the Federal Deposit Insurance Act, 12 U.S.C. § 1813(1), including, without limitation, demand deposit accounts, certificates of deposit, savings accounts, NOW accounts, individual retirement accounts and, to the extent applicable, omnibus deposit accounts and their subaccounts (as described in Federal Deposit Insurance Corporation General Counsel's Opinion No. 8 – Insurability of Funds Underlying Stored Value Cards and Other Nontraditional Access Mechanisms).

(cc) "Digital Banking Platform" has the meaning ascribed to such term in Section 10 of Exhibit D.

(dd) "Discloser" has the meaning ascribed to such term in Section 11.1.

(ee) "Dispute" has the meaning ascribed to such term in Section 15.17(a).

(ff) "DT" means Deutsche Telekom AG.

(gg) "DT Marks" means the Marks of DT set forth in Exhibit 14.6, as such Marks may be modified or updated from time to time by Company.

(hh) "Durbin-Exempt Bank" has the meaning ascribed to such term in Section 8.1(l).

(ii) "Durbin Exemption" has the meaning ascribed to such term in Section 7.1(g).

(jj) "FDIC" means the Federal Deposit Insurance Corporation.

(kk) "Fee Audit" has the meaning ascribed to such term in Section 9.3.

- (ll) "Fee Auditor" has the meaning ascribed to such term in Section 9.3.
- (mm) "Fee Audit Report" has the meaning ascribed to such term in Section 9.3.
- (nn) "Fees" means all banking revenue generated from the use of the T-Mobile Customer Accounts, including any Card usage, interchange and miscellaneous fees.
- (oo) "Force Majeure Event" has the meaning ascribed to such term in Section 15.9.
- (pp) "GLBA" has the meaning ascribed to such term in Section 11.1.
- (qq) "Implementation Fee" has the meaning ascribed to such term in Section 9.2.
- (rr) "Indemnified Party" means Bank or Company, as applicable.
- (ss) "Indemnifying Party" means Bank or Company, as applicable.
- (tt) "Initial Card Credentials" has the meaning ascribed to such term in Section 10(c) of Exhibit D.
- (uu) "Initial Term" has the meaning ascribed to such term in Section 10.1.
- (vv) "Interchange Fee Limits" has the meaning ascribed to such term in Section 7.1(g).
- (ww) "Invoice Receipt Date" has the meaning ascribed to such term in Section 9.4.
- (xx) "Issuer Network Assessment" means domestic assessments, cross-border volume fees, transaction processing fees, and other related fees, net of rebates and incentives, assessed by the payment card or ATM networks (or any similar entities) on Bank for providing transaction processing and other payment-related products and services.
- (yy) "Joint Governance Committee" has the meaning ascribed to such term in Section 15.4(a).
- (zz) "Joint Roadmap" has the meaning ascribed to such term in Section 15.4(b).
- (aaa) "Launch Date" has the meaning ascribed to such term in Section 6.1.
- (bbb) "Losses" has the meaning ascribed to such term in Section 13.3.
- (ccc) "Marks" means the trademarks, service marks, trade names, trade dress, designs, domain names, color combination, insignia, and logos (including graphic and color configurations) of a Party.
- (ddd) "Marketing Data" has the meaning ascribed to such term in Section 11.3.
- (eee) "Material Subcontractor" has the meaning ascribed to such term in Section 5.1(d).
- (fff) "Minimum Service Approval Rating" has the meaning ascribed to such term in

Section 10.2(a)(iv).

(ggg) "Mobile Application" has the meaning ascribed to such term in Section 10(c) of Exhibit D.

(hhh) "Mobile Network Operator" means any providers of wireless services, wireless carriers, cellular companies, or mobile network carriers, including, but not limited to, Verizon, AT&T, and Sprint, in each case, including any affiliates and subsidiaries.

(iii) "Mobile Offering" has the meaning ascribed to such term in Section 10(a) of Exhibit D.

(jjj) "Mobile Wallets" has the meaning ascribed to such term in Section 10(c) of Exhibit D.

(kkk) "Modified Transition Assistance Period" has the meaning ascribed to such term in Section 10.2(b).

(lll) "NACHA" has the meaning ascribed to such term in Section 7(a)(i) of Exhibit D.

(mmm) "Net Interchange Fees" means the total of all interchange revenue (net of any Issuer Network Assessments) received from payment card networks in connection with the use of Cards.

(nnn) "Online Offering" has the meaning ascribed to such term in Section 10(a) of Exhibit D.

(ooo) "PINs" has the meaning ascribed to such term in Section 7(c)(iii) of Exhibit D. (ppp) "Product and Feature

Set" has the meaning ascribed to such term in Section 10(a) of Exhibit D.

(qqq) "Program" has the meaning ascribed to such term in the Recitals.

(rrr) "Program Manager" has the meaning ascribed to such term in Section 15.4(a).

(sss) "Program Team" has the meaning ascribed to such term in Section 15.4(a). (ttt) "Recipient" has the meaning ascribed to such term in Section 11.1.

(uuu) "Recipient Third Parties" has the meaning ascribed to such term in Section 11.2.

(vvv) "Regulatory Audit" has the meaning ascribed to such term in Section 3.4(c).

(www) "Regulatory Authority" means, as the context requires, the Office of the Comptroller of the Currency; the FDIC; the Federal Reserve Board; the Consumer Financial Protection Bureau; the Federal Trade Commission; the Financial Crimes Enforcement Network; and any other international, foreign, federal or state regulator or agency having jurisdiction over Bank or Company.

- (xxx) “Rejection Notice” has the meaning ascribed to such term in Section 10(e) of Exhibit D.
- (yyy) “Renewal Term” has the meaning ascribed to such term in Section 10.1.
- (zzz) “Sale Option” has the meaning ascribed to such term in Section 10.5(a).
- (aaaa) “Sale Option Notice” has the meaning ascribed to such term in Section 10.5(a).
- (bbbb) “Sensitive Customer Information” has the meaning ascribed to such term in Section 11.1.
- (cccc) “Service Level” has the meaning ascribed to such term in Exhibit C.
- (dddd) “Solicitation Materials” means any advertising, promotional, marketing, and other similar materials describing the Program.
- (eeee) “Successor Institution” has the meaning ascribed to such term in Section 10.5(a).
- (ffff) “Supervisory Objection” means (i) an objection, verbally or in writing, raised by a Regulatory Authority having supervisory authority over Bank that expresses the Regulatory Authority’s opinion that one or more provisions of this Agreement constitute a violation of Applicable Law or is unsafe or unsound, (ii) any cease-and-desist or other similar formal written order of a Regulatory Authority, or (iii) a written directive by a Regulatory Authority to cease or materially limit performance of the obligations under this Agreement; provided, that, notwithstanding anything to the contrary, a determination by the FDIC that the T-Mobile Customer Accounts constitute Broker Deposits shall not be considered to be a Supervisory Objection for purposes of the Agreement.
- (gggg) “Supervisory Objection Notice” has the meaning ascribed to such term in Section 8.1(n).
- (hhhh) “T-Mobile Customer” means a customer of Company that uses the T-Mobile Financial Services.
- (iiii) “T-Mobile Customer Account” means the Deposit Account(s) of a T-Mobile Customer in connection with the T-Mobile Customer’s participation in the Program and receipt and use of the T-Mobile Financial Services that is held at Bank and that is subject to an Account Agreement between Bank and the T-Mobile Customer.
- (jjjj) “T-Mobile Financial Services” means the products, services, features, and functionality set forth on Exhibit F.
- (kkkk) “T-Mobile Retailer” means any Company-owned T-Mobile location and/or any T-Mobile dealer location, as determined by Company from time to time.
- (llll) “Term” has the meaning ascribed to such term in Section 10.1.

(mmmm) "Transition Assistance Period" has the meaning ascribed to such term in Section 10.4(a).

(nnnn) "Transition Assistance Services" has the meaning ascribed to such term in Section 10.4(a).

(oooo) "Wind-Down Costs" has the meaning ascribed to such term in Section 10.3.

## **2. GENERAL DESCRIPTION OF PROGRAM**

**2.1 Purpose.** The Program established pursuant to this Agreement will allow customers of Company, through Bank's standard and customized technology and financial products and services (including the establishment of T-Mobile Customer Accounts, the issuance of Cards and other financial products and services, as further described herein), to receive and use the T-Mobile Financial Services.

**2.2 Development and Implementation of Program.** Bank shall develop and implement the Program in accordance with this Agreement, including Exhibits A, B, C, D, E, F, G, H, I, and J, which exhibits are hereby incorporated into and made a part of this Agreement.

## **3. MARKETING; DUTIES OF COMPANY; JOINT RESPONSIBILITIES**

**3.1 Marketing.** Bank acknowledges that Company may promote and market the Program to prospective T-Mobile Customers from time to time. Company agrees that it will promote and market the Program in accordance with Applicable Law and this Agreement.

(a) [\*\*]. The terms and conditions applicable to each T-Mobile Customer Account offered pursuant to the Program shall be mutually agreed upon by Bank and Company prior to the implementation of the Program and shall be set forth in an Account Agreement between Bank and each T-Mobile Customer (as updated from time to time in accordance with this Agreement, the "Account Terms and Conditions"). [\*\*\*]. Notwithstanding the foregoing, Company acknowledges that Bank is subject to certain regulatory obligations under Applicable Law and, as such, Bank shall have final authority on certain components of the Account Terms and Conditions that implicate Applicable Law. Bank agrees that, during the Term, Bank will provide Company with the Account Terms and Conditions and with any updates or modifications to the Account Terms and Conditions promptly; provided, that, prior to implementing any updated or modified Account Terms and Conditions, Bank shall obtain Company's approval so long as such updates or modifications are not required by Applicable Law, in which case Bank shall not be required to obtain Company's approval. Bank shall enter

into an Account Agreement with each T-Mobile Customer that elects to participate in the Program, subject to Bank's usual and customary account opening procedures. Bank represents, warrants, and covenants that the account opening procedures for T-Mobile Customers in connection with the Program will be substantially similar to the account opening procedures Bank uses for all other prospective consumer checking - and savings - account customers of Bank.

(b) Company will submit all proposed Solicitation Materials (and ongoing changes to same) to Bank for review and written approval prior to the release or use of such Solicitation Materials in the marketplace for the purpose of allowing Bank to review such Solicitation Materials to ensure that they comply with Applicable Law with respect to financial services under this Agreement. Bank shall review any Solicitation Materials and notify Company of its decision with respect to such Solicitation Materials within a commercially reasonable period of time; provided, that for Solicitation Material less than [\*\*\*], Bank will reply within [\*\*\*] following Bank's receipt of such Solicitation Materials. Bank may only reject the use of Solicitation Materials if Bank reasonably determines that such Solicitation Materials are likely to cause Bank or Company to violate Applicable Law. Company agrees that it will make any changes, on a prospective basis, in such terms, manner and conditions that the Bank deems reasonably necessary to comply with Applicable Law and Regulatory Authority guidance. In addition, Bank shall have the right to object to any Solicitation Materials that Bank believes will negatively affect Bank's reputation, and Company agrees to consider such objection in good faith and to add a mutually agreed upon disclosure to address Bank's specific reputational concerns. Notwithstanding the foregoing, it is expressly understood that Bank's review and approval or rejection of the Solicitation Materials shall be for Bank's own independent purposes and Bank's approval of Solicitation Materials shall not constitute a certification to Company of any kind, other than to grant Company permission to use such Solicitation Materials pursuant to this Section 3.1(b). It is further understood that Bank shall have the right to withdraw approval of any previously approved Solicitation Material in the event of a change in Applicable Law or court decision related to the Solicitation Materials that adversely reflects on the Solicitation Materials or upon written or verbal direction of any Regulatory Authority with supervisory authority over Bank or the Solicitation Materials. Bank and Company shall cooperate to ensure that all Solicitation Materials comply with all applicable payment card network (e.g., Visa, Mastercard, etc.) guidelines, policies and rules.

**3.2 Bank Secrecy Act Compliance** Company will reasonably cooperate with Bank, as mutually agreed by the Parties, in the implementation of Bank's anti-money laundering and anti-terrorism financing compliance program (as modified from time to time, the "AML Program") in accordance with Applicable Law, including in connection with Bank's implementation of such commercially reasonable policies and procedures, and modifications to the Program, that may be required by Applicable Law. Company will reasonably cooperate with Bank, as mutually agreed by the Parties, in the implementation of measures to allow Bank to verify the identity of all T-Mobile Customers and prospective T-Mobile Customers consistent with Applicable Law.

**3.3 Program and Compliance Training** Company shall, or shall permit Bank to, train representatives of Company that will be involved in the marketing, promotion, or implementation of the Program. The Parties agree that the training shall be conducted

periodically as mutually agreed by the Parties, [\*\*].

**3.4 Recordkeeping; Reporting; and Audit Rights.**

(a) Bank will keep and maintain complete records reflecting the identity of each T- Mobile Customer and the steps taken to verify the identity of each T-Mobile Customer, if verification is required under Applicable Law or this Agreement. With respect to each T- Mobile Customer Account, Bank shall retain all required records for the time period required by Applicable Law and shall retain records for no less than five (5) years after the closure of a T- Mobile Customer Account or the termination of this Agreement, whichever is earlier.

(b) [\*\*]

(ii) Each Party reserves the right, at its own expense to inspect, copy and audit the other Party, including any records of the other Party directly relating to the other Party's performance hereunder, including Company's right to perform technology assessments on Bank's technology architecture and to provide input to Bank in connection therewith. Any such audit will be conducted at mutually agreed upon times, upon reasonable prior written notice (but in no event on, less than thirty (30) business days' written notice), and in a manner designed to minimize any disruption to the other Party's normal business activities; provided, however, that in agreeing to times for the audit, the other Party shall be reasonable in scheduling the audit. The Parties shall reasonably cooperate and accommodate each other in connection with audit requests. The Parties agree that the audit rights hereunder will be exercised during normal business hours and no more than once in any twelve (12) month period, except that a Party shall be entitled to additional audits (but in no event more frequently than quarterly) if: (i) critical issues were identified in a previous audit (including any non-compliance with this Agreement); (ii) there is a material change to the business or financial condition of either Party; or (iii) there is a material increase in regulatory scrutiny of Bank or the Program. The Parties agree that upon the occurrence of (i), (ii) or (iii), the Parties will provide reasonable updates in connection with such issues. If a Party is entitled to conduct such additional audits pursuant to (i), (ii) or (iii) and such additional audits relate solely to a contractual issue between the Parties, the reasonable cost of such additional audits shall be borne by Bank; provided, that, Company shall not conduct an additional audit if (w) the additional audit relates to regulatory issues at Bank, (x) a Regulatory Authority is auditing Bank in connection with such regulatory issues for which Company is entitled to conduct the additional audit (such audit, a "Regulatory Audit"), (y) Bank is permitted to and does provide Company with information in connection with the Regulatory Audit, and (z) Bank keeps Company reasonably apprised of the developments in connection with the Regulatory Audit through the conclusion of such Regulatory Audit. Each Party may engage a third party to conduct an audit of the other Party in accordance with this Section 3.4(c); provided, that the Party electing to engage a third party to conduct such an audit shall



ensure that an audit report is prepared by the third party and a copy of the audit report is made available to the audited Party.

**3.5** Account Marketing Locations.

- (a) Accounts may be marketed by Company [\*\*\*].
- (b) [\*\*\*]

**3.6** Company will work with Bank to develop and refine certain financial products and services, as well as technology enhancements, in connection with the Program.

**3.7** [\*\*\*]

**3.8** [\*\*\*]

**3.9** Company agrees that any branding, notices or statements that are required by Applicable Law shall include the name or trademark of the Bank.

**3.10** [\*\*\*]

**4. REPRESENTATIONS AND WARRANTIES OF COMPANY**

**4.1** Representations and Warranties. Company represents and warrants to Bank as follows:

(a) This Agreement is valid, binding and enforceable against Company in accordance with its terms, except as such enforceability may be limited by laws governing creditors' rights and general principles of equity.

(b) Company is a corporation duly formed, validly existing and in good standing under the laws of the State of Delaware and is duly qualified and is properly licensed to do business in each jurisdiction in which the nature of Company's activities makes such authorization or licensure necessary. Neither the execution of this Agreement nor Company's performance of its obligations hereunder requires any consent, authorization, approval, notice to, license, or other action by or in respect of, or filing with, any third party or any Regulatory Authority.

(c) Company has the full power and authority to execute and deliver this Agreement and to perform all of its obligations under this Agreement. The provisions of this Agreement

and the performance by Company of its obligations under this Agreement are not in conflict with Company's documents of formation or operation, or any other agreement, contract, lease or obligation to which Company is a party or by which it is bound.

(d) Company has not been subject to the following, in each case, that would materially adversely affect Company's ability to exercise its rights or perform its obligations hereunder:

- (i) any criminal conviction (except minor traffic offenses and other petty offenses) in the United States of America or in any foreign country;
- (ii) any federal or state tax lien, or any foreign tax lien;
- (iii) any administrative or enforcement proceedings commenced by the Securities and Exchange Commission, any state securities regulatory authority, the Federal Trade Commission, federal or state bank regulator, or any other state or federal regulatory agency in the United States or in any other country; or
- (iv) any restraining order, decree, injunction, or judgment in any proceeding or lawsuit, alleging fraud or deceptive practice on the part of Company.

(e) There is not pending or threatened against Company any litigation or proceeding, judicial, tax or administrative, the outcome of which might materially adversely affect the ability of the Company to perform its obligations hereunder.

## 5. COVENANTS OF COMPANY

5.1 Covenants. Company covenants and agrees with Bank as follows:

- (a) Company will perform its obligations under this Agreement in accordance with Applicable Law.
- (b) Subject to Section 8.1(b), Company will obtain and maintain appropriate licenses with respect to any trademarks and copyrights required for Company in connection with this Agreement.
- (c) [\*\*].
- (d) Company will not, without Bank's prior written consent, outsource or otherwise subcontract with third parties for the provision of any of its material obligations (each, a "Material Subcontractor") in connection with the delivery of the T-Mobile Financial Services. Bank shall have the right to conduct due diligence on a Material Subcontractor at Bank's reasonable discretion. Bank's review and approval of a Material Subcontractor shall not be

unreasonably withheld, conditioned or delayed; provided, that, in any case, Bank shall review and approve or reject a Material Subcontractor within fourteen (14) days. However, any such consent of assignment of Company's obligations hereunder shall not release Company of its obligations to Bank under this Agreement, and Company shall remain fully liable to Bank for any breach of this Agreement caused by a subcontractor or third party retained by Company. [\*\*\*]. If a dispute arises in connection with the designation of a third-party service provider as a Material Subcontractor, the Parties agree that the dispute shall be referred to the Joint Governance Committee for resolution and, if the Joint Governance Committee is unable to resolve the issue, the dispute shall be referred to the Advisory Board for resolution in accordance with Section 15.4(c); provided, that, Company may use the third-party service provider during the Joint Governance Committee's and Advisory Board's consideration of the issue. At Bank's request, Company shall provide, at least once annually, a list of all Material Subcontractors utilized by Company in connection with this Agreement.

(e) Company agrees that any Regulatory Authority with supervisory authority over Bank (an Auditing Party) shall have the right, consistent with the Regulatory Authority's customary practices and procedures for the review of third-party relationships, [\*\*\*]. Such audit, inspection or examination shall be at Bank's sole expense (including any costs and expenses incurred by Company in connection with such audit, inspection or examination), during regular business hours of Company, on reasonable notice, and conducted in a manner so as to not interfere with Company's normal business operations.

(f) Bank and Company will reasonably cooperate in the implementation of commercially reasonable measures designed to meet the objectives of the security and confidentiality guidelines published by various Regulatory Authorities that are applicable to Bank and the Program including, but not limited to, the implementation of appropriate policies, procedures, and other measures designed to protect against unauthorized access to or use of customer information maintained by Company in connection with the Program that could result in substantial harm or inconvenience to any T-Mobile Customer and the proper disposal of T-Mobile Customer information in connection with the Program. Company shall further cooperate with Bank in implementing a response program in connection with the Program which may require Company to take commercially reasonable actions to address incidents of unauthorized access to T-Mobile Customer Accounts or other information, including notification to Bank and T-Mobile Customers as soon as possible following any such incident. Company shall ensure that, to the extent any third-party service provider engaged by Company has access to T-Mobile Customer Account information, such third-party service provider shall

be obligated to safeguard such information to the same extent as Company.

(g) [\*\*]

## 6. DUTIES OF BANK

**6.1** Bank shall administer the Program and provide the T-Mobile Financial Services in accordance with this Agreement (including Exhibit D). Bank shall use commercially reasonable efforts to [\*\*]. The Parties acknowledge that the offering of the Program in [\*\*] is subject to regulatory approval, provided, that Bank shall use best efforts to obtain such regulatory approval. The Launch Date shall be adjusted to the extent Company requests changes to the Program which result in implementation delays. For purposes of clarity, Exhibit D hereto sets forth the financial products and services that Bank must provide in connection with the Program and the terms and conditions applicable to the provision of such products and services.

**6.2** In addition to Bank's other duties and obligations under this Agreement, Bank shall be responsible for developing and maintaining the technology and operations in connection with the Program and for delivering the T-Mobile Financial Services and Cards, and shall bear all responsibility for and pay all normal expenses of the operations, except as otherwise described in this Agreement.

## 7. REPRESENTATIONS AND WARRANTIES OF BANK

**7.1** Representations and Warranties. Bank represents and warrants to Company as follows:

(a) This Agreement is valid, binding and enforceable against Bank in accordance with its terms, except as such enforceability may be limited by laws governing creditors' rights and general principles of equity.

(b) Bank is a state bank, validly chartered and in good standing under the laws of the Commonwealth of Pennsylvania, and is duly qualified and is properly licensed to do business in each jurisdiction in which the nature of Bank's activities, including in connection with this Program, makes such authorization or licensure necessary. Neither the execution of this Agreement nor Bank's performance of its obligations hereunder requires any consent, authorization, approval, notice to, license, or other action by or in respect of, or filing with, any third party or any Regulatory Authority.

(c) Bank has the full power and authority to execute and deliver this Agreement and to perform all its obligations under this Agreement. The provisions of this Agreement and the

performance by Bank of its obligations under this Agreement are not in conflict with Bank's charter, bylaws or any other agreement, contract, lease or obligation to which Bank is a party or by which it is bound.

(d) Bank is not subject to any order, judgment, decree, or any other legal or regulatory action that could impede, impair, or prevent Bank from fulfilling all of its obligations under this Agreement.

(e) Neither Bank nor any principal of Bank has been subject to the following:

- (i) any criminal conviction (except minor traffic offenses and other petty offenses) in the United States of America or in any foreign country;
- (ii) any federal or state tax lien, or any foreign tax lien;
- (iii) any administrative or enforcement proceedings commenced by the Securities and Exchange Commission, any state securities regulatory authority, the Federal Trade Commission, federal or state bank regulator, or any other state or federal regulatory agency in the United States or in any other country; or
- (iv) any restraining order, decree, injunction, or judgment in any proceeding or lawsuit, alleging fraud or deceptive practice on the part of Bank or any principal thereof.

(f) There is not pending or threatened against Bank any litigation or proceeding, judicial, tax or administrative, the outcome of which might materially adversely affect the continuing operations of Bank.

(g) As of the date of this Agreement, Bank qualifies for the small issuer exemption pursuant to 12 C.F.R. § 235.5(a) (as modified or amended from time to time, the "Durbin Exemption") and Card activity in connection with the Program is not subject to the cap on interchange fees pursuant to 12 C.F.R. § 235.3, (as modified or amended from time to time, the "Interchange Fee Limits").

## 8. COVENANTS OF BANK

**8.1** Covenants. Bank covenants and agrees with Company as follows:

- (a) Bank will perform its obligations under this Agreement in accordance with Applicable Law.
- (b) [\*\*].
- (c) Bank will obtain and maintain appropriate licenses with respect to any

trademarks, copyrights and patents required or reasonably necessary for Bank in connection with this Agreement.

(d) To the extent permitted by Applicable Law, Bank will promptly give written notice to Company of any material change in the business operations (including Bank's compliance programs) or condition, financial or otherwise, of Bank if such material change is reasonably likely to affect Bank's ability to perform its obligations hereunder.

(e) In the event Bank receives notice of a complaint regarding the Program from any third party, including any state or federal regulator, consumer protection or advocacy agency, or other similar party, Bank shall, subject to any restrictions or provisions of Applicable Law and any obligation to maintain the confidentiality of such complaint or communication, promptly forward such complaint to Company and shall review, investigate, and resolve such complaint.

(f) Bank will, to the extent permitted by Applicable Law, promptly notify Company upon becoming aware of (i) any formal regulatory investigation, regulatory inquiry, enforcement action, or the like involving Bank or in connection with the Program (provided that the foregoing shall not apply to any informal regulatory discussions or informal audits conducted in the ordinary course of Bank's business), or (ii) any order, judgment, decree, or any other legal or regulatory action that could affect the Program, and Bank will provide, to the extent permitted by Applicable Law and upon Company's reasonable request, any information and materials requested by Company in connection therewith.

(g) Bank will make available, at least once annually, a reasonable summary of the Bank's risk assessments in connection with the Program and will give Company the option, at least once annually, to review the risk assessments in their entirety at the Bank's offices.

(h) Bank will not, without providing at least ninety (90) days' prior written notice to Company, outsource or otherwise subcontract with third parties for the provision of any of its obligations under this Agreement. Company shall have the right to conduct due diligence on all new third-party service providers at its reasonable discretion prior to Bank's use of any third-party service provider in connection with this Agreement. Notwithstanding anything to the contrary, Bank's use of any third-party service provider to perform any of Bank's obligations under this Agreement shall not release Bank of its obligations to Company under this Agreement, and Bank shall remain fully liable to Company for any breach of this Agreement caused by any third-party service provider retained by Bank. Notwithstanding anything to the contrary, Company hereby approves the third-party service providers set forth on Schedule 8.1(i)(h).

(i) Bank will implement commercially reasonable measures designed to meet the objectives of the security and confidentiality guidelines published by various Regulatory Authorities relevant to the Program, including, but not limited to, the implementation of appropriate policies, procedures, and other measures designed to protect against unauthorized access to or use of customer information maintained by Bank in connection with the Program that could result in substantial harm or inconvenience to any T-Mobile Customer and the proper disposal of T-Mobile Customer information in connection with the Program. Bank shall further implement a response program in connection with the Program consistent with the requirements

of its Regulatory Authority, including, without limitation, notification to Company and affected T-Mobile Customers as soon as reasonably possible following any such incident. Bank shall ensure that any third-party service provider having access to T-Mobile Customer information is obligated to cooperate in the implementation of similar security measures and response programs.

(j) Bank will, at all times, comply with the obligations set forth in Exhibit J [Security Safeguards, Company Information, and Cardholder Information] hereto. In the event of any conflict between the terms and conditions of this Agreement and the terms and conditions of Exhibit J with respect to the subject matter thereof, the terms and conditions set forth in Exhibit J shall control.

(k) Bank shall, while this Agreement is in effect, prepare and maintain disaster recovery, business resumption, and contingency plans in connection with the Program consistent with the requirements of its Regulatory Authority. Bank shall periodically test such disaster recovery, business resumption, and contingency plans as may be appropriate and prudent in light of the nature and scope of the activities and operations of Bank and its obligations hereunder and shall promptly provide Company with a summary of the results of any such tests.

(l) If, at any time during the Term, Bank no longer qualifies for the Durbin Exemption, Bank will use best efforts to consummate a transaction pursuant to which a financial institution that qualifies for the Durbin Exemption (the “Durbin-Exempt Bank”) will become the holder of the T-Mobile Customer Accounts and the issuer of Cards in connection with the Program; provided, that (i) the Durbin-Exempt Bank shall be reasonably acceptable to Company, (ii) the transition of the T-Mobile Customer Accounts to the Durbin-Exempt Bank shall not have any adverse impact on T-Mobile Customers, as determined by Company in its reasonable discretion; and (iii) Bank shall ensure that all of Bank’s obligations under this Agreement will continue to be honored in accordance with the terms of this Agreement without modification hereof. Notwithstanding the foregoing, any transaction with, or assignment to, a Durbin-Exempt Bank that is announced prior to the Beta Launch Date shall not require Company’s approval or consent as described in this Section 8.1(l)(i)-(ii). If Bank is unable to consummate such a transaction, then, notwithstanding anything to the contrary in this Agreement: (i) Bank will continue to operate and administer the Program and satisfy all of its obligations under this Agreement in accordance with the terms of this Agreement; and (ii) Bank will pay to Company, on a monthly basis, one-hundred percent (100%) of Net Interchange Fees for Card activity in connection with the Program during the period in which Bank is not eligible for the Durbin Exemption.

(m) Subject to Company’s input and approval with respect to (i) the structure of the Program and the Sale Option, (ii) the financial institution that will hold the T-Mobile Customer Accounts and any deposits received by Bank for T-Mobile Customer Accounts, and (iii) any other term or condition Company deems relevant, [\*\*\*].

(n) In the event of any Supervisory Objection, Bank will promptly notify Company in writing of such Supervisory Objection (the “Supervisory Objection Notice”) and such Supervisory Objection Notice will describe, in sufficient detail, the nature of the Supervisory Objection and the extent to which the Supervisory Objection could affect the Program. In the case of a written Supervisory Objection, Bank shall provide the Supervisory Objection Notice along with a copy of the written Supervisory Objection, except as prohibited by Applicable Law. Prior to implementing any change to the Program in connection with any Supervisory Objection, Bank shall use best efforts to meet and work with Company to resolve the Supervisory Objection by way of a mutually agreed-upon solution. Except as prohibited by Applicable Law, Bank shall provide Company with any information reasonably requested by Company in connection with any Supervisory Objection. In the event any Supervisory Objection directing Bank to terminate this Agreement is not in writing, Bank agrees to request, and use reasonable efforts to obtain, a written Supervisory Objection and to provide such written Supervisory Objection to Company. If Bank is unable to obtain a written Supervisory Objection directing Bank to terminate this Agreement, then Bank will use best efforts to facilitate a meeting among the Regulatory Authority and Bank to discuss the oral Supervisory Objection directing Bank to terminate this Agreement. If Bank is unable to (i) obtain a written Supervisory Objection and to provide such Supervisory Objection to Company or (ii) facilitate a meeting among the Regulatory Authority and Bank, then Bank shall provide an official letter from Bank’s board of directors that represents and warrants that Bank is subject to a Supervisory Objection that requires Bank to terminate this Agreement and that describes such Supervisory Objection in sufficient detail. Notwithstanding the foregoing, in no event shall Bank be required to provide documentation or information to the extent prohibited by Applicable Law.

(o) Within thirty (30) days following the execution of this Agreement, Bank will complete Company’s information technology risk assessment. Bank will remediate any issue(s) identified in the information technology risk assessment to Company’s satisfaction prior to the Beta Launch Date; provided, that if Bank fails to remediate any such issue(s) to Company’s satisfaction prior to the Beta Launch Date, Company may terminate this Agreement.

## **9. PROGRAM REVENUES AND COMPENSATION**

**9.1 Program Revenues.** Each Party will be entitled to and responsible for those fees and charges as set forth in Exhibit B hereto [Fee Schedule]. Except for those fees expressly set forth in this Agreement (including Exhibit B), Bank shall not impose any other fees on Company in connection with this Agreement. The Parties acknowledge and agree that the [\*\*\*]. At any time, if Bank and Company agree upon additional services from Bank, the Parties will negotiate in good faith to determine the pricing for such additional services. Company shall be entitled to compensation as set forth on Exhibit



A hereto.

**9.2 Implementation Fee.** Company agrees to pay a fee in the amount of [\*\*\*] to Bank for the development, design, and creation of the Program (the "Implementation Fee"). The Implementation Fee shall be paid in increments according to the following schedule: [\*\*\*].

**9.3 Program Fees.** Bank shall maintain fees for the Program that are, in the aggregate, at or below industry standards relative to private-label banking programs administered by other banks. Bank agrees that, at all times, the fees imposed on Company in connection with the Program (including, without limitation, the fees set forth on Exhibit B), shall, in the aggregate, be at least as favorable to Company as the fees charged by Bank in connection with any other private-label banking program administered by Bank. Bank shall, at least once annually at the expense of Bank, engage a qualified, mutually agreed upon third party (the "Fee Auditor") to review and compare the fees charged by Bank in connection with the Program (including, without limitation, the fees set forth on Exhibit B) with the fees imposed by banks, generally, in connection with administering private-label banking programs (the "Fee Audit"). Bank shall cause the Fee Auditor to prepare a report that details the Fee Auditor's findings (the "Fee Audit Report") and to provide a copy of the Fee Audit Report to Company within thirty (30) days of completing the Fee Audit. If the Fee Audit Report indicates that Bank is imposing fees on Company in connection with the Program in the aggregate in excess of fees imposed by other banks in connection with private-label banking programs, then Bank shall formulate a plan for Bank to satisfy its obligations under this Section 9.3, which plan shall be subject to Company's approval.

**9.4 Fees Payable to Bank.** Company will remit all undisputed fees to Bank within sixty (60) days after an invoice is uploaded into Company's accounts payable system (the "Invoice Receipt Date"). Bank agrees that Bank waives any rights to any Charges payable under this Agreement that are not invoiced by Bank to Company within one-hundred eighty (180) days after the provision of services.

(a) Company will notify Bank of any disputed fees in writing. Bank and Company will attempt in good faith to resolve any disputed amounts. If Company agrees to pay all or a portion of a disputed amount, Bank will re-invoice that amount. Company will pay all such re-invoiced amounts to Bank within sixty (60) days after the reissued invoice is uploaded into Company's accounts payable system. For the avoidance of doubt, the date on which any re-issued invoice uploaded into Company's accounts payable system will be deemed to be the Invoice Receipt Date.

(b) All invoices will follow Company's invoicing standards. At a minimum, each invoice issued by Bank to Company must be in a form and content reasonably acceptable to Company and meet the requirements in this Agreement. Each invoice must contain details describing the basis for the requested payment, including a description of the services performed and such other details as may be reasonably necessary to explain the charges in the

invoice. Bank will furnish such receipts, documents and other supporting materials as Company reasonably may request to verify the charges set forth in any invoice. Bank agrees that any terms or conditions included on the invoice that are in conflict with this Agreement are null and void.

(c) Electronic Payments. Company will issue all payments to Bank via ACH through Company's electronic payment system. Bank will enroll in Company's electronic payment system in order to receive payments. Bank will provide a point of contact and follow enrollment instructions provided by Company to enroll in the electronic payment system.

**9.5 Fees Payable to T-Mobile**. Bank will remit all amounts to Company via ACH on a monthly basis as described in Exhibit A within fifteen (15) days of issuing the monthly report.

**10. TERM OF AGREEMENT; TERMINATION; TRANSITION OF T-MOBILE CUSTOMERS; EXCLUSIVITY**

**10.1 Initial Term and Renewal Terms**. The term of this Agreement shall commence as of the Effective Date, and shall continue for a period of three (3) years (the "Initial Term"), unless terminated earlier in accordance with this Agreement. Company may extend this Agreement for an additional two-year (2-year) period (the "Renewal Term") by providing written notice to Bank prior to the end of the Initial Term. The Initial Term and the Renewal Term may be referred to herein as the "Term."

**10.2 Termination of Agreement**.

(a) Generally. In addition to any other termination rights under this Agreement, this Agreement may be terminated as follows:

- (i) At any time, upon the mutual written consent of the Parties;
- (ii) By either Party, upon written notice, in the event of a material breach of this Agreement by the other Party if the breaching Party fails to cure such material breach within thirty (30) days following written notice from the non-breaching Party that specifies the nature and circumstances of the material breach;
- (iii) By Bank, upon one-hundred eighty (180) days' prior written notice (or such shorter period as required by a Regulatory Authority) and subject to Section 8.1(n), in the event of a Supervisory Objection that requires Bank to terminate this Agreement;
- (iv) By Company, upon written notice, if Bank fails to use best efforts to maintain a product approval (net of service-related commitments not tied to product) and/or review ratings [\*\*] in the various application stores [\*\*] (the "Minimum Service Approval Rating") during the Term;
- (v) By Company, upon written notice, if Bank fails to maintain the Minimum

Service Approval Rating of [\*\*] in any application store [\*\*] during the Term;

- (vi) By Company, upon written notice, if Bank fails to deliver the agreed-upon products, services, features, and functionality outlined in Exhibit F within the timeline established therein;
- (vii) By Company, upon written notice, if Company does not approve the acceptance testing of the Beta Version due to any disagreement between the Parties in connection with the products and features in the Program and Bank fails, within sixty (60) days after receiving the Rejection Notice from Company rejecting the acceptance testing of the Beta Version due to such disagreement, to remedy any issues identified in Company's Rejection Notice to Bank; and
- (viii) By Company, upon written notice, if the Program is or becomes unprofitable for Company, based on sufficient documentation provided by Company, during [\*\*]; provided, that Company may not exercise this termination right until [\*\*] of this Agreement.

(b) Brokered Deposits Durbin Exemption. In addition to any other termination right under this Agreement, either of Company or Bank may terminate this Agreement in accordance with this Section 10.2(b) if the FDIC determines that the T-Mobile Customer Accounts constitute Brokered Deposits or if Bank, at any time during the Term, no longer qualifies for the Durbin Exemption and fails to consummate a transaction as contemplated by and in accordance with Section 8.1(l) or assign this Agreement to a Durbin-Exempt Bank subject to and in accordance with Section 15.12 and Section 8.1(l), respectively; provided, that (i) neither Party may exercise its right to terminate this Agreement pursuant to this Section 10.2(b) before July 1, 2018, and (ii) if either Party exercises its right to terminate this Agreement pursuant to this Section 10.2(b), then, notwithstanding anything to the contrary in this Agreement, Bank shall perform its obligations under this Agreement in accordance with the terms of this Agreement through June 30, 2019 (the "Modified Transition Assistance Period"). In the case of either of the foregoing, Company shall have the right to the Sale Option.

**10.3** The Parties agree that, notwithstanding anything to the contrary in this Agreement, any wind-down and/or de-conversion costs (collectively, the "Wind-Down Costs") in connection with any termination of this Agreement shall be borne by [\*\*].

**10.4** Obligations upon Termination.

(a) Transition Period and Assistance. Upon expiration or termination of this Agreement for any reason, [\*\*\*], Bank shall continue to perform its obligations under this Agreement for a period not to exceed twelve (12) months (or 18 months in the event of a termination by Company pursuant to Section 10.2(a)(ii)) of the expiration or termination date (the “Transition Assistance Period”); provided, that, Company may elect, in its sole discretion, to end the Transition Assistance Period at any time after one-hundred eighty (180) days. Notwithstanding anything to the contrary, if Bank is directed, pursuant to a Supervisory Objection, to terminate this Agreement, Bank shall use commercially reasonable efforts and work in good faith with Company and with the Regulatory Authority that issued the Supervisory Objection that directed Bank to terminate this Agreement to provide Transition Assistance Services (as defined below) as mutually agreed by the Parties and as permitted by the Regulatory Authority. During the Transition Assistance Period, Bank shall continue to perform its obligations under this Agreement in accordance with the terms and conditions specified herein and shall provide any and all assistance reasonably requested by Company to transition the Program to a Successor Institution pursuant to the Sale Option without degrading or interfering with (i) the Program, (ii) any of the services provided by Bank hereunder, or (iii) the business, operations, or systems of Company, including, without limitation: (1) any data migration to Company or Successor Institution with Regulatory Authority approval at Company’s option; and (2) any other commercially reasonable transition assistance services as are reasonably requested by Company (collectively, the “Transition Assistance Services”). For the avoidance of doubt, Bank shall provide the Transition Assistance Services in accordance with this paragraph without regard to the reason for the termination of this Agreement and the Term of this Agreement shall not be deemed to have expired or terminated until the Transition Assistance Services have been completed; provided, that, Company shall not be subject to any minimum fees or similar financial obligations during any Transition Assistance Period. The Transition Assistance Services shall be provided as part of the Program at the rates specified herein; [\*\*\*].

(b) Upon termination of this Agreement:

- (i) any undisputed amounts due and owing from one Party to the other Party shall be promptly paid in full; and
- (ii) each Party shall return, upon the other Party’s request, any and all property of the other Party (including, without limitation, any Confidential Information, software, and other property of the other Party; and
- (iii) any T-Mobile Customer Accounts opened during the Term shall remain with Bank, unless Company exercises the Sale Option.

(c) Bank shall retain all records and documentation related to the Program (including

T-Mobile Customers) in a form that is reasonably retrievable for a period of five (5) years after the closure of any T-Mobile Customer Account, or the termination of this Agreement (whichever is earlier). The Parties agree to cooperate with one another to make such records and documentation available as may be required to comply with Applicable Law, or to respond to customer inquiries, legal requests (such as a subpoena), audits, or regulatory examination requests.

**10.5 Transition of T-Mobile Customers.**

(a) Upon review and discussion, the Parties acknowledge and agree that it is in the best interest of T-Mobile Customers to ensure that the T-Mobile Financial Services offered in connection with the Program maintain the value proposition offered to T-Mobile Customers in the event of the expiration or termination of this Agreement. Bank, as the financial institution that will hold the T-Mobile Customer Accounts during the Term, hereby expresses its desire to transition such T-Mobile Customer Accounts upon the expiration or termination of this Agreement and hereby agrees [\*\*] T-Mobile Customer Accounts upon such expiration or termination; provided, that, [\*\*] after such expiration or termination, Bank will offer Company the right of first refusal to purchase the T-Mobile Customer Accounts or to facilitate the purchase of the T-Mobile Customer Accounts to a qualified successor financial institution designated by Company (the "Successor Institution"), in each case, for [\*\*] of such T-Mobile Customer Accounts, which shall be determined in accordance with Section 10.5(b) (the "Sale Option"). If Company does not accept the Sale Option, Bank may sell the T-Mobile Customer Accounts to any financial institution. If Company accepts the Sale Option, Company shall: (1) provide written notice to Bank [\*\*] following receipt of the Sale Option (the "Sale Option Notice"); (2) execute, or facilitate the execution of, an agreement for the purchase of the T-Mobile Customer Accounts [\*\*] following the delivery of the Sale Option Notice to Bank; and (3) provide, or cause the Successor Institution to provide, Bank with a detailed outline of its intentions in connection with the T-Mobile Customer Accounts, including, as applicable, the identity of the Successor Institution, the procedures for the transition of the T-Mobile Customer Accounts, and any other information reasonably requested by Bank that is necessary to facilitate the Sale Option. The Parties agree that the Sale Option shall be contingent upon the execution of an agreement that sets forth the mutually agreed to terms and conditions of the Sale Option.

(b) The sale price will be equal to [\*\*]

[\*\*\*]. Subject to the receipt of all necessary approvals from any Regulatory Authority, Bank agrees to transition the T-Mobile Customer Accounts to Company or the Successor Institution, as applicable, within [\*\*\*] after closing of the Sale Option.

(c) If Company elects to accept the Sale Option and the T-Mobile Customer Accounts are transitioned to Company or the Successor Institution, as applicable, [\*\*\*]. If Company accepts the Sale Option within the time period provided under Paragraph 10.5(a), the Term of this Agreement shall be extended and the Parties shall remain in compliance with all provisions of this Agreement, including the timely payment of all other fees and sums called for under this Agreement, through the date that the T-Mobile Customer Accounts are transitioned to Company or the Successor Institution, as applicable; provided, that Company shall not be subject to any minimum fee or similar commitments following the effective date of any expiration or termination of this Agreement. Company or the Successor Institution will be responsible for obtaining any necessary approvals from any Regulatory Authority.

**10.6 Exclusivity and Cross-Marketing.** Bank agrees that, for the duration of the Term, (i) Bank shall not offer any financial products or services that are substantially similar to the T-Mobile Financial Services to any other Mobile Network Operator in the United States, and (ii) Bank shall not target any T-Mobile Customers using any T-Mobile Customer or Company customer list(s) or any data from or about the Program for the purpose of marketing or selling any financial product or service, other than the T-Mobile Financial Services, to any such T-Mobile Customer. Company agrees that, for the duration of the Term, Company shall not offer a consumer-facing demand deposit account with any other financial institution. The provisions of this Section 10.6 shall not apply during any Termination Assistance Period.

## **11. CONFIDENTIALITY**

**11.1 Confidential Information.** The term "Confidential Information" shall mean this Agreement and any and all proprietary information, data, trade secrets, business information and other information of any kind whatsoever which (a) a Party discloses in writing, orally, or visually (the "Discloser") to the other Party (the "Recipient") or to which the Recipient obtains access in connection with the negotiation of this Agreement or the exercise of its rights or performance of its obligations hereunder, and which (b) relates to (i) the Discloser's business or business practices, (ii) the Discloser's customers and/or associates, or (iii) consumers who have made Sensitive Customer Information available to Bank and/or Company. "Sensitive Customer

Information" means "non-public personal information," as defined in the Gramm-Leach-Bliley Act and its implementing regulations (the "GLBA"). Except as otherwise provided in Section 11 of this Agreement, Confidential Information may only be accessed, used, and disclosed by the Parties for the business purpose contained herein.

**11.2 Sensitive Customer Information.** Each Party acknowledges and agrees that it will protect, maintain, use, and disclose Sensitive Customer Information in accordance with this Agreement and in a manner that is not prohibited by Applicable Law. In addition to the other requirements set forth in Section 11 regarding Confidential Information, Sensitive Customer Information shall be subject to the additional restrictions set forth in this Section 11.2. The Recipient shall access, use, and disclose Sensitive Customer Information only for the purpose of exercising its rights and performing its obligations hereunder and shall disclose such Sensitive Customer Information only to its affiliates, employees, officers, agents, subcontractors, and third-party vendors (collectively, "Recipient Third Parties") on a "need to know" basis and only to the extent such Recipient Third Parties are subject to obligations with respect to such Sensitive Customer Information that are no less restrictive than the obligations imposed on Recipient hereunder. The restrictions set forth herein shall apply during the Term and after the termination of this Agreement.

**11.3 Marketing Data.** Bank acknowledges and agrees that it will provide to Company, and Company may securely maintain, [\*\*\*]. Bank agrees that it will make any and all disclosures and obtain any and all consents, authorizations, and approvals from T-Mobile Customers required under Applicable Law for Company to exercise its rights and for Bank to perform its obligations hereunder.

**11.4 Compliance with Applicable Law.** The Parties shall comply with Applicable Law with respect to the use and disclosure of Sensitive Customer Information.

**11.5 Disclosure to Employees, Agents and Third Parties** Each of the Parties, as a Recipient, hereby agrees on behalf of itself and Recipient Third Parties that Confidential Information will only be disclosed or made available to Recipient Third Parties on a "need to know basis" for a Party to exercise its rights and perform its obligations hereunder and only if such Recipient Third Parties are subject to confidentiality obligations with respect to such Confidential Information that are no less restrictive than the obligations imposed on the Recipient hereunder. Each of the Parties, as a Recipient, also may disclose Confidential Information as required by law; provided, that, prior to any disclosure of Confidential

Information as required by law, the Recipient shall (i) notify the Discloser of any actual or threatened legal compulsion of disclosure and any actual legal obligation of disclosure immediately upon becoming so obligated, and (ii) cooperate with the Discloser’s reasonable, lawful efforts to resist, limit or delay disclosure.

**11.6 Return/Destruction of Materials.** Upon the termination of this Agreement, or at any time upon the request of a Party, the other Party shall return or, at the requesting Party’s election, destroy all Confidential Information, including Sensitive Customer Information, in the possession of such Party or in the possession of any third party over which such Party has or may exercise control, except as otherwise provided in this Agreement or as required to meet record-retention requirements under Applicable Law; provided, that, Company shall be under no obligation to return or destroy Behavior Data.

**11.7 Exceptions.** The obligations of confidentiality in this Section 11 shall not apply to any information which a Party rightfully has in its possession when disclosed to it by the other Party, information which a Party independently develops, information which is or becomes known to the public other than by breach of this Section 11 or information rightfully received by a Party from a third party without the obligation of confidentiality.

**11.8** The Parties acknowledge and agree that the same or similar information, including Confidential Information, may constitute Company data and Bank data and, to the extent such information is both Company data and Bank data, (i) Company shall retain its ownership and use rights in such Company data without restriction hereunder as to elements of Company data that are also elements of Bank data, and (ii) Bank shall retain its ownership and use rights in such Bank data without restriction hereunder as to elements of Bank data that are also elements of Company data; provided, that, notwithstanding anything to the contrary in this Agreement, Bank shall not use any data accessed, disclosed, obtained, or received in connection with the Program to market any financial products or services to T-Mobile Customers.

**11.9 Media Releases.** All media releases by either Party regarding the Program shall be coordinated with and, subject to requirements of Applicable Law, approved by the other Party in writing prior to the release thereof, which approval will not be unreasonably withheld or delayed.

**11.10 Injunctive Relief.** The Parties acknowledge that, in the event either Party breaches the terms of Section 11, the non-breaching Party shall be entitled to injunctive relief, in addition to any other remedies that may be available to it at law or under the terms of the Agreement.

## **12. INSURANCE**

**12.1 Required Insurance Coverage.** Except as otherwise provided in Section 12.1(e), each Party shall, at its own cost and expense, obtain and maintain in full force and effect, with financially sound and reputable insurers having A.M. Best ratings of [\*\*\*] or better, insurance to cover such Party’s obligations under this Agreement. Upon execution of this Agreement and before the commencement of any services contemplated under the Agreement, each Party shall provide the other Party with a certificate of insurance or declaration page



evidencing the following coverages and amounts with such insurers and naming the other Party as an additional insured:

(a) Commercial General Liability. Including products, completed operations liability and personal injury, contractual liability and broad form property damage liability coverage for damages to any property with a minimum combined single limit of [\*\*] per occurrence and [\*\*] general aggregate per location for bodily injury, death, property damage and personal injury.

(b) Business Automobile Coverage. Covering use of any owned, non-owned, and hired automobiles with a minimum combined single limit of [\*\*] per occurrence for bodily injury and property damage liability.

(c) Workers' Compensation Coverage. Including occupational illness or disease coverage, or other similar social insurance in accordance with the laws of each State in which services are performed; and Employer's Liability Insurance with a minimum limit of [\*\*] per occurrence.

(d) Umbrella/Excess Liability. Coverage with a minimum limit of [\*\*] to cover claims in excess of the coverage limits for Commercial General Liability, Employer's Liability and Automobile Liability.

(e) Professional Liability/Errors and Omissions Insurance. Bank shall maintain professional liability/errors and omissions liability insurance applicable to Bank's obligations hereunder for minimum limits of [\*\*] per claim and [\*\*]. If such coverage is written on a claims-made basis, then (i) the retroactive date must precede the obligations performed under this Agreement, and (ii) the coverage must continue through the purchase of an extended reporting period (or continuation of the existing coverage) for [\*\*] after termination of this Agreement.

(f) Bank's Obligation to Maintain Cybersecurity Insurance Coverage. Bank, at all times, shall obtain and maintain cybersecurity and technology coverage for any liability arising from or related to the theft, dissemination, and/or use of Confidential Information and personal data stored or transmitted in electronic form and for any liability arising from or related to the introduction of a computer virus into, or otherwise causing damage to, any Company's or any third party's (including any T-Mobile Customer's), computer systems, networks or similar computer-related property and the data, software, and programs stored thereon. The amount of coverage maintained by Bank, at all times, shall be [\*\*] in accordance with the table below:

| [**]   | [**] | [**] |
|--------|------|------|
| Tier 1 | [**] | [**] |
| Tier 2 | [**] | [**] |
| Tier 3 | [**] | [**] |

|        |      |      |
|--------|------|------|
| Tier 4 | [**] | [**] |
|--------|------|------|

[\*\*]. For the avoidance of doubt, Bank's failure to maintain coverage, at all times, in the amount required under this Section 12.1(f) shall be deemed to be a material breach of this Agreement.

If the coverage required under this Section 12.1(f) is written on a claims-made basis, then (i) the retroactive date must precede the obligations performed under this Agreement, and (ii) the coverage must continue through the purchase of an extended reporting period (or continuation of the existing coverage) for [\*\*] after termination of this Agreement.

**12.2 Additional Insurance Requirements.**

(a) Each Party shall cause its insurers or its representatives to issue certificates of insurance evidencing that the coverages under this Agreement are maintained in force, and each Party will provide not less than thirty (30) days written notice to the other Party prior to any cancellation of any of the policies.

(b) Each Party shall provide evidence of such policies of insurance to the other Party upon request.

(c) Nothing in this Section 12 will be construed as limiting either Party's liability to the other Party or to any third party.

(d) Each Party shall be named additional insured under the General Liability and Umbrella Liability.

**12.3 No Warranty.** No warranty is provided that the coverages and limits listed in this Section 12 are adequate to cover and protect the interests of either Party. These are solely minimums that have been set to protect the interests of the Parties. Each Party will be fully responsible for risk of loss of, and damage to, any building, equipment, software or other materials owned or leased by it and used in providing the services in the Agreement.

**13. LIMITATION OF LIABILITY**

**13.1 No Special Damages.** EXCEPT TO THE EXTENT SUCH DAMAGES ARISE OUT OF OR RELATE TO A PARTY'S (A) BREACH OF SECTIONS [\*\*], (B) A PARTY'S [\*\*], OR (C) A PARTY'S FRAUD, WILLFUL MISCONDUCT, OR GROSS NEGLIGENCE, IN NO EVENT SHALL EITHER PARTY BE

LIABLE TO THE OTHER PARTY, WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE, FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE OR EXEMPLARY DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, EVEN IF SUCH PARTY HAS KNOWLEDGE OF THE POSSIBILITY OF SUCH DAMAGES ARISING FROM OR RELATED TO THIS AGREEMENT.

**13.2 Disclaimers of Warranties.** EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT, THE PARTIES SPECIFICALLY DISCLAIM ALL WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING WITHOUT LIMITATION, ANY WARRANTY OF MARKETABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT, AND IMPLIED WARRANTIES ARISING FROM COURSE OF DEALING OR COURSE OF PERFORMANCE, EACH OF WHICH IS HEREBY EXCLUDED BY AGREEMENT OF THE PARTIES.

**13.3 Liabilities of Parties for Regulatory Claims.** Each Party shall be liable to the other Party for any and all costs, expenses, liabilities, and losses, including, without limitation, the cost of investigation, the cost of litigation, and reasonable attorneys’ fees (collectively, “Losses”), in connection with any (a) claim, demand, or cause of action brought by or on behalf of any T-Mobile Customer as a result of the other Party’s failure to comply with Applicable Law, or (b) regulatory investigation conducted by any Regulatory Authority.

#### **14. INTELLECTUAL PROPERTY**

**14.1** Each Party shall be the sole owner of all right, title, and interest in and to all such intellectual property owned by it immediately preceding the Effective Date and any intellectual property acquired, created, or developed by such Party independently of this Agreement after the Effective Date. For the purposes of clarity, Bank is the owner of all right, title, and interest in and to all intellectual property and proprietary rights in and to its banking system and related technology, including, but not limited to, its mobile and web-based applications, user interface (“Bank User Interface”), data systems, databases, financial and banking processes, and related systems and processes used and operated by Bank in connection with its online banking system for retail and commercial banking and financial services (collectively, “Bank FinTech”). Company shall not, nor assist any third party’s efforts to, modify, reverse engineer, disassemble, decrypt, decompile, make derivative works of, or attempt to discover or modify in any way the underlying source code or object code relating to Bank FinTech.

**14.2** As between the Parties, each Party, respectively, will be the sole and exclusive owner of all right, title, and interest in and to all intellectual property acquired from a third party or developed by or on behalf of such Party in connection with such Party exercising its rights or performing its obligations hereunder. Without limiting the foregoing, Company shall own all respective rights, title, and interest in and to any modification or customization of Bank’s User Interface, and any component thereof, created or developed by or on behalf of Company (including by Bank or any affiliate of Bank) with Bank’s authorization (the “Company Specific User Interface”), including, without limitation, any information architecture of the Company Specific User Interface, wireframes, and flows of the Company Specific User Interface, as well as the design (including the look and feel) of the Company Specific User Interface. For the

purposes of clarity, Company acknowledges and agrees that it is acquiring ownership rights solely in and to the modifications and customizations made to the Bank User Interface that are embodied in the Company Specific User Interface, but not any ownership rights in the Bank User Interface. The Company Specific User Interface shall constitute a "work made for hire" under the U.S. Copyright Act of 1976 (17 U.S.C. §101 et seq. and any successor statute thereto), and the ownership of the Company Specific User Interface shall vest in Company at the time it is created. To the extent any rights, title, or interest in or to the Company Specific User Interface, including any intellectual property rights, may not vest automatically in Company, whether by operation of law or otherwise, Bank hereby irrevocably assigns and transfers to Company all right, title, and interest in and to the Company Specific User Interface, including any intellectual property rights therein. For the avoidance of doubt, Customer Specific User Interface shall not be considered to be jointly-owned intellectual property.

**14.3** Bank hereby grants to Company and its third-party service providers a revocable, non-transferable, non-sublicenseable, non-exclusive, worldwide, royalty-free license, during the Term and any Transition Assistance Period or Modified Transition Assistance Period, to all intellectual property it provides to Company, or to which it provides Company with access, solely for the purpose of using such intellectual property in connection with the Program and as necessary to exercise its rights and perform its obligations hereunder during the Term and any Transition Assistance Period or Modified Transition Assistance Period. Notwithstanding anything to the contrary, to the extent that the Company Specific User Interface relies on Bank intellectual property owned by Bank preceding the Effective Date or any intellectual property acquired, created, or developed by Bank independently of this Agreement after the Effective Date, Bank hereby grants to Company, under intellectual property rights owned or controlled by Bank or any Bank affiliate, an irrevocable, sublicensable, exclusive, royalty-free, perpetual, worldwide right and license to such intellectual property, including to make use the Company Specific User Interface.

**14.4** The Parties shall not develop any intellectual property that will be deemed jointly- owned unless they have agreed, in advance and in writing, that such intellectual property writing will be jointly-owned. If, notwithstanding the foregoing, a "joint work of authorship" (as defined under the U.S. Copyright Act) or a "joint invention" (as defined under the U.S. Patent Act) arises in any jurisdiction in the absence of such a separate agreement, then each Party will have the right to use, license, and otherwise exploit such jointly-owned intellectual property without any restriction or obligation to account to the other Party; provided, however, that the foregoing shall not be construed as granting or conveying any right or licenses under any other intellectual property of the other Party even if necessary to use or otherwise exploit such jointly-owned intellectual property.

**14.5** Bank hereby grants to Company, its parents and affiliates, and its third-party service providers a revocable, non-transferrable, non-sublicenseable, non-exclusive, worldwide, royalty-free license, during the Term and any Transition Assistance Period or Modified Transition Assistance Period, to use, host, display, reproduce, and transmit the Bank Marks for the purpose of exercising its rights and performing its obligations hereunder solely in connection with the Program.

**14.6** Company hereby grants to Bank (i) a limited, personal, revocable, non-exclusive, non-transferrable, non-sublicenseable, royalty-free sublicense, to use the DT Marks, and (ii) a limited, personal, revocable, non-exclusive, non-transferable, non-sublicenseable, royalty-free license to use the Company Marks, during the Term and any Transition Assistance Period or Modified Transition Assistance Period, in the United States, for the purpose of exercising its rights and performing its obligations hereunder solely in connection with the Program.

**14.7** Bank, Company, and DT shall retain all right, title, interest and ownership in and to their respective Marks. Neither Bank nor Company will challenge, nor assist any third party in challenging, any right, title or interest of the other Party or such Party's licensors in their respective Marks, claim any right, title or interest in or to the other Party's or such Party's licensor's Marks, or assert any interest in, or attempt to register or apply for registration of, any of the other Party's or such Party's licensor's Marks or any confusingly similar variation of such Marks. Any use of Bank Marks by Company will inure to the benefit of Bank, and any use of Company Marks and DT Marks by Bank shall inure to the benefit of Company and DT, respectively. Except as provided herein, neither Party shall use the other Party's Marks or such other Party's licensor's Marks, or any adaptation or variation of such Marks, in any manner whatsoever (including, without limitation, in any press releases, advertising, promotion or sales literature), without the prior written consent of the other Party. Neither Party will use the other Party's Marks or such Party's licensor's Marks, or incorporate any such Marks, including any confusingly similar variation of such Marks, into any company or trade names, other marks, email addresses, gTLDs, domain names or URL strings, telephone numbers, Google AdWords (or other online paid search advertising tool), or social networking user names, "handles," or hashtags. Each Party acknowledges that it is familiar with the high standards, quality, style and image of the other Party's Marks or such other Party's licensor's Marks, and will use such Marks in a manner consistent with such uses. Neither Party will use the other Party's Marks or such Party's licensor's Marks in any way that causes, or may cause, damage to the reputation, business or goodwill of the other Party or its licensors. Neither Party will do anything itself, or aid or assist any other person or entity to do anything that would, or could reasonably be expected to infringe, violate, tarnish, dilute, cause a loss of distinctiveness, harm, disparage, misuse or bring into disrepute the other Party's Marks or such other Party's licensor's Marks, and/or do anything that would, or could reasonably be expected to damage the goodwill associated therewith. Each Party will meet and comply with all of the specifications and standards prescribed by the other Party or its licensors, including but not limited to (a) Bank's standards (as set forth in Exhibit 14.7), and (b) Company's Marks Rules (available at <http://www.t-mobile.com/marksrules/>) and brand guidelines. On ten (10) days written notice, either Party may require the other Party to provide a sampling of goods and media bearing the such other Party's Marks or such Party's licensor's Marks to determine the manner in which such Marks are used and the nature and quality of the goods and services with which such Marks are used. To the extent a Party determines that any use of its Marks by the other Party is inconsistent with the terms and conditions of this Section 14.7, then such Party may provide written notice of such inconsistency to the other Party and the Parties will work in good faith to address the issue giving rise to such written notice within a commercially reasonable period of time. Notwithstanding anything to the contrary, Company shall maintain all right and title to, and ownership in and of, all branding used in connection with the Program (except for Banks Marks).

**14.8** Notwithstanding anything to the contrary, Company shall maintain all right and title to, and ownership in and of, all branding used in connection with the Program (except for Bank Marks).

**14.9** All rights not expressly granted hereunder are reserved by the owner of such rights, and the reserved rights shall remain the exclusive property of such owner.

## **15. GENERAL PROVISIONS**

### **15.1 Indemnification.**

(a) Company shall indemnify and hold harmless Bank, its parent, subsidiaries and affiliates and their respective officers, directors, employees and permitted assigns (as applicable, the "Bank Indemnified Party"), from and against any direct damages, costs, expenses, or liabilities arising from or related to any legal action, claim, demand, proceeding, order, suit, or cause of action (collectively, any "Claim") brought against any Bank Indemnified Party by any third party in connection with: (i) Company's breach of any representation, warranty, or covenant of this Agreement or any agreement between Company and a T-Mobile Customer in connection with the Program; (ii) Company's breach of any of its obligations under this Agreement; (iii) Company's negligence, willful misconduct, or bad faith; or (iv) [\*\*\*].

(b) Bank shall indemnify and hold harmless Company and its parent, subsidiaries and affiliates, and their respective officers, directors, employees, and permitted assigns (as applicable, a "Company Indemnified Party"), from and against any direct damages, costs, expenses, or liabilities incurred by a Company Indemnified Party arising from or related to any Claim brought against any Company Indemnified Party by any third party in connection with Program, including, without limitation: (i) Bank's breach of any representation, warranty, or covenant of this Agreement, (ii) Bank's breach of any of its obligations under this Agreement or under any agreement between Bank and a T-Mobile Customer; (iii) Bank's negligence, willful misconduct, or bad faith, or (iv) Bank's infringement of any third party intellectual property rights caused by Company's use of Bank's FinTech, the Company Specific User Interface, Bank Marks, or other similar rights licensed to a Company Indemnified Party, provided that Bank shall not be required to indemnify the Company under this subsection (iv) if Bank's FinTech, Bank Marks, or other similar licensed rights were modified or changed by Company without Bank's written authorization.

(c) If any Claim is asserted against an Indemnified Party by any third party in respect of which the Indemnified Party may be entitled to indemnification under the provisions of

subsections (a) or (b) above, the Indemnified Party shall promptly provide written notice of such Claim to the Indemnifying Party from which indemnification may be sought. The Indemnifying Party shall have the right, by notifying the Indemnified Party within thirty (30) days of its receipt of the notice of the Claim, to assume the entire control of the defense of the Claim, including the right to settle the Claim at the sole discretion of the Indemnifying Party, provided that such settlement: (i) does not impose any obligation on the Indemnified Party, (ii) does not include an admission of liability by the Indemnified Party, (iii) grants the Indemnified Party a full and unconditional release from all liability with respect to the Claim, and (iv) does not otherwise adversely affect the Indemnified Party. The Indemnifying Party may not consent to the entry of any judgment with respect to a Claim without the written consent of the Indemnified Party. Any counsel retained by the Indemnifying Party for such purposes shall be reasonably acceptable to the Indemnified Party. The Indemnifying Party shall institute and maintain any such defense diligently and reasonably and shall keep the Indemnified Party fully advised as to the status thereof. The Indemnified Party shall have the right to participate in the defense of any Claim, including through employing its own counsel, but the fees and expense of such counsel shall be at the Indemnified Party's expense, unless otherwise authorized in writing by the Indemnifying Party.

(d) The provisions of this Section 15.1 and of Section 15.2 shall survive termination or expiration of this Agreement.

**15.2** Disclosure.

(a) Each Party shall promptly notify the other of any action, suit, proceeding which might give rise to any indemnification hereunder or which might materially and adversely affect either Party's ability to perform this Agreement.

(b) Each Party represents and warrants to the other Party that it has no knowledge of any pending or threatened suit, action, arbitration or other proceedings of a legal, administrative or regulatory nature, or any governmental investigation, against it or any of its affiliates or any officer, director, or employee, which has not been previously disclosed in writing and which would materially and adversely affect its financial condition or its ability to perform this Agreement.

**15.3** Legal Compliance. Each Party represents and warrants to the other Party that it is familiar with the requirements of Applicable Law and agrees that it will use commercially reasonable efforts to maintain familiarity with Applicable Law relating to its activities under this Agreement, now and in the future. The provisions of this Section 15.3 shall not alter the responsibilities of the Parties to ensure compliance as otherwise required by separate sections of this Agreement.

**15.4** Program Governance. The Parties agree to adhere to the joint governance structure for oversight and management of the Program as described in this Section 15.4.

(a) Program Managers and Program Teams. Within thirty (30) days after the Effective Date, each Party shall appoint one Program relationship manager ("Program Manager"). Each Program Manager shall serve as the other Party's principal point of contact on

Program-related issues and shall lead the Program Manager’s respective team (“Program Team”) in executing its Party’s obligations hereunder. Each Party shall endeavor to provide stability and continuity in the Program Manager positions and each Party’s other Program personnel. Bank’s Program Team and Company’s Program Team collectively will constitute the “Joint Governance Committee.”

(b) Joint Governance Committee. The Joint Governance Committee shall be responsible for monitoring all aspects of the Program to ensure that the Parties are exercising their rights and performing their obligations in accordance with this Agreement; provided, however, that the Joint Governance Committee shall not be authorized to amend this Agreement or modify either Party’s obligations hereunder. The Joint Governance Committee, at a minimum, shall meet in person, by phone, or by videoconference on a quarterly basis. The Joint Governance Committee shall: [\*\*\*].

(c) Within thirty (30) days after the Effective Date, each Party shall appoint two (2) senior executives to serve on an advisory board (the “Advisory Board”). If the Joint



Governance Committee is unable to resolve any matter of material significance, then the Joint Governance Committee shall refer the matter to the Advisory Board and the Advisory Board shall endeavor, within a reasonable period of time, to resolve such matter.

(d) Fraud Losses. Both Parties recognize that managing losses on the Program is an essential element. Bank will implement a loss prevention program designed to detect, prevent, and mitigate losses in connection with the Program. Company shall reasonably cooperate with Bank in the implementation of loss prevention activities throughout the term of the Agreement. [\*\*\*]. The Parties will meet annually to discuss Bank's Fraud Prevention Policy.

(e) Risk Management. The Parties will reasonably cooperate to identify the legal, financial, and reputational risks associated with the Program (including, without limitation, any information technology risks) and will manage and regularly review a transparent and accessible risk matrix that identifies such risks, including the probability and impact of such risks, as well as mitigations and contingencies to address and respond to such risks. Bank promptly shall notify Company of any material changes to Bank's technology architecture.

**15.5 Relationship of Parties**. Bank and Company intend for their relationship to be that of independent contractors in performing their respective obligations hereunder. Nothing in this Agreement or in the working relationship established and developed hereunder shall be deemed to be, nor shall it cause, Bank and Company to be treated as partners, joint venturers, employees or joint associates for profit.

**15.6 Regulatory Examinations and Financial Information**. Company agrees to submit to any examination which may be required by any Regulatory Authority with audit and examination authority over Bank, to the fullest extent of such Regulatory Authority. Company shall also provide to Bank any information, which may be required by any Regulatory Authority in connection with their audit or review of Bank or the Program, and shall reasonably cooperate with such Regulatory Authority in connection with any audit or review of Bank. Nothing in this Agreement shall limit the right of any Party to this Agreement to seek injunctive relief, to the extent available, with respect to breaches of this Agreement.

**15.7 Governing Law**. This Agreement shall be governed by the internal laws, and not by the laws regarding conflicts of laws, of the State of New York. Each Party hereby submits to the jurisdiction of the courts of the State of New York, and hereby waives any objection to venue with respect to actions brought in any court in the State of New York.

**15.8 Severability**. If any provision of this Agreement is deemed by a court, Regulatory Authority, or other public or private tribunal of competent jurisdiction to be invalid or otherwise unenforceable, then such provision shall be deemed to have been omitted from this Agreement. In the case of the foregoing, the remaining provisions of this Agreement shall remain in full force and effect.

**15.9 Force Majeure**.

(a) Neither Party is liable for the failure of such Party to perform its obligations hereunder if such failure is the result of an act of God (including fire, flood, earthquake, storm,

hurricane or other natural disaster), war, invasion, act of foreign enemies, hostilities (regardless of whether war is declared), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation, terrorist activities, government sanction, blockage, embargo, labor dispute, strike, lockout or interruption or failure of electricity or telephone service (each, a "Force Majeure Event").

(b) If either Party asserts this Section 15.9 as an excuse for the failure to perform its obligations hereunder, then the non-performing Party must prove that the Party took commercially reasonable steps to minimize any delay or damages caused by foreseeable events, that the Party substantially fulfilled all non-excused obligations, and that the other Party was timely notified of the likelihood or actual occurrence of a Force Majeure Event.

**15.10 Survival.** Any rights and obligations of Bank and Company which, by their nature, should extend beyond the termination of this Agreement shall survive the termination of this Agreement, including any representations and warranties made by each Party, the indemnification obligations of each Party, and the liability provisions hereof.

**15.11 Successors and Third Parties.** Except as limited by Section 15.12, this Agreement and the rights and obligations hereunder shall bind and inure to the benefit of the Parties and their successors and permitted assigns.

**15.12 Assignments.** Except as otherwise provided in this Section 15.12, neither Party may assign this Agreement, or any rights hereunder, without the other Party's prior written consent; provided, that (i) Company may assign this Agreement, or any of its rights hereunder, to any affiliate of Company, and (ii) Bank may assign this Agreement, or any of its rights hereunder, to a Durbin-Exempt Bank as contemplated by and subject to Section 8.1(l). If a Party attempts to assign this Agreement, or any rights hereunder, without the other Party's consent, then the other Party may terminate this Agreement, without penalty, immediately upon written notice to the other Party. Notwithstanding anything to the contrary, Company may assign this Agreement in the event of a change of Control of Company. If Bank assigns this Agreement subject to and in accordance with Section 8.1(l) or this Section 15.12, then, notwithstanding anything to the contrary, Bank shall be bound by and comply with Bank's confidentiality obligations and the exclusivity provisions of this Agreement as if Bank were still a party to this Agreement.

**15.13 Notices.** All notices, requests, and approvals required by this Agreement shall be in writing addressed and directed to the other Party at the mailing address, electronic mail address, or facsimile set forth below or at such other mailing address, electronic mail address, or facsimile as the Parties may designate in writing from time to time subject to and in accordance with this Section 15.13. Notices, requests, and approvals shall be deemed to have been given upon the earlier of (i) the receipt of an electronic mail or facsimile transmission during normal business hours or (ii) the actual receipt thereof. Notices, requests and approvals shall be addressed to the attention of:

Bank to: Customers Bank  
ATTN: [\*\*\*]  
115 Munson Street  
New Haven, Connecticut 06511

With a copy to: Customers Bank  
ATTN: [\*\*\*]  
1015 Penn Avenue  
Wyomissing, Pennsylvania 19610

Company to: T-Mobile USA, Inc.  
ATTN: [\*\*\*]  
12920 SE 38th Street  
Bellevue, Washington 98006-1250

With a copy to: T-Mobile USA, Inc.  
ATTN: General Counsel 12920 SE 38th Street  
Bellevue, Washington 98006-1250

**15.14** Waivers. Neither Party shall be deemed to have waived any of its rights, power, or remedies hereunder, except in a writing signed by an authorized agent or representative of the Party to be charged. Either Party may, by an instrument in writing, waive compliance by the other Party with any term or provision of this Agreement. The waiver by either Party of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

**15.15** Entire Agreement: Amendments. This Agreement, including any exhibits, schedules, and attachments, constitutes the entire Agreement between the Parties and supersedes all prior agreements, understandings, and arrangements, oral or written, between the Parties with respect to the subject matter hereof. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the Party against which enforcement of any such modification or amendment is sought.

**15.16** Counterparts. This Agreement may be executed and delivered by the Parties in counterparts, each of which shall be deemed an original and both of which, together, shall constitute one and the same instrument. Facsimile or other electronically delivered copies of signature pages to this Agreement shall be treated between the Parties as original signatures for all purposes.

**15.17** Disputes.

(a) Duty to Notify. In the event of any dispute, controversy, or claim arising out of or relating to this Agreement or the construction, interpretation, performance, breach, termination, enforceability or validity thereof (hereinafter, a "Dispute"), the Party raising such Dispute shall notify the other Party promptly and no later than one-hundred eighty (180) days from the date of its discovery of the Dispute. If a Party fails to notify the other Party of a Dispute relating to a T-Mobile Customer Account, transaction statements or any other similar matter within one-hundred eighty (180) days of the date of the discovery of the Dispute, then the matter shall be deemed to be undisputed and accepted by the Party attempting to raise the Dispute.

(b) Cooperation to Resolve Disputes. The Parties shall cooperate and attempt in good faith to resolve any Dispute promptly by negotiating between persons who have authority to settle the Dispute and who are at a higher level of management than the persons with direct responsibility for administration and performance of the provisions or obligations of this Agreement that are the subject of the Dispute.

(c) Arbitration. Any Dispute which cannot otherwise be resolved as provided in paragraph (b) above shall be resolved by arbitration conducted in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by the arbitral tribunal may be entered in any court having jurisdiction thereof. The arbitration tribunal shall consist of a single arbitrator mutually agreed upon by the Parties, or in the absence of such agreement within thirty (30) days from the first referral of the dispute to the American Arbitration Association, designated by the American Arbitration Association. The place of arbitration shall be New York, NY, unless the Parties shall have agreed to another location within fifteen (15) days from the first referral of the dispute to the American Arbitration Association. The arbitral award shall be final and binding. The Parties waive any right to appeal the arbitral award, to the extent a right to appeal may be lawfully waived. Each Party retains the right to seek judicial assistance: (i) to compel arbitration, (ii) to obtain interim measures of protection prior to or pending arbitration, (iii) to seek injunctive relief in the courts of any jurisdiction as may be necessary and appropriate to protect the unauthorized disclosure of its proprietary or confidential information, and (iv) to enforce any decision of the arbitrator, including the final award. In no event shall either Party be entitled to punitive, exemplary or similar damages.

(d) Confidentiality of Proceedings. The arbitration proceedings contemplated by this Section 15.17 shall be as confidential and private as permitted by law; provided, however, that either Party is permitted to disclose the proceedings to accountants, legal counsel and professional advisors. To that end, the Parties shall not disclose the existence, content or results of any proceedings conducted in accordance with this Section 15.17, and materials submitted in connection with such proceedings shall not be admissible in any other proceeding, provided, however, that this confidentiality provision shall not prevent a petition to vacate or enforce an arbitral award, and shall not bar disclosures required by any laws or regulations.

**15.18** Headings and Construction. The various captions and section headings in this Agreement are included for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Notwithstanding anything to the contrary, in all cases, the use of the term “including” shall be construed as being inclusive and shall be deemed to mean “including, without limitation,”.

[Signature Page Follows]

IN WITNESS WHEREOF, this Agreement is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

| <b>T-MOBILE USA, INC. (COMPANY)</b>  | <b>CUSTOMERS BANK (CUBI)</b>   |
|--------------------------------------|--------------------------------|
| By: <u>/s/ [**]</u>                  | By: <u>/s/ [**]</u>            |
| Name: <u>[**]</u>                    | Name: <u>[**]</u>              |
| Title: <u>[**]</u>                   | Title: <u>[**]</u>             |
| Date: <u>2/23/2017   7:48 PM PST</u> | Date: <u>February 24, 2017</u> |

APPROVED AS TO FORM

/s/ [\*\*]  
T-MOBILE LEGAL

### EXHIBIT A COMPANY REVENUE

On a monthly basis, Bank shall prepare a compilation of revenue and expense items associated with the Program as set forth in this Exhibit A and shall provide detailed reports to the Company by the fifteenth (15<sup>th</sup>) day following the month in which the Program was operated and the T-Mobile Financial Services were provided. Amounts due to Bank will be paid in accordance with Section 9.4 of the Agreement. Amounts due to Company will be paid in accordance with Section 9.5 of the Agreement.

Company shall be compensated by Bank as follows:

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|      |      |      |      |
|------|------|------|------|
| [**] | [**] | [**] | [**] |
| [**] | [**] | [**] | [**] |
| [**] | [**] | [**] | [**] |
| [**] | [**] | [**] | [**] |

- [\*\*]

**EXHIBIT C**

**SERVICE LEVEL AGREEMENTS**

Service Level Implementation: The provisions in this Exhibit C shall be measured on a going-forward basis beginning [\*\*\*] after the Launch Date. Bank, at all times during the Term, shall comply with the service levels set forth in the table below (each, a "Service Level").

Service Level Assumptions:

1. Each Service Level set forth in the table below is expressed as a simple average and is measured on a monthly basis.
2. Response time for electronic authorizations shall exclude any authorizations requiring manual intervention and shall exclude transaction transmission time.
3. T-Mobile Customer Account applications that Bank is reviewing under special circumstances requiring manual intervention, such as a fraudulent T-Mobile Customer Account application, shall not be included in the measurement of performance.
4. Any Service Level failure that is the result of a Force Majeure Event shall be excluded from consideration in measuring compliance with this Exhibit C.
5. If a single event causes more than one Service Level failure during a month, such event shall be deemed a single failure for purposes of this Exhibit C.
6. If Company does not provide Bank with sufficient advance notice of changes in its systems and such changes cause Bank to miss a Service Level for the period, the Service Level will not be deemed to have been failed.
7. Both Parties acknowledge and agree that Company-driven changes to [\*\*\*] could potentially alter [\*\*\*]. If such changes occur, the Parties agree [\*\*\*].

Bank shall report to Company, on a monthly basis and in a mutually agreed format, Bank's performance under each of the Service Levels set forth in this Exhibit C.

Service Failure Payments:

If Bank fails to meet any Critical Service Level in any [\*\*\*], then no later than the [\*\*\*] of the following month, Bank shall deliver to Company a report detailing the reason(s) for such failure and a corrective action plan. Bank shall implement such corrective action plan as soon as practicable but no later than [\*\*\*]. Bank shall deliver to Company a second report, [\*\*\*], assessing the preliminary results of the plan. During any twelve (12)

month period, the month immediately following Bank’s initial failure to meet any Service Level shall be a cure month (“Cure Month”) [\*\*\*]. If Bank fails to meet the same Service Level more than once during any twelve (12) month period [\*\*\*], Company will be eligible for a Performance Credit in the amount corresponding to the magnitude of the failure to meet the Service Level for the second and each subsequent time during such twelve (12) month period.

By way of illustration, if Bank’s Critical Service Level is [\*\*\*], the difference between the target Service Level of [\*\*\*] and the actual Service Level would be [\*\*\*] and Bank would pay a Performance Credit in the amount of [\*\*\*] for the Service Level failure of the Non-Critical Service Level. [\*\*\*]; provided, that in the event of the foregoing, Company shall have the right to terminate the Agreement.

**Table of Payments for Service Level Failures**

|   | Difference in Target Service Levels from Actual Service Levels Achieved in Basis Points |       |       |
|---|---|-------|-------|
|   | [***]   | [***] | [***] |
| Critical Service Level Contact Center     | [***]   | [***] | [***] |
| Critical Service Level Non-Contact Center | [***]   | [***] | [***] |
| Non-Critical Service Level                | [***]   | [***] | [***] |

**Determination of Bank Events of Default Due to Service Level Failures**

- The following failures shall each constitute a “Service Level Termination Event”: A failure to meet the same Critical Service Level being more than [\*\*\*] below the target for [\*\*\*]; or
- A failure to meet any combination of one or more Critical Service Levels [\*\*\*].

Company may only exercise its termination rights in respect of any Service Level Termination Event if the applicable Service Level failure(s) has a material adverse effect on the Program or on Company in Company’s reasonable judgment. [\*\*\*].

Service Levels:

| KEY PERFORMANCE METRIC  | SERVICE LEVEL REQUIREMENT/GOAL/TARGET | CATEGORY |
|---|---------------------------------------|----------|
| Average speed of calls answered   | [**]                                  | [**]     |
| Abandoned call rate   | [**]                                  | [**]     |
| Call blockage   | [**]                                  | [**]     |
| Application response turnaround   | [**]                                  | [**]     |
| Initial Card or Card replacement turnaround time (this does not include expired cards which will be mailed in batch, 3 weeks in advance of the expiration date) | [**]                                  | [**]     |

| KEY PERFORMANCE METRIC                                  | SERVICE LEVEL REQUIREMENT/GOAL/TARGET | CATEGORY |
|---|---------------------------------------|----------|
| T-Mobile Customer inquiry turnaround time (paper/email) | [**]                                  | [**]     |
| Card authorization times                                | [**]                                  | [**]     |
| Card authorization availability                         | [**]                                  | [**]     |
| Website and application uptime                          | [**]                                  | [**]     |

| KEY PERFORMANCE METRIC | SERVICE LEVEL<br>REQUIREMENT/GOAL/TARGET | CATEGORY |
|------------------------|--|----------|
| Dispute resolution     | [**]                                     | [**]     |
| Transaction posting    | [**]                                     | [**]     |
| Statement production   | [**]                                     | [**]     |
| Statement accuracy     | [**]                                     | [**]     |

**EXHIBIT D**

**BANK DUTIES**

1. Bank shall administer the Program and provide the T-Mobile Financial Services subject to and in accordance with the Agreement and Applicable Law.
2. Approval of Prospective T-Mobile Customers. Bank shall use best efforts, based on mutually agreed upon criteria, to approve prospective T-Mobile Customers that are existing customers of Company to participate in the Program.
  - (a) Applications. Bank shall process all complete T-Mobile Customer Account applications from prospective T-Mobile Customers. Bank shall be responsible for making all decisions regarding the approval of T-Mobile Customer Account applications; provided, that, Bank shall use standards that are at least as favorable to the approval of applications submitted in connection with the Program as the standards used by Bank in connection with prospective Bank customers and with other programs administered or operated by Bank in determining whether to approve T-Mobile Customer Account applications in connection with the Program. Company acknowledges that Bank has the authority to approve applications and establish T-Mobile Customer Accounts; provided, however, that if Bank’s approval rate for all completed T-Mobile Customer Account applications is below [\*\*\*] (the “Approval Rate”) for any calendar quarter and does not meet or exceed the Approval Rate in the following calendar quarter, then the Parties shall meet promptly to discuss, in good faith, reasonable adjustments that can be made to meet or exceed the Approval Rate. If the Parties do not agree upon reasonable adjustments, then Company may terminate the Agreement without penalty. In the event of the foregoing, Bank shall be obligated to provide Transition Assistance Services in accordance with the Agreement.
  - (b) Service Lines. Bank shall use standards in connection with the Program that are at least as favorable as the standards used by Bank in connection with Bank’s customers and with other programs administered or operated by Bank with respect to establishing available products and services and, to the extent applicable, the amount of such products and services, for prospective T-Mobile Customers.
3. Service Level Agreements. Bank shall provide and administer the Program and the T-Mobile Financial Services in accordance with the Service Levels in Exhibit C. Bank represents and warrants that such Service Levels are at least as favorable as the service level agreements by which Bank abides in connection with Bank’s customers and to which Bank agrees in connection with other programs administered or operated by Bank.
4. Bank Reporting Requirements. Bank shall track the metrics set forth in Exhibit I and such other metrics as may be requested by Company from time to time and shall provide to Company the reports set forth in Exhibit I, including any raw data (except for personally identifiable information) requested by Company, in a form acceptable to Company and at the frequency specified in Exhibit I.
5. Risk and Fraud Management. Bank shall be responsible for establishing a program to monitor and reduce risk and fraud in connection with the Program.

6. Inactive Account Closures. Bank will implement an account closure process that is consistent with Applicable Law and industry best practices to manage fraud losses. Each of Bank and Company acknowledge and agree that this process may change from time to time upon mutual agreement of the Parties. As of the Effective Date, the Parties agree that the current process will be as follows:

(a) T-Mobile Customer Accounts that have had no balance and no activity for [\*\*\*] or more will be closed. After [\*\*\*] of no balance and no activity, the T-Mobile Customer will be notified by Bank that the T-Mobile Customer Account has had no balance and no activity for [\*\*\*], and that the T-Mobile Customer Account will be closed if the zero balance and inactivity persists for another [\*\*\*]. After [\*\*\*] of no balance and no activity, the T-Mobile Customer will be notified by Bank that, as a result of the T-Mobile Customer Account having no balance and no activity for a period of [\*\*\*], the T-Mobile Customer Account has been closed. Bank shall establish a simple reinstatement process that will allow T-Mobile Customers to reinstate their T-Mobile Customer Accounts and deposit any amounts, within the established limits of the Program, in their T-Mobile Customer Accounts through the Mobile Application.

(b) T-Mobile Customer Accounts that have had a balance of less than [\*\*\*] and no activity for [\*\*\*] or more will be closed and a check in the amount of the remaining balance in the T-Mobile Customer Account will be mailed to the T-Mobile Customer's last known address. After [\*\*\*] of a balance of less than [\*\*\*] and no activity, the T-Mobile Customer will be notified by Bank that the T-Mobile Customer Account will be closed if the balance remains below [\*\*\*] and the inactivity persists for another [\*\*\*]. After [\*\*\*] of a balance of less than [\*\*\*] and no activity, the T-Mobile Customer will be notified by Bank that the T-Mobile Customer Account will be closed if the balance remains below [\*\*\*] and the inactivity persists for another [\*\*\*]. After [\*\*\*] of a balance of less than [\*\*\*] and no activity, the T-Mobile Customer will be notified by Bank that, as a result of the T-Mobile Customer Account having a balance of less than [\*\*\*] and no activity for a period of [\*\*\*], the T-Mobile Customer Account has been closed and a check for the remaining balance will be mailed to the T-Mobile Customer's last known address. Bank shall establish a simple reinstatement process that will allow T-Mobile Customers to reinstate their T-Mobile Customer Accounts and deposit the check received by the T-Mobile Customer or any other amounts, within the established limits of the Program, in their T-Mobile Customer Accounts through the Mobile Application.

7. Core Account Management and Services. Bank shall provide core T-Mobile Customer Account management and services as further described in this Section 7.

(a) General.

(i) Bank shall obtain any and all information and data from T-Mobile Customers necessary to provide the T-Mobile Financial Services in a manner that is secure and that will enable [\*\*\*]



[\*\*]. Bank shall be responsible for proper accounting of all transactional activity through the T-Mobile Customer Accounts, including: (i) [\*\*].

(ii) Bank shall provide or otherwise facilitate [\*\*] functionality in connection with the Program.

(iii) Bank shall provide or otherwise facilitate [\*\*] in connection with the Program.

(iv) Bank shall provide or otherwise facilitate [\*\*], as mutually agreed by Company and Bank.

(v) Bank shall provide [\*\*] in accordance with industry standards.

(vi) Bank may provide access to other financial products and services, [\*\*] as may be requested and mutually agreed by the Parties from time to time.

(vii) Bank shall service T-Mobile Customer Accounts and Cards and shall provide any and all related services in connection therewith, including, without limitation, direct and indirect T-Mobile Customer support related to T-Mobile Financial Services in accordance with the Service Levels in Exhibit C.

(viii) At Company's request and expense, Bank shall provide [\*\*] any other reasonable activity as may be requested and mutually agreed by the Parties from time to time.

(b) FDIC Insurance.

(i) Bank shall create and maintain Deposit Accounts with certain features [\*\*], as determined by Company from time to time, and offer such Deposit Accounts to T-Mobile Customers in connection with the Program. Bank shall hold T-Mobile Customers' funds in T-Mobile Customer Accounts in a manner that complies with Applicable Law [\*\*].

(ii) [\*\*]

(c) Payment Card Networks.

(i) Bank shall maintain, at all times, its status as a participant and member in the payment card networks as necessary and appropriate to properly administer the Program and provide the T-Mobile Financial Services, [\*\*].

(ii) Bank shall issue Cards enabled on the payment card networks selected by Company to T-Mobile Customers in accordance with the rules of the payment card networks. Bank shall produce all Cards issued to T-Mobile Customers in connection with any T-Mobile Customer Account, subject to Company's approval and in accordance with the payment card network rules and requirements.

(iii) Bank shall be responsible for: (1) decisioning all Card authorizations initiated by T-Mobile Customers based on the funds available in such T-Mobile Customer Account; (2) maintaining and managing all Cards, both prior to and after the issuance of, such Cards; and (3) managing all aspects of security in connection with such Cards, including allowing T-Mobile Customers to select and change their password identification numbers ("PINs") from time to time; in each case, in accordance with the payment card network rules and requirements.

(iv) Bank shall be responsible for managing any and all aspects of Card activity in connection with any T-Mobile Customer Account, including for authorizing, clearing, and settling transactions in connection with the Program and for compliance with the payment card network rules and requirements.

8. Bank Provision of Back Office Support Bank shall provide [\*\*] in connection with the Program in accordance with commercially reasonable standards or as otherwise agreed by the Parties.

9. Bank shall be responsible for maintaining procedures for the identification of each new T-Mobile Customer upon the establishment of a T-Mobile Customer Account within a reasonable time thereafter as required by Applicable Law. Such procedures shall be designed to comply with the requirements of the federal Bank Secrecy Act, the federal USA PATRIOT Act, any regulations adopted pursuant to such acts, as well as applicable regulations of the Office of Foreign Assets Control.

10. Digital Services. Bank shall develop and maintain a digital banking platform (the "Digital Banking Platform") in accordance with the technical specifications (as mutually agreed by the Parties in connection with the Program, and in accordance with Exhibit F.

(a) The Digital Banking Platform shall be developed and maintained to function across multiple digital and mobile platforms and shall include, at a minimum, (i) an online banking offering (the "Online Offering") and (ii) a mobile banking offering (the "Mobile Offering"). Company reserves the right, in its sole discretion, to select the set of products and features offered by the Bank (the "Product and Feature Set") that shall be developed and maintained in connection with the Digital Banking Platform and to change, from time to time,

the Product and Feature Set described in Exhibit F offered to T-Mobile Customers. Company may integrate third-party services into the Digital Banking Platform; provided, that, such integration is permitted by Applicable Law and is consistent with commercially reasonable security standards.

(b) Bank agrees that, in connection with the Online Offering and the Mobile Offering, Bank shall make available, on a non-discriminatory basis, and implement any and all software, applications, specification standards, software development kits, application programming interfaces, and any related documentation to Company and/or to any third-party service providers designated by Company. Bank shall be responsible for managing and implementing any and all aspects of the interfaces in connection with the Online Offering and the Mobile Offering and the payment card networks. Bank shall be obligated to provide the information and materials required pursuant to this Subsection (b) regardless of whether Company’s Product and Feature Set could compete with any of Bank’s then-current Product and Feature Sets or future Product and Feature Sets. For the avoidance of doubt, Bank shall be under no obligation to provide Company with Bank’s source code.

(c) Bank agrees that, in connection with the Online Offering and the Mobile Offering, Bank shall develop and maintain a mobile application to be used in connection with the Program (the “Mobile Application”) in accordance with the design specifications provided by Company. Bank further agrees that the Mobile Application shall be made available to T-Mobile Customers through multiple mobile application stores, [\*\*\*]. Bank shall develop and maintain the capabilities necessary to provision Cards to any and all mobile wallets designated by Company from time to time, [\*\*\*] (collectively, the “Mobile Wallets”). Bank shall develop and maintain integration into the Mobile Wallets, as agreed upon by all parties, to enable a T-Mobile Customer to use the Mobile Wallets [\*\*\*] upon activating and funding a T-Mobile Customer Account. Bank shall deliver to T-Mobile Customers the [\*\*\*].

(d) The Parties shall develop, implement and maintain the customer activation process (the “Customer Activation Process”) for new T-Mobile Customers. The Customer Activation Process may be updated or amended from time to time upon mutual agreement by the Parties. The Parties further agree that they will jointly work to develop a method by which they may leverage existing data, in a secure manner, held by Company to pre-qualify prospective T-Mobile Customers for participation in the Program.

(e) Program Testing. The Parties agree that they will launch a beta version of the Program (the “Beta Version”) [\*\*\*] of the Effective Date (the “Beta Program”), the purpose of which is to ensure that the Digital Banking Platform is commercially ready and operationally functional in accordance with the Agreement. The Parties

agree that, as a condition precedent to launching the Beta Program, the Beta Version must be delivered to and accepted by Company. Upon delivery of the Beta Version to Company, Company shall accept or reject the Beta Version within [\*\*\*]. If Company accepts the Beta Version, the Parties will launch the Beta Version to designated employees of Company and Bank, as mutually agreed by the Parties. If Company rejects the Beta Version, Company shall notify Bank of such rejection and shall describe, in reasonable detail, Company’s reason(s) for rejecting the Beta Version (the “Rejection Notice”). Upon receiving the Rejection Notice, Bank shall make any modifications necessary to address Company’s concerns and shall deliver the updated Beta Version to Company within [\*\*\*] and Company shall approve or reject the updated Beta Version within [\*\*\*] after receiving the updated Beta Version. The Parties shall repeat this process until Company has accepted the Beta Version. If Bank fails to deliver the agreed upon features and functionality set forth in Exhibit F in the Beta Version, or if Company rejects the Beta Version, and Bank fails to remedy any issue(s) identified in the Rejection Notice within [\*\*\*], then Company may terminate the Agreement immediately without penalty. Bank shall operate the Beta Program for a period of [\*\*\*] or for such longer period as may be mutually agreed by the Parties. The Parties shall agree on a process for monitoring the Beta Program and for identifying and correcting any issues with the Beta Version; provided, that, Bank shall be required to correct any issue(s) with the Beta Version (including by implementing any fixes) within [\*\*\*] of identifying such issue(s). Bank shall be responsible for monitoring the Beta Program and for identifying any issues uncovered through the operation of the Beta Program within [\*\*\*] of identifying any such issues.

11. Bank will annually obtain and deliver to Company, at Bank’s sole expense, a Statement on Standards Attestation Engagement (SSAE) No. 16 Service Organization Controls (SOC) No.1 Type II, the international equivalent (ISAE 3204 Type II report), or an industry equivalent report agreed to by Company for any services performed or outsourced by Bank that are financially relevant to Company (including, without limitation, transaction processing or data-center management). The scope of any report will include control testing of both Bank’s and any third party’s information technology systems and any material reports provided to Company and will cover [\*\*\*]. A full copy of the annual SSAE 16 SOC1 Type II or industry equivalent report will be provided to Company no later than [\*\*\*]. In response to an inquiry from Company [\*\*\*], a representative from Bank will provide a bridge letter indicating that there have not been any material changes in the internal controls described in the most recent SOC1 Type II report since it was issued or any significant deficiencies in the design or effectiveness of Bank’s internal controls and procedures that would require any corrective action.

**EXHIBIT E**

**ACCOUNT LOSS [\*\*\*]**

| <b>Account Loss [***]</b> | <b>Account Losses in Percentages [***]</b> |       | <b>[***]</b> | <b>[***]</b> |
|---------------------------|--|-------|--------------|--------------|
| Tier 1                    | [***]                                      | [***] | [***]        | [***]        |
| Tier 2                    | [***]                                      | [***] | [***]        | [***]        |
| Tier 3                    | [***]                                      | [***] | [***]        | [***]        |

For purposes of this Exhibit E, "Account Loss" or "Account Losses" means "losses, net of recovery, from fraud, disputed items, return deposits, forced card transactions, and reclamations in connection with Card and T-Mobile Customer Account activity.

[\*\*\*]

[\*\*\*]

Notwithstanding anything to the contrary, the measurement period for Account Losses will be the [\*\*\*] thereafter (each, a "Measurement Period"). At the end of a Measurement Period, the Parties will review the Account Losses [\*\*\*].

The Parties agree to meet [\*\*\*] to review performance of the Account Losses [\*\*\*].

EXHIBIT F

FEATURES AND FUNCTIONALITY

| Timeframe                        | Table Stakes   | Mobile-First  | [***]                     |
|----------------------------------|--|---|---------------------------|
| <p><b>Launch (see above)</b></p> | <p><b>Availability:</b><br/>Bank’s mobile application will available to be delivered within various mobile App stores</p> <p><b>Account Management:</b></p> <ul style="list-style-type: none"> <li>• [***]</li> <li>• View balance</li> <li>• View transaction history</li> <li>• Search for transactions</li> <li>• [***]</li> <li>• View statements</li> <li>• View basic account info [***]</li> </ul> <p><b>Money In/Money Out:</b></p> <ul style="list-style-type: none"> <li>• Debit card</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> </ul> | <p><b>Account Access:</b></p> <ul style="list-style-type: none"> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> </ul> <p><b>Activation/Enrollment:</b></p> <ul style="list-style-type: none"> <li>• Streamlined [***] enrollment [***] for checking and savings accounts</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> </ul> <p><b>Money In/Out:</b></p> <ul style="list-style-type: none"> <li>• Mobile wallet provisioning (virtual or physical card)</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> </ul> <p><b>Alerts:</b></p> <ul style="list-style-type: none"> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> </ul> | <p>[***]</p> <p>[***]</p> |

|                          |       |  |       |
|--------------------------|-------|--|-------|
|                          |       | <ul style="list-style-type: none"> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• Access &amp; security alerts</li> <li>• [***]</li> <li>• [***]</li> </ul> <p><b>Self Service:</b></p> <ul style="list-style-type: none"> <li>• Activate debit card</li> <li>• [***]</li> <li>• [***]</li> <li>• Secure messaging center</li> <li>• Contact us (with preloaded contact information)</li> <li>• Update name, address, phone, email</li> <li>• Add account nicknames</li> <li>• [***]</li> <li>• Suppress paper statements</li> <li>• [***]</li> <li>• Privacy policy</li> <li>• Disclosures</li> <li>• Other legal agreements</li> <li>• FAQs</li> <li>•</li> </ul> |       |
| <b>Launch + 4 months</b> | [***] | [***]  | [***] |

<sup>1</sup> Bank will use best efforts to provide this functionality prior to its scheduled launch.

|                         |  |   |      |
|-------------------------|--|---|------|
|                         |  | [**]  | [**] |
| <b>Launch +8 months</b> |  | <b>Self-Service:</b> <ul style="list-style-type: none"><li>• [**]</li></ul> | [**] |

<sup>2</sup> These features are excluded from the exclusivity requirements in Section 15.4(b).



**EXHIBIT G**

**DESCRIPTION OF [\*\*] CUSHION**

The basic outline of the feature would be as follows:

[\*\*]

**EXHIBIT H INTENTIONALLY BLANK**

**EXHIBIT I**  
**REPORTING**

- (a) Bank shall provide the following daily reports or digital information:
  - (i) Bank shall provide reports with respect to the amount of deposits, the number of transactions conducted by a T-Mobile Customer, and any other relevant metrics.
  - (ii) Bank shall provide reports that detail the number and nature of complaints and customer service calls that Bank receives in connection with any Account.
  - (iii) Bank shall provide reports that detail any unusual, unauthorized, or suspicious activity or transactions involving Accounts.
  - (iv) Bank shall provide reports to monitor Program performance, key operating and risk metrics, service levels, and marketing effectiveness.
  - (v) Bank shall provide reports that detail the number of Account applications submitted, the number of Account applications approved, the number of Account applications denied, and the number of new Accounts generated by channel.
  - (vi) Bank shall provide reports that detail the total number of open accounts, the total number of closed accounts, and the total number of active accounts and such reports shall provide a breakdown of this information by Company subscribers and non-subscribers (i.e., a separate report for subscribers and a separate report for non-subscribers).
  - (vii) Bank shall provide any other management reports, as mutually agreed by the Parties.
  - (viii) Bank shall provide reports related to the Digital Banking Platform and application reporting, including, without limitation, with respect to performance, usage, and other relevant metrics.
  - (ix) Bank shall provide reports related to the support provided to T-Mobile Customers, including, without limitation, the number of open and closed trouble tickets, any relevant open issues, and other support issues.
  - (x) Bank shall provide reports in connection with revenue and expense performance, business performance, compliance performance, and any other relevant performance measures.
- (b) In addition to the reports required under Section (a) of this Exhibit I, Bank shall
  - (i) create and deliver separate weekly statistical information about volumes related to the

program, (ii) provide, by the third (3rd) business day of the following month, end of month reports to enable Company to accrue for activity occurring in the then-current month, and (iii) provide by the seventh (7th) business day a prior month revenue and expense reports to Company (“Revenue and Expense Reports”). The Revenue and Expense Reports: (1) shall report gross amounts; (2) shall not net any line items; (3) shall support funds received (i.e., grossed-up reporting should match ACH amounts); (4) shall not include any customer-level information; and (5) shall separate revenue and expenses by Company subscribers and non-subscribers. Each revenue item or fee identified in the Revenue and Expense Reports shall be a separate line item with the amount of the revenue or fee, as applicable, and the method for calculating the amount (i.e., per unit amount, counts, rates, number of days, etc.).

**EXHIBIT J**

**SECURITY SAFEGUARDS, COMPANY INFORMATION, AND CARDHOLDER INFORMATION**

Capitalized terms used but not defined in this Exhibit J shall have the meanings ascribed to such terms in the Agreement.

“Applicable Privacy and Data Security Laws” means all privacy, security, data protection, direct marketing, consumer protection, and workplace privacy laws, rules, and regulations and all then-current industry standards, guidelines, and practices with respect to privacy, security, data protection, direct marketing, consumer protection, or workplace privacy, including the collection, processing, storage, protection, and disclosure of personal information.

“Company Information” means any information [\*\*\*].

1. Handling of Company Information.

1.1. Bank: (a) [\*\*\*]; (b) will, without limiting any other obligations applicable to Company Information, treat and protect all Company Information as Confidential Information owned (as between Bank and Company) by Company and the Agreement regardless of whether Bank receives it directly from Company, Company affiliates, or any of its or their customers, designees, intermediaries, or other third parties; and (c) will ensure that all persons who have access to Company Information [\*\*\*].

1.2. Bank will comply with all Applicable Privacy and Data Security Laws and will not cause Company to be in violation of any Applicable Privacy and Data Security Laws.

1.3. Bank will comply with all written privacy and security policies of Company upon execution of the Agreement or, in the case of future or updated policies, [\*\*\*], subject to Section 2.4 below.

1.4. If Bank has access to or possesses (including as a result of de-identification of Company Information by Bank) any De-Identified Data (as defined below), Bank covenants that

[\*\*\*]. "De-Identified Data" means Company Information that has been scrubbed, hashed, encrypted, or otherwise obscured to remove any personally identifiable information.

1.5. [\*\*\*].

1.6. For clarity, Bank's compliance with any particular provision of this Exhibit J will not relieve Bank's obligation to protect Company Information and other Confidential Information of Company under all provisions of the Agreement, including this Exhibit J.

2. Security Safeguards.

2.1. Bank shall be fully responsible for any authorized or unauthorized collection, storage, disclosure, use of, and access to Company Information under its control or made available to Bank under the Agreement. Bank will prevent any collection, storage, disclosure, use of, or access to Company Information not expressly authorized by the Agreement. Without limiting Bank's other obligations under this Exhibit J, Bank will implement and maintain a comprehensive and effective written information security program appropriate to the nature of the Company Information that: (a) [\*\*\*] ("Safeguards"), (b) meets industry best practices for such Safeguards, and (c) complies with all Applicable Privacy and Data Security Laws. Bank will (i) [\*\*\*], (ii) [\*\*\*], and (iii) [\*\*\*]. Company reserves the right to review, upon request, Bank's policies, procedures, and practices used to maintain the privacy, security, and confidentiality of Company Information.

2.2. Bank shall, while this Agreement is in effect, prepare and maintain an information and physical security program in connection with the Program in accordance with the requirements of its Regulatory Authority and Applicable Law. [\*\*\*]. Bank shall periodically test such information security infrastructure as required by Applicable Law and its Regulatory Authority and as appropriate and prudent in light of the nature and scope of the

activities and operations of Bank and its obligations hereunder.

2.3. Bank will: (a) [\*\*]; (b) [\*\*]; (c) [\*\*]; (d) [\*\*]; (e) [\*\*]; (f) [\*\*]; (g) [\*\*]; and (h) [\*\*].

2.4 Changes to Security Program. Bank will, [\*\*] update its security program and operations (including network and business systems and software) as necessary for ongoing compliance with the Agreement. Such updates will include updates to: (a) [\*\*], (b) [\*\*], (c) maintain current compliance with Applicable Privacy and Data Security Laws, and (d) meet new legal or regulatory requirements under other Applicable Law. To the extent a change in Bank practices is required [\*\*], any changes to Bank's security program or other operations in connection with the Program will be made in accordance with the requirements of Bank's Regulatory Authority. To the extent additional controls or mitigation plans are required to correct a security vulnerability within Bank Systems (as defined below), identified by a security audit or are required by Applicable Law (including changes in Company policies adopted to comply with Applicable Law), such steps will [\*\*].

3. Security Breaches.

3.1. Bank represents and warrants that: (a) [\*\*] (each, a "Security Breach"); and (b) if the Bank Systems have suffered [\*\*] Security Breaches, that Bank has disclosed each Security Breach to Company in writing. Bank represents and warrants that [\*\*].

3.2. Bank will notify Company [\*\*] if Bank learns that there has been any actual Security Breach that may impact Company Information. In any notification

to Company required under this Section 3.2, Bank will [\*\*]. Bank will: (a) [\*\*]; and (b) [\*\*]. Bank will [\*\*]. Unless prohibited by Applicable Law or court order, Bank will [\*\*]. Except as required by Applicable Law, (x) [\*\*], and (y) [\*\*] (e.g., [\*\*]) [\*\*].

4. Bank Risk Management Review, Annual Security Audits & Visitation and Inspection Rights

4.1. Bank Risk Management Review. Company reserves the right to require Bank to complete Company's Bank Risk Management Review ("SRMR") process [\*\*].

4.2. Previous Security Audits. Bank hereby represents and warrants that Bank Systems have been the subject of [\*\*] information security audits conducted by internal employees that report directly to the Bank's Board of Directors or, if externally prepared, by a qualified, independent and nationally recognized third party. Bank further represents and warrants that it will share with Company the non-confidential results of the most recent audit and will communicate any steps taken to remedy potential or actual vulnerabilities. Bank hereby represents and warrants that either: (a) [\*\*]



[\*\*\*]; or (b) [\*\*\*].

4.3. Future Security Audits. [\*\*\*], Bank will procure, [\*\*\*], security audits of the Bank Systems, control activities, and processes established and maintained by Bank, including any third-party data centers utilized by Bank. Each such audit will be carried out by an independent registered public accounting firm nationally recognized in the United States and reasonably acceptable to Company, and will conform to the requirements for a SOC2 Type II audit, as set forth in the Statement on Standards for Attestation Engagements No. 16 published by the American Institute of Certified Public Accountants (a "Security Audit"). Bank will provide Company with the results of each Security Audit within thirty (30) days of completion (or upon request), including: (a) whether the Security Audit revealed any material findings in the Bank Systems, and (b) if so, the nature of each finding discovered. If the Security Audit reveals [\*\*\*], Bank will [\*\*\*]. Bank will complete all critical corrections within a reasonable timeframe of completion of the Security Audit. Notwithstanding anything in the Agreement to the contrary, Company may terminate the Agreement [\*\*\*] if Company determines that any material deficiency identified in any Security Audit creates an unacceptable level of risk for Company, its employees, or its customers. In such event, [\*\*\*]. Bank will give Company a full copy of the reports on which the Security Audit is based and such reports will be treated as Confidential Information of Bank. Bank will also give Company a management representation letter stating that, to the knowledge of Bank management after reasonable investigation, there have been no changes to the control environment between the date of the management representation letter and the date of the Security Audit. [\*\*\*] between the period covered by the tests of controls and the delivery of the Security Audit. Bank's failure to procure the Security Audit or to complete corrections in a timely manner will be a material breach of the Agreement.

4.4. Visitation and Inspection Rights. Company or its authorized representatives, which may not be a competitor of the Bank, may, at any time upon reasonable notice to Bank, visit any or all locations of the Bank to inspect the Bank's due diligence for Bank Systems and to assess Bank's performance of its obligations under this Exhibit J, and Bank will share with Company any information reasonably requested by Company in connection with due diligence of Bank's third party service providers involved with Bank Systems. For purposes of such an inspection, Bank will grant to Company and its representatives reasonable access, during normal business hours, to the Bank and to Program-related books, records, procedures, and information that relate to Bank's performance under this Exhibit J, including any Program information Company deems reasonably necessary to ascertain any facts that relate to Bank's performance hereunder. If: (a) Company determines in connection with any such inspection that Bank has failed to perform any of its material obligations under this Exhibit J, and (b) Company notifies Bank in writing of Bank's breach of this Exhibit J, then Bank will, [\*\*\*], develop a corrective action plan in cooperation with Company. The corrective action plan will not limit Company's rights to terminate this Agreement in accordance with its terms. Bank will then have

[\*]. Failure to rectify a material failure will be considered a material breach. In addition, Bank's obligation to develop a corrective action plan and remediate any failure to perform its obligations under this Exhibit J will survive termination or expiration of this Agreement until such corrective action is deemed complete by Company. Such plan will include timeframes for completion and will be subject to Company's reasonable approval and Bank will promptly implement such plan [\*]. These inspection and corrective action rights supplement, and in no way limit, Company's other rights under the Agreement.

4.5. Application Security Testing. The Bank will, [\*]. Bank will [\*], Company may hire a mutually agreed-upon, independent third party to conduct additional testing in which Bank will submit the software or any applications with access to Company Information to security testing by the independent third party provider. Bank will cooperate with such application security testing, including by making appropriate arrangements for secure access to the application's functional software (not source code) if reasonably required. If security testing reveals a vulnerability in the software (or any portion thereof), Bank will correct such vulnerability within the agreed upon reasonable timeframes. The mutually agreed upon independent third party provider or Bank will determine the vulnerability level for purposes of this Section 4. Bank's failure to correct a vulnerability will be considered a material breach of the Agreement.

5. Access to Company Information.

5.1. Promptly upon Company's request, Bank will provide Company with access to or delivery of Company Information, or any portion thereof identified by Company, being stored, processed, or transmitted or otherwise in Bank's possession or control or that of its agent or subcontractor, in a form and format requested by Company.

5.2. Bank will [\*] notify Company in writing of (a) any inquiry received by Bank or its subcontractor from any individual relating to, among other things, the individual's right to access, modify, or correct Company Information and (b) any complaint received by Bank or its subcontractor relating to the processing of Company Information. Bank will [\*] comply and fully cooperate with all instructions of Company with respect to any action taken with respect to such inquiry or complaint.

5.3. Before allowing or enabling a subcontractor or agent to have access to Company Information, Bank must evaluate and validate the subcontractor's or agent's capabilities to maintain the security of Company Information in accordance with the Agreement.

6. Security of Cardholder Information.

6.1. For purposes of this Section 6, "Cardholder Information" means "any individual numbers used to identify credit or debit card or other similar card accounts or other personally identifiable information relating to the use of Cards, including the full primary account number, cardholder name, expiration date, service code, track data (from the magnetic stripe or equivalent

on a chip), PINs, or PIN blocks.

6.2. PCI Standards. Bank represents, warrants, and covenants that Bank is presently in compliance with and will remain, at all times during and after the Term during which Bank stores, processes, or transmits Cardholder Information, in compliance with the most recent effective versions of all rules, regulations, standards, and guidelines adopted or required (a) by any entity offering or supporting payment card networks whose Cardholder Information is handled by Bank, and (b) by the Payment Card Industry Security Standards Council (the "Council"), in each case, relating to privacy, data security, or the safeguarding, disclosure, or handling of Cardholder Information, including the Payment Card Industry Data Security Standards, the Payment Card Industry's Payment Application Data Security Standard, the Payment Card Industry's PIN Transaction Security requirements, Visa's Cardholder Information Security Program and Payment Application Best Practices, American Express's Data Security Operating Policy, MasterCard's Site Data Protection Program and POS Terminal Security program, and the analogous security programs implemented by other payment card networks, in each case, as amended, updated, replaced, or augmented from time to time (the standards described in this clause (c) being collectively referred to as the "PCI Standards"). Bank will, [\*\*\*], perform all tasks, assessments, reviews, penetration tests, scans, and other activities required under the PCI Standards (including any compliance guidance related to the PCI Standards issued by the Council, its subordinate bodies, or any successors thereto) and otherwise to validate Bank's compliance during the Term with the PCI Standards. To the extent that Bank is hosting a system or application which is Internet facing, its PCI attestation of compliance must be performed by a qualified security assessor. Bank will deliver to Company copies of all documentation necessary to verify compliance with these requirements ("Verification Documentation"). In the event Company reasonably determines that additional Verification Documentation is required under the PCI Standards or likely to be so required to verify such compliance, including a "Report on Compliance," and an associated unqualified "Attestation of Compliance," then, upon Company's request [\*\*\*], Bank will provide such additional Verification Documentation to Company [\*\*\*] from Company's request, or the timeframe required for Company to remain compliant, whichever is less. [\*\*\*], Bank will deliver to Company a copy of the Verification Documentation, applicable to the Cardholder Information environment [\*\*\*]. [\*\*\*], Bank will deliver to Company, [\*\*\*], evidence of a passing vulnerability scan applicable to the Cardholder Information environment conducted within [\*\*\*]. Bank will [\*\*\*] notify Company in writing of any exception in a Report on Compliance, Attestation of Compliance, or [\*\*\*] vulnerability scan if Bank learns that it is no longer PCI Standards compliant or if it reasonably anticipates that it is or will be non-compliant. Such notification will include, in detail, the steps being taken by Bank to remediate such exception or non-compliance.

6.3. Bank will not commit any act or omission that causes Company to violate the PCI Standards or to be fined, sanctioned, or penalized for the failure to properly protect, secure, maintain, use, or store Cardholder Information, including by any payment card network, the Council, merchant banks, or any other third party.

6.4. Bank is solely responsible for the security of Cardholder Information that Bank  
or

its personnel or subcontractors stores, possesses, transmits or controls.

6.5. Bank will access, use, and disclose Cardholder Information only as and to the extent necessary to: (a) process and otherwise facilitate credit and debit transactions on Company's behalf; (b) comply with Applicable Laws, PCI Standards, payment card network rules and requirements, and written Company policies; and (c) as otherwise instructed in writing by an authorized by an officer of Company.

6.6. If there is a known Security Breach of Cardholder Information within the Bank's Systems, Bank will notify its Regulatory Authority and then Company, and then, as quickly as reasonably possible, provide to Company a list of the compromised T-Mobile Accounts as well as any other information reasonably requested by Company. Bank will work with payment card networks, merchant banks, and any of their respective agents and designees to remediate the situation to minimize financial loss and Bank will cooperate fully with any investigation, verification, testing, and review of Bank's compliance with the PCI Standards. This Section 6.6 does not limit Section 3 of this Exhibit.

7. Cybersecurity Cooperation. Each Party acknowledges the importance of cooperating with the other Party with respect to issues related to cybersecurity and agrees to work with the other Party to establish a cybersecurity partnership team to share insight and best practices, as appropriate, for the mutual benefit of the Parties and for the benefit of the Program. The Parties agree that the cybersecurity partnership team will meet [\*\*].

8. Entire Exhibit. If there is any conflict or inconsistency between this Exhibit J and any provision of the Agreement, such conflict or inconsistency will be resolved by giving precedence to this Exhibit J.

**EXHIBIT 14.6**

**DT MARKS AND COMPANY MARKS**

DT MARKS

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T-Mobile

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<Telekom acoustic mark>

T-Mobile (logos)

COMPANY MARKS

EI [\*\*]

The [\*\*]

**EXHIBIT 14.7 STANDARDS**

| #  | MARK                           | GOODS/SERVICES   |
|--|--------------------------------|--|
| <b>IDENTIFICATION OF GOODS/SERVICES</b>  |                                |  |
| <p><b>General Banking Services (IC36):</b> Banking and financial services; digital banking services; online banking services; retail banking services; commercial banking services; ATM banking services; banking consultation; savings and deposits; loans and lending; bill pay services; credit card and debit card services; lines of credit; consulting and technological services in the field of financial technology (FinTech), FinTech innovation, banking and financial services, digital banking, and mobile and online payment platforms; providing information in the fields of banking and financial services; administering electronic disbursement of funds for others; and related services</p>   |                                |  |
| <p><b>FinTech/White Label (IC42):</b> Software as a service (SaaS) featuring software to allow users to perform electronic banking and financial exchange transactions via a global computer network; providing temporary use of online non-downloadable software to allow users to perform electronic banking and financial exchange transactions via a global computer network; providing temporary use of on-line non-downloadable white label software to allow users to perform electronic financial exchange transactions via a global computer network; software design, development, and customization, and development of white-label software for others, all in the field of financial technology (FinTech); cloud computing and software services, namely, providing white label cloud solutions to others in the field of financial technology (FinTech); [<i>cloud computing and software services, namely, designing, developing, implementing and maintaining backup and disaster recovery plans for others in the field of FinTech</i> <b>NOTE: Do you want to include this service?</b>]; and related services</p> |                                |  |
| <p><b>Software (IC9):</b> Computer application software for the provision of banking and financial services; and related goods</p>   |                                |  |
| 1  | BankMobile (logo)              | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 2  | <b>BANKMOBILE</b>              | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 3  | BankMobile (logo)              | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 4  | BankMobile (logo)              | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 5  | <b>BANKMOBILE TECHNOLOGIES</b> | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |

| #  | MARK                            | GOODS/SERVICES   |
|----|---------------------------------|--|
| 6  | <b>BANKMOBILE LABS</b>          | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 7  | BankMobile LABS (logo)          | <i>General Banking Services (IC36), FinTech/White Label (IC42); AND Software (IC9)</i> |
| 8  | <b>BANKMOBILE VIBE</b>          | <i>General Banking Services (IC36)</i>   |
| 9  | BankMobile VIBE (logo)          | <i>General Banking Services (IC36)</i>   |
| 10 | BankMobile VIBE (logo)          | <i>General Banking Services (IC36)</i>   |
| 11 | BankMobile VIBE (logo)          | <i>General Banking Services (IC36)</i>   |
| 12 | BankMobile VIBE (logo)          | <i>General Banking Services (IC36)</i>   |
| 13 | <b>Bankmobile Bold</b>          | <i>General Banking Services (IC36)</i>   |
| 14 | <b>Bankmobile Bold (logo)</b>   | <i>General Banking Services (IC36)</i>   |
| 15 | <b>Bankmobile Bold (logo)</b>   | <i>General Banking Services (IC36)</i>   |
| 16 | <b>BANKMOBILE DISBURSEMENTS</b> | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 17 | BankMobile Disbursements (logo) | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |

| #  | MARK                                | GOODS/SERVICES   |
|----|-------------------------------------|--|
| 18 | <b>CurrentCash</b>                  | <i>General Banking Services (IC36)</i>   |
| 19 | <b>POWERED BY BANKMOBILE</b>        | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 20 | <b>POWERED BY BANKMOBILE (logo)</b> | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 21 | BankMobile (logo)                   | <i>General Banking Services (IC36)</i>   |
| 22 | BankMobile (logo)                   | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 23 | BankMobile (logo)                   | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 24 | BankMobile (logo)                   | <i>General Banking Services (IC36), FinTech/White Label (IC42); and Software (IC9)</i> |
| 25 | BMPowered University (logo)         | <i>General Banking Services (IC36)</i>   |
| 26 | BMPowered University (logo)         |  |
| 27 | BMPowered University (logo)         |  |



SCHEDULE 8.1(h)

APPROVED THIRD PARTY SERVICE PROVIDERS

| Relationship: Relationship Name | Brief Description |
|---------------------------------|-------------------|
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| [**]                            | [**]              |

**FIRST AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **FIRST AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of September 30, 2017 (the "First Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "First Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017 (the "Agreement");

WHEREAS, the Agreement sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program; and

WHEREAS, Bank and Company desire to enter into this First Amendment to amend certain terms and conditions of the Agreement as set forth below.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements

herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1. AMENDMENTS TO THE AGREEMENT**

**1.1** Section I of the Agreement is hereby amended by deleting the definition of "T-Mobile Financial Services" in its entirety and replacing it with the following definition:

"T-Mobile Financial Services" means the products and services described in Exhibit D, the features and functionality set forth on Exhibit F, and the additional features, functionality, and support set forth on Exhibit F.

**1.2** Section I of the Agreement is hereby further amended by adding the following new defined terms:

[\*\*\*] has the meaning ascribed to such term in Section 8.1(h) of this Agreement.

[\*\*\*]

"Enhancements" has the meaning ascribed to such term in Section 11(e) of Exhibit D to this Agreement.

"Error" has the meaning ascribed to such term in Section 11(f)(ii)(6) of Exhibit D to this Agreement.

"Maintenance Window" has the meaning ascribed to such term in Section 11(f)(ii)(5).

"Program Solution" has the meaning ascribed to such term in Section 11(a) of Exhibit D to this Agreement.

"Program Solution Specifications" has the meaning ascribed to such term in Section 11(b) of Exhibit D to this Agreement.

"Program Solution Warranty Period" has the meaning ascribed to such term in Section 11(c) of Exhibit D to this Agreement.

[\*\*\*]

[\*\*\*]

"Statement of Work" has the meaning ascribed to such term in Section 11(a) of Exhibit D to this Agreement.

"Support Services" has the meaning ascribed to such term in Section 11(f)(ii)(2) of Exhibit D to this Agreement.

"Technical Improvements" has the meaning ascribed to such term in Section 11(d) of Exhibit D to this Agreement.

[\*\*\*]

**1.3** Section 6.1 of the Agreement is hereby amended and restated as follows:

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"6.1 Bank shall administer the Program and provide the T-Mobile Financial Services in accordance with this Agreement (including, for the avoidance of doubt, Exhibit D). Bank shall use best efforts to cause [\*\*\*], in each case, in accordance with this Agreement. The Parties acknowledge that the offering of the Program [\*\*\*] is subject to regulatory approval, provided, that Bank shall use best efforts to obtain such regulatory approval."

1.4 Section 8.l(h) of the Agreement is hereby amended by adding, at the end thereof, the following provision:

"Without limiting the generality of this Section 8.l(h), Bank agrees that it will cause [\*\*\*] to provide certain services in connection with the Program (such services, collectively, the [\*\*\*] as Bank's third-party service provider. Bank further agrees that it will use best efforts to manage and monitor [\*\*\*] in a manner that ensures [\*\*\*] provides the [\*\*\*] in accordance with this Agreement as if Bank were providing such [\*\*\*]; provided, that Bank shall be liable for [\*\*\*] failure to provide the [\*\*\*] as described herein only to the extent Bank fails to use best efforts to manage and monitor [\*\*\*] in a manner that ensures [\*\*\*] provides the [\*\*\*] in accordance with this Agreement. Except as otherwise agreed in writing by Company or as required in a Supervisory Objection, Bank shall not terminate its relationship with [\*\*\*]; provided, that (i) if Bank terminates its relationship with [\*\*\*] in accordance with this Section 8.l(h), Bank shall identify and enter into an agreement with a successor service provider prior to terminating its relationship with [\*\*\*] and shall cause such successor service provider to (A) provide the [\*\*\*] in accordance with this Agreement as if Bank were performing such [\*\*\*] and (B) provide such [\*\*\*] in a manner that causes no material disruption to the Program, and (ii) Bank's right to terminate its relationship with [\*\*\*] as required in a Supervisory Objection shall be subject to Bank's obligations set forth in Section 8. l(n)."

1.5 The Agreement is hereby amended by adding [\*\*\*] to Schedule 8.1(h).

1.6 Section 9.2 of the Agreement is hereby amended and restated as follows:

"9.2 Implementation Fee; Project Cost-Sharing.

(a) Company agrees to pay a fee in the amount of [\*\*\*] Bank for the development, design, creation, and implementation of the Program (the "Implementation Fee"). The Implementation Fee shall be paid [\*\*\*]

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[\*\*\*] no later than thirty (30) days following Company's receipt of an invoice from Bank. The Parties acknowledge and agree that Company already has made [\*\*\*] payment referenced in Section 9.2(a)(i).

(b) In connection with Bank's provision of the additional features, functionality, and support set forth on Exhibit F [\*\*\*], and T-Mobile-specific business integration and logic support):

(i) Company agrees to pay to Bank [\*\*\*] later than thirty (30) days following Company's receipt of an invoice from Bank.

(ii) Company agrees to pay to Bank [\*\*\*] the amounts set forth on Exhibit B within ninety (90) days following the first calendar day of each calendar year during the Term following the launch of the Program for commercial use in the United States.

(c) Company agrees to share certain costs with Bank in an amount up to [\*\*\*] subject to and in accordance with the terms and conditions set forth on Schedule 9.2."

**1.7** The Agreement is hereby amended by inserting, after Schedule 8.l(h), the new Schedule 9.2 set forth on Attachment A hereto.

**1.8** Section 10.2(b) of the Agreement is hereby amended and restated as follows:

"(b) Durbin Exemption. In addition to any other termination right under this Agreement, either of Company or Bank may terminate this Agreement in accordance with this Section 10.2(b) if Bank no longer qualifies for the Durbin Exemption and fails to consummate a transaction and assign this Agreement to a Durbin-Exempt Bank as contemplated by and in accordance with Section 8.1(1) and Section 15.12, respectively; provided, that (i) neither Party may exercise its right to terminate this Agreement pursuant to this Section 10.2(b) prior to July 1, 2019, (ii) if either Party exercises its right to terminate this Agreement pursuant to this Section 10.2(b), such Party shall notify the other Party in writing no later than thirty (30) days following the date on which Bank becomes subject to the Interchange Fee Limits of such Party's decision to terminate this Agreement, and (iii) notwithstanding anything to the contrary in this Agreement (including either Party's decision to terminate this Agreement pursuant to this Section 10.2(b)), Bank shall perform its obligations under this Agreement in accordance with the terms of this Agreement through July 1, 2020 (the "Modified Transition Assistance Period"). For the avoidance of doubt, in the event of the termination of this Agreement pursuant to this Section 10.2(b), Company shall have the right to the Sale Option."

**1.9** Section 10.4(a) of the Agreement is hereby amended by deleting the first sentence in its entirety and replacing it with the following new sentence:

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"Upon expiration or termination of this Agreement for any reason, except for a Supervisory Objection that directs Bank to terminate this Agreement, upon Company's written request, Bank shall continue to perform its obligations under this Agreement for a period that does not exceed eighteen (18) months (the "Transition Assistance Period"); provided, that, notwithstanding anything to the contrary herein, (i) if Company elects to accept the Sale Option, the duration of the Transition Assistance Period shall be eighteen (18) months, and (ii) if the Transition Assistance Period continues for more than twelve (12) months following the expiration or termination of this Agreement, the BankMobile Lab and Backoffice Services fee shall be reduced from [\*\*\*] per month for the remainder of the Transition Assistance Period."

**1.10** Section 10.6 of the Agreement is hereby amended by replacing the reference to the "Termination Assistance Period" with a reference to the "Transition Assistance Period."

**1.11** Section 11.4 of the Agreement is hereby amended by (i) adding "and Bank Privacy Policies" to the heading, and (ii) adding the following new provision at the end thereof:

"Bank will maintain for the duration of the Term a privacy policy that completely and accurately discloses to consumers the information Bank will provide to Company in connection with the Program, which privacy policy may change from time to time. Bank agrees to update its privacy policy prior to the launch of the Beta Version, as necessary, to comply with this Section 11.4. "

**1.12** Exhibit B to the Agreement is hereby amended by (i) deleting the " BankMobile Lab and Backoffice Services" row and replacing it with the new "BankMobile Lab and Backoffice Services" row set forth on Attachment B hereto, and (ii) amending and restating the "Card Production" section of Exhibit B as set forth on Attachment B hereto.

**1.13** Exhibit D to the Agreement is hereby amended by (i) renumbering Section 11 thereof to Section 12 and (ii) inserting the new Section 11 set forth on Attachment C hereto.

**1.14** Exhibit F to the Agreement is hereby amended by deleting Exhibit F in its entirety and replacing it with the new Exhibit F set forth on Attachment D hereto.

**1.15** Section 7(c) of Exhibit D to the Agreement is hereby amended by inserting the following new Section 7(c)(v):

"(v) [\*\*\*]"



[\*\*]

IN WITNESS WHEREOF, this Agreement is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

**CUSTOMERS BANK  
(CUBI)**

|              |                  |
|--------------|------------------|
| By: /s/ [**] | By: /s/ [**]     |
| Name: [**]   | Name: [**]       |
| Title: [**]  | Title: [**]      |
| Date: _____  | Date: 10/10/2017 |

APPROVED AS TO FORM  
/s/ [\*\*]  
T-MOBILE LEGAL

ATTACHMENT A TO THE FIRST AMENDMENT

SCHEDULE 9.2

| Release  | Amount of Payment | Bank's Minimum Requirements   | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms  |
|----------|-------------------|---|--|--|
| Test 0.4 | [***]             | To be eligible to receive a payment in the amount set forth in the second column, Bank must satisfy the following minimum requirements: <ul style="list-style-type: none"> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***]</li> <li>• [***] integration in a test environment</li> </ul> | [***]  | Company will make a payment in the amount set forth in the second column following Bank's satisfaction of the minimum requirements in accordance with the terms hereof. If Bank fails to satisfy the minimum requirements by [***], then the amount of payment set forth in the second column will be [***]. If Bank fails to satisfy the minimum requirements by [***], then Bank [***] the second column. Notwithstanding the immediately preceding sentence, (i) if Bank's failure to satisfy the |

| Release | Amount of Payment | Bank’s Minimum Requirement | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms  |
|---------|-------------------|----------------------------|--|--|
|         |                   |                            |  | minimum requirements by [***], is caused solely by Company's failure to perform a material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program, Company will be responsible for making a payment in the amount owed to Bank as of the date the Bank would have met the minimum requirements but for Company's failure to perform the material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program, and (ii) if Bank fails to satisfy the minimum requirements by [***], but satisfies the minimum requirements for the |

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| Release         | Amount of Payment | Bank’s Minimum Requirements   | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms   |
|-----------------|-------------------|---|--|---|
|                 |                   |   |  | Test 0.4 release and the Beta 1.1 release no later than [***], then Bank will be entitled to a payment in the amount set forth in the second column for the Test 0.4 release or the balance of the amount set forth in the second column if the payment previously was reduced by [***] in accordance with the terms hereof, as applicable. |
| <b>Beta 1.1</b> | [***]             | To be eligible to receive a payment in an amount set forth in the second column, Bank must satisfy the minimum requirements applicable to the Test 0.4 release, in addition to the following additional requirements: <ul style="list-style-type: none"> <li>• [***]</li> <li>• [***] integration in a</li> </ul> | December 15, 2017                                    | Company will make a payment in the amount set forth in the second column following Bank's satisfaction of the minimum requirements in accordance with the terms hereof. If Bank fails to satisfy the minimum requirements by [***],   |

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| Release | Amount of Payment | Bank’s Minimum Requirement  | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms  |
|---------|-------------------|---|--|--|
|         |                   | production environment<br>• [***]<br>• [***] features, as available |  | then the amount of payment set forth in the second column will be [***]. If Bank fails to satisfy the minimum requirements by [***], then Bank [***] second column.<br>Notwithstanding the immediately preceding sentence, (i) if Bank’s failure to satisfy the minimum requirements by [***], is caused solely by Company’s failure to perform a material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program, Company will be responsible for making a payment in the amount owed to Bank as |

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| Release | Amount of Payment | Bank’s Minimum Requirements | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms  |
|---------|-------------------|-----------------------------|--|--|
|         |                   |                             |  | <p>of the date the Bank would have met the minimum requirements but for Company's failure to perform the material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program, and (ii) if Bank fails to satisfy the minimum requirements by [***], but satisfies the minimum requirements for the Beta 1.1 release and the National Launch 1.2 release no later than [***], then Bank will be entitled to a payment in the amount set forth in the second column for the Beta 1.1 release or the balance of the amount set forth in the second column [***] in accordance</p> |

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| Release             | Amount of Payment | Bank’s Minimum Requirements   | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms   |
|---------------------|-------------------|---|--|---|
|                     |                   |   |  | with the terms hereof, as applicable.   |
| National Launch 1.2 | [***]             | To be eligible to receive a payment in an amount set forth in the second column, Bank must launch all products and services set forth in the Agreement (including, for the avoidance of doubt, as described in Exhibit D), all features and functionality set forth on Exhibit F, and all additional features, functionality, and support set forth on Exhibit F. | [***]  | If Bank fails to satisfy the minimum requirements by [***], then Bank shall not be entitled to any payment. Notwithstanding the foregoing, (i) the date on which Bank must satisfy the minimum requirements shall be extended until [***], upon Bank’s written request to Company for such an extension; provided, that Bank shall not be entitled to such an extension if Bank fails to request such an extension in writing by [***]; and (ii) if Bank’s failure to satisfy the minimum requirements by [***], is caused solely by Company’s failure to |

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| Release | Amount of Payment | Bank's Minimum Requirements | Date on which Bank Must Satisfy Minimum Requirements | Payment Terms   |
|---------|-------------------|-----------------------------|--|---|
|         |                   |                             |  | <p>perform a material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program, Company will be responsible for making a payment in the amount owed to Bank as of the date the Bank would have met the minimum requirements but for Company's failure to perform the material obligation mutually agreed to by the Parties in writing during the weekly steering meetings for the Program.</p> |

ATTACHMENT B TO THE FIRST AMENDMENT

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|       |       |       |       |
|-------|-------|-------|-------|
| [***] | [***] | [***] | [***] |
|-------|-------|-------|-------|

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| Card Production |       |       |  |
|-----------------|-------|-------|--|
| [***]           | [***] | [***] | Additional customization available on a quoted basis |
| [***]           | [***] | [***] | Additional customization available on a quoted basis |
| [***]           | [***] | [***] | [***]  |
| [***]           | [***] | [***] | Digital Wallet                                       |

ATTACHMENT C TO THE FIRST AMENDMENT

11. Delivery and Acceptance of Program Solutions.

(a) Delivery. Company may inquire about the quality and progress of any deliverable contemplated in the Agreement or in any statement of work between the Parties, including, for the avoidance of doubt, the Digital Banking Platform and the Mobile Application (each such deliverable, a "Program Solution," and each such statement of work, a "Statement of Work") at any time and may inspect any such Program Solution upon reasonable notice to Bank. Bank will deliver any Program Solution either electronically or to a destination designated by Company. For the avoidance of doubt, Bank shall be under no obligation to disclose its source code for any such Program Solution to Company.

(b) Acceptance of Program Solutions. Except as otherwise provided in the Agreement (including in Section 10(e) of this Exhibit D), each Program Solution will be subject to the acceptance periods set forth in this Section 11. Except as otherwise provided in the Agreement (including in Section 10(e) of this Exhibit D), Company will have [\*\*\*] following the delivery of any Program Solution to evaluate such Program Solution and to submit a written notice of acceptance or rejection of such Program Solution to Bank. The Parties may mutually agree to a longer time period for Company's review and acceptance or rejection of any Program Solution. Company may reject any Program Solution or any portion thereof if such Program Solution or such portion thereof does not conform to the specifications, technical requirements, and other requirements of Company (collectively, the "Program Solution Specifications") applicable to such Program Solution; provided, that Company shall specify in reasonable detail the nature of the nonconformance of such Program Solution. If Company rejects any Program Solution or any portion thereof, Bank shall correct such Program Solution or such portion thereof and shall deliver the updated Program Solution to Company within [\*\*\*] following Bank's receipt of such rejection notice. If Bank is unable to correct the nonconformance of any Program Solution or any portion thereof and gain Company's acceptance of such Program Solution or portion thereof, then Company may provide notice of rejection of such Program Solution. This process shall be repeated until Company either rejects any Program Solution or notifies Bank in writing of Company's acceptance of such Program Solution, or until Bank notifies Company that the Program Solution Specifications for such Program Solution will need to be modified in order to achieve acceptance, in which case, if Company agrees in its reasonable discretion to modify the Program Solution Specifications, the process for acceptance of such Program Solution, as modified, will be repeated in accordance with this Section 11(b). Program Solutions provided to Company will not be deemed accepted until Company provides written notice of acceptance of such Program Solutions. For the avoidance of doubt, payment for such Program Solutions prior to acceptance will not constitute acceptance thereof, and is without prejudice to any claims that Company may have against Bank for breach of Bank's obligations under the Agreement or any Statement of Work.

(c) Warranty. Bank warrants that, from the date of acceptance of any Program Solution through the Term (the "Program Solution Warranty Period"), such Program Solution shall conform in all material respects with, and perform the functions set forth in, the Program Solution Specifications and shall be free from defects in design, material, and workmanship. If, during the Program Solution Warranty Period, Bank is notified by Company of any such defects in design, material, or workmanship, or of any nonconformity with the Program Solution Specifications, then Bank shall correct the applicable Program Solution, at Bank's expense and

at no cost to Company, in accordance with the Response Time, the Workaround Time, and the Resolution Time requirements set forth in Section 11(f) of this Exhibit D. Such correction shall include, without limitation, all material, labor, and services in connection with correcting the applicable Program Solution.

( d ) Maintenance. Throughout the Term, Bank will provide to Company all fixes, patches, and other similar technical improvements to any Program Solution (collectively, "Technical Improvements") at no additional cost to Company. All such Technical Improvements will be subject to the terms of the Agreement. For the avoidance of doubt, Company has no obligation to implement any Technical Improvements unless and until such Technical Improvements have been accepted by Company pursuant to Section 11(b). Company will not have any obligation to use any Technical Improvements provided by Bank and Bank will not make any changes that result in a degradation to the functionality or performance of any Program Solution without Company's prior written consent. Notwithstanding anything to the contrary, Bank may not make material changes that impact the features and/or functionality of any Program Solution without the prior written approval of Company.

( e ) Updates and Upgrades. Bank shall provide to Company, and maintain, the Program Solutions with any and all enhancements, updates, upgrades, and new versions of the Program Solutions (collectively, the "Enhancements") that Bank makes commercially available in the form and format reasonably specified by Company. Such Enhancements shall be deemed to be Program Solutions if such Enhancements are included by Bank as part of the Program Solutions and shall be covered by the Support Services set forth in the Agreement. Company shall have the right to review and approve any Enhancement of any Program Solution before such Enhancement is distributed for commercial use in connection with the Program.

(f) Service Levels and Support for Program Solutions. The following service level and support requirements shall apply to the Program Solutions and shall supplement the Service Levels set forth in Exhibit C of the Agreement.

(i) Availability. Bank shall provide the Program Solutions in accordance with the Agreement [\*\*\*].

(ii) General Support. Bank shall provide support for the Program Solution as

set forth below.

(1) Bank shall provide all necessary resources to support acceptance testing, troubleshooting, and implementation of the Program Solutions.

(2) Bank shall provide all support and maintenance services, including technical support services, that are necessary for the Program Solutions to perform in accordance with the Agreement, any Statement of Work, the Program Solution Specifications, and any other applicable technical documents and requirements (collectively, the "Support Services"). Bank shall provide such Support Services [\*\*\*], in accordance with Response Time, Workaround Time, and Resolution Time requirements set forth below at no additional cost to Company. Bank shall ensure that each of its

personnel performing any Support Services are experienced, knowledgeable, and qualified in the use, maintenance, and support of all Program Solutions. Bank will provide contact information for Bank's technical support, including a toll-free telephone number and email addresses, within a reasonable period of time.

In addition to the above contact information, Bank may provide direct numbers and dedicated support and account representatives to Company in writing. Bank may change any of the foregoing contact information from time to time by delivering written notice to Company as soon as reasonably practicable in advance of such change; provided, that at least one number or address is available for each means of contact at all times.

(3) Bank shall monitor the Program Solutions to ensure that they are being provided according to the Agreement, any Statement of Work, the Program Solution Specifications, and any other applicable technical documents and requirements.

(4) Bank promptly shall report all outages, including any performance degradation, to the contact person or email alias identified by Company from time to time.

(5) Bank may schedule upgrades and maintenance for the Program Solutions at commercially reasonable hours (the "Maintenance Window"); provided, that Bank shall notify Company in writing [\*\*\*].

(6) Bank shall communicate to Company immediately any non-scheduled or emergency maintenance that may impact the Program Solutions. Bank's failure to notify Company of a Maintenance Window or an unscheduled or emergency maintenance period that results in any failure of any Program Solution to perform and operate in accordance with the Agreement, any Statement of Work, Program Solution Specifications, and any other technical or other requirements of Company (each, an "Error") that constitutes a Severity Level 1 or Severity Level 2 (as defined below) condition in a given year will constitute a material breach of the Agreement.

(iii) Severity Levels. If Bank detects an Error with any Program Solution, or if Company reports an Error with any Program Solution to Bank, such Error will be promptly classified by such Party in accordance with the table below.

| <u>Severity Level</u> | <u>Definition</u>   |
|-----------------------|---|
| Severity Level 1      | An emergency condition which makes the use or continued use of any one or more critical functions of any Program Solution impossible or severely impacts a majority of users. |
| Severity Level 2      | Any condition lasting longer [***] which makes the use or continued use of any one or more functions of any Program Solution difficult and which Company cannot               |



|                  |   |
|------------------|---|
|                  | reasonably circumvent or avoid on a temporary basis without the expenditure of significant time or effort.  |
| Severity Level 3 | Any limited problem condition which is not critical in that no loss of data occurs and which Company can reasonably circumvent or avoid on a temporary basis without the expenditure of significant time or effort. |
| Severity Level 4 | A minor problem condition or Documentation error which Company can easily circumvent or avoid.  |

(iv) The table below sets forth Bank’s Response Time, Workaround Time, and Resolution Time requirements in connection with any Error.

| Severity Level   | Response Time | Workaround Time | Resolution Time                             |
|------------------|---------------|-----------------|---|
| Severity Level 1 | [***]         | [***]           | [***] or a mutually agreed upon time period |
| Severity Level 2 | [***]         | [***]           | [***] or a mutually agreed upon time period |
| Severity Level 3 | [***]         | [***]           | [***] or a mutually agreed upon time period |
| Severity Level 4 | [***]         | [***]           | [***] or a mutually agreed upon time period |

For purposes of this Section 11, the following terms shall have the meanings set forth below:

“Response Time” means the amount of time, from the time Bank becomes aware, or should have become aware, of any Error, in which Bank shall notify or respond to Company, as applicable, via telephone or email to report such Error or to acknowledge receipt of Company’s notification to Bank of such Error.

“Workaround Time” means the amount of time, from the time Bank becomes aware, or should have become aware, of any Error, in which Bank shall provide a Workaround for such Error. For purposes of this definition, “Workaround” means a reasonable temporary resolution for any Error.

"Resolution Time" means the amount of time, from the time Bank becomes aware, or should have become aware, of any Error, in which Bank shall provide a Resolution for such Error. For purposes of this definition, "Resolution" means a reasonable permanent resolution for any Error.

(v) Remedies. In the event that Bank fails to meet the Response Time, the Workaround Time, or the Resolution Time requirements set forth above and such failure constitutes a Severity Level I condition, Company shall [\*\*\*] for each such failure. The Parties acknowledge and agree that Bank's failure to comply with the Response Time, Workaround Time, and Resolution Time requirements set forth herein will cause Company to suffer an injury that is difficult or impossible to accurately estimate, that the amounts set forth in this Section 11(f)(v) are a reasonable estimate, based on the parties' experience in the industry, of the damages Company may incur if Bank fails to comply with such Response Time, Workaround Time, or Resolution Time requirements in a manner that constitutes a Severity Level I condition, and that the amounts set forth in this Section 11(f)(v) constitute liquidated damages and not penalties.

ATTACHMENT D TO THE FIRST AMENDMENT

**EXHIBIT F**  
**FEATURES AND FUNCTIONALITY**

| <b>Timeframe</b> | <b>Table Stakes</b>   | <b>Mobile-First</b>  | <b>[***]</b>              |
|------------------|---|--|---------------------------|
| Launch Date      | <p><b>Availability:</b><br/>Bank's mobile application will available to be delivered within various mobile application stores</p> <p><b>Account Management:</b><br/>1. [***]<br/>2. View balance<br/>3. View transaction history<br/>4. [***]<br/>5. View statements<br/>6. View basic account information [***]<br/>7. Conversational user interface to guide users through the post-application fulfillment process or for other key messages<br/>8. Running balance visualization</p> <p><b>Money In/Money Out:</b><br/>1. Debit card<br/>2. [***]<br/>3. [***]<br/>4. [***]</p> | <p><b>Account Access:</b><br/>1. [***]<br/>2. [***]<br/>3. [***]<br/>4. Tab-bar based navigation following popular mobile app convention</p> <p><b>Activation/Enrollment:</b><br/>1. Streamlined [***] enrollment [***]<br/>2. [***]<br/>3. Activate new debit cards [***]</p> <p><b>Money In/Out:</b><br/>1. Mobile wallet push provisioning (virtual or physical card)<br/>2. [***]<br/>3. [***]<br/>4. [***]<br/>5. [***]</p> | <p>[***]</p> <p>[***]</p> |

|  |   |   |  |
|--|---|---|--|
|  | <p>5. [***]<br/>6. [***]<br/>7. [***]<br/>8. [***]<br/>9. [***]<br/>10. [***]</p> | <p>6. Universal money movement to handle multiple use cases</p> <p><b>Alerts:</b></p> <p>1. [***]<br/>2. [***]<br/>3. [***]<br/>4. [***]<br/>5. [***]<br/>6. [***]<br/>7. [***]<br/>8. [***]</p> <p>9. Access and security alerts<br/>10. [***]<br/>11. [***]</p> <p><b>Self Service:</b></p> <p>1. Activate debit card<br/>2. [***]<br/>3. [***]<br/>4. Secure messaging center or like contact method<br/>5. Contact us (with preloaded contact information)<br/>6. Update name, address, phone, email<br/>7. Add account nicknames<br/>8. Report lost/stolen cards<br/>9. Suppress paper statements<br/>10. [***]<br/>11. Privacy policy<br/>12. Disclosures</p> |  |
|--|---|---|--|

|  |  |  |  |
|--|--|--|--|
|  |  | 13. Other legal agreements<br>14. FAQs |  |
|--|--|--|--|

\*These features are excluded from the exclusivity requirements in Section 15.4(b).

**ADDITIONAL FEATURES, FUNCTIONALITY, AND SUPPORT**

| Feature Name                        | Functional Scope  | Non-Functional Scope   | Out of Scope   |
|-------------------------------------|---|--|--|
| [***]                               | [***]   | [***]  | [***]  |
| [***] Fully Automated [***] Support | <ul style="list-style-type: none"> <li>• Promoting for automatic [***] in the right situations</li> <li>• UI/UX for walking customers through an automated [***] change via [***]</li> <li>• UI/UX for providing customer status or handling exceptions with incomplete automated [***] setups</li> <li>• Internal usage reports and [***]</li> </ul> | <ul style="list-style-type: none"> <li>• [***]</li> <li>• Assessment of the [***]</li> <li>• [***] back-end API integration and maturing a vendor on new APIs</li> <li>• Storage and state management of [***] status</li> <li>• Ongoing back-office administration, contracting, and setup</li> <li>• Compliance, risk, fraud, and information security governance</li> </ul> | <ul style="list-style-type: none"> <li>• All [***] services that are not [***] related</li> <li>• Outbound [***] services [***]</li> </ul> |

| [***]                            | [***]   | [***]   | [***]  |
|----------------------------------|---|---|--|
| [***] and Business Logic Support | <ul style="list-style-type: none"> <li>• Consume and interpret [***] and [***] data objects "as-is," without any context to [***] or other [***]/Bank business integration concerns</li> <li>• Store the [***] data object, including [***], for multiple downstream processes, including [***] and [***]</li> <li>• Detect [***] change events, [***] eligibility, and fulfill eligibility with an extensible solution to add additional [***] premiums in the future with minimal change</li> </ul> | <ul style="list-style-type: none"> <li>• A [***] program will be written that must interpret [***] data objects with [***] business logic, before sending it into a standard Bank [***] premiums engine.</li> <li>• (Note: This does not include Bank's build out of a [***] engine)</li> <li>• Functional design, technical design, development, testing, performance testing, compliance, risk and information security governance</li> </ul> | <ul style="list-style-type: none"> <li>• Additional business logic complexity to interpret [***] data above and beyond the sample attributes provided to Bank by [***].</li> <li>• End-to-end business process analysis for data integration requirements</li> </ul> |



**SECOND AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **SECOND AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, effective as of September 30, 2017 (the "Second Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Second Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017 (the "Agreement"), as amended by the First Amendment effective September 30, 2017 ("the First Amendment");

WHEREAS, the Agreement sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program; and

WHEREAS, Bank and Company desire to enter into this Second Amendment to amend certain terms and conditions of the Agreement as set forth below.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1.1 AMENDMENTS TO THE AGREEMENT**

Section 9.2 of the Agreement is hereby amended to add the following subsection to clarify the nature of the payments to the Bank:

**"9 . 2** (d) The payments made under section 9.2(a), 9.2(b)(i), and 9.2(c) are intended to compensate the Bank for expenses they incur during the preliminary project phase, including but not limited to expenses related to planning activities, conceptual formulation of ideas, and evaluation and selection of alternatives related to the performance and functional requirements of the Program. They are also intended to compensate the Bank for expenses related to training, data migration or conversion activities, and other operating expenses."

IN WITNESS WHEREOF, this Agreement is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

**CUSTOMERS BANK (CUBI)**

By: /s/ [\*]

By: /s/ [\*]

Name: [\*]

Name: [\*]

Title: [\*]

Title: [\*]

Date: 10/24/2017 | 7:51 AM PDT

Date:

Reviewed and Approved as to Form  
/s/ [\*]  
T-Mobile Legal



**FOURTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **FOURTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of December 1, 2018 (the "Fourth Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Fourth Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program (the "Agreement");

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, and that certain Third Amendment to the Agreement, dated as of December 21, 2017, in each case, to amend or set forth certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Fourth Amendment to the Agreement to set forth additional terms and conditions to govern Bank's provision of customer support services to T-Mobile Customers in connection with the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1. AMENDMENTS TO THE AGREEMENT**

**1.1** Section 7(a)(vii) of Exhibit D to the Agreement is hereby amended by adding, at the end thereof, the following:

"Without limiting the generality of the foregoing, Bank shall provide all customer-support services to T-Mobile Customers in connection with the Program and the T-Mobile Financial Services (collectively, the "Customer Support Services"). Subject to Section 8.1(h) of this Agreement, the Parties agree that Bank may use a third-party service provider to provide all or any part of the Customer Support Services; provided, that, Company may review Bank's use of such third-party service provider to provide the Customer Support Services annually and may require Bank to cease using such third-party service provider in connection with the Customer Support Services. If Company requires Bank to cease

using such third-party, an appropriate agreed upon timeframe for transition of the Customer Support Services to a new service provider will be established, and [\*\*\*]. If Bank uses a third-party service provider to provide all or any part of the Customer Support Services, then Bank shall ensure that such third-party complies with all of the obligations of Bank set forth in Schedule 7(a)(vii) as if such third party service provider were "Bank."

**1.2** The Agreement is hereby amended by inserting, after Exhibit D, the new Schedule 7(a)(vii) to Exhibit D attached hereto as Attachment A.

## ATTACHMENT A TO THE FOURTH AMENDMENT

### SCHEDULE 7(a)(vii) TO EXHIBIT D CERTAIN CUSTOMER SUPPORT SERVICES

#### 1. Provision of Customer Support Services, Management and Personnel

( a ) Generally. Bank shall provide the Customer Support Services to T-Mobile Customers through various channels, [\*\*\*]. Without limiting the generality of the foregoing, Bank shall have and maintain a toll-free telephone number to be used by T-Mobile Customers in connection with the Customer Support Services. Bank shall provide the Customer Support Services [\*\*\*] hours a day, [\*\*\*] days a week in a manner that ensures a superior customer experience. Bank shall ensure that all individuals involved in the provision of the Customer Support Services possess the requisite knowledge about the Program and the T-Mobile Financial Services to provide the Customer Support Services in a competent manner.

(b) In connection with the Customer Support Services, including fraud support, Bank shall provide (i) all shared-support services for scheduling, forecasting, and monitoring, in real

time, the provision of the Customer Support Services, (ii) all management information systems, reporting services, and analytics, including any support for any of the foregoing, and (iii) all information technology and helpdesk services and monitoring related to the Customer Support Services.

(c) Bank shall have and maintain a detailed plan, and the capability to support, the transfer of T-Mobile Customers to Bank for the purpose of Bank providing the Customer Support Services to such T-Mobile Customers in accordance with the requirements established by Company from time to time.

(d) Bank shall have and maintain a quality-control program for the Customer Support Services (the QC Program"), which QC Program will be subject to Company's review and approval. To the extent Bank makes any material changes to the QC Program, Bank shall notify Company of such changes and obtain Company's written consent to such changes prior to implementing such changes. Without limiting the generality of the foregoing, the QC Program shall meet or exceed the following guidelines:

(i) Bank shall implement and maintain a call recording system to create audio call recordings and text files, where applicable, of all contacts initiated by T-Mobile Customers (each, a "Customer Contact") and shall maintain full access to and ability to retrieve such audio recordings and text files for all Customer Contacts for no less than one (1) year for audio recordings/four (4) years for text files following the occurrence of such Customer Contacts. Bank shall make available to Company and its auditors a mutually agreed upon and approved (by Bank and Company's legal and compliance) solution for listening to live or recorded Customer Contacts on-site and remotely. Company will use any such recordings of conversations with T-Mobile Customers solely for internal purposes associated with the Program including, assessing quality

assurance, investigation, fraud or training.

(ii) Bank shall participate in regularly scheduled, but not more than quarterly unless Company deems reasonably necessary, quality-calibration sessions with Company.

(iii) Subject to Applicable Law, Bank shall implement reasonable non-banking related suggestions provided by Company for customizing scripts to be used in connection with the Customer Support Services.

(iv) Bank shall provide feedback and recommendations with respect to any scripts, processes, call flows, FAQs, or other knowledge-based tools used in connection with the Customer Support Services that have resulted in, or could result in, complaints or negative feedback from T-Mobile Customers.

(e) FAQs. Subject to Applicable Law, Bank shall provide Company with access to a list of frequently asked non-banking or regulatory questions, Bank contact information, as well as product related questions to be used in Company's retail outlets and call centers prior to the launch of the Program (the "FAQs"). The initial FAQs shall address questions and issues that Bank anticipates could arise in connection with sales and the Customer Support Services. Thereafter, Bank shall update the FAQs on a regular basis to reflect common questions and issues that arise in connection with sales and the Customer Support Services.

(f) Periodic Reviews. Bank shall use reasonable efforts to ensure that appropriate individuals involved in the provision of the Customer Support Services attend periodic review meetings with Company and participate in periodic, operational conference calls with Company, in each case, as determined by Company.

(g) Assessment of the Implementation of a Social Media Monitoring Program. Bank [\*\*\*] will prepare and deliver to T-Mobile [\*\*\*] an assessment of efforts and [\*\*\*] to implement the [\*\*\*]. After review of the assessment, T-Mobile in its sole discretion may decide to proceed with the implementation of the [\*\*\*] Tool. The [\*\*\*] Tool assessment will include the following:

- (i) [\*\*\*]
  - a. [\*\*\*]
- (ii) [\*\*\*]
  - a. [\*\*\*]

- b. [\*\*]
- c. [\*\*]

(iii) [\*\*]

- a. [\*\*]
- b. [\*\*]
- c. [\*\*]
- d. [\*\*]
- e. [\*\*]

(iv) Reporting /  
SLAs

- a. Reporting on volumes to help communicate trending or systemic issues, and service levels related to customers who have been transferred over.
- b. Any compliance or regulatory reporting to ensure communications with customers are secure and auditable

2. Management and Personnel.

(a) Generally. Bank, [\*\*], shall provide and maintain the following positions in connection with the Customer Support Services: [\*\*]

[\*\*\*].

(b) Agents.

(i) Generally. The Customer Support Services will be provided by the following types of Customer Support Agents: [\*\*\*]. Bank will provide agents for future, mutually agreed upon and approved channels.

(ii) Bilingual agents. As of the launch of the Program for commercial use, Bank shall ensure that at least [\*\*\*] percent [\*\*\*] of the Customer Support Agents at each Customer Service Center are bilingual in English and Spanish and possess the ability to read, write, and communicate fluently in both English and Spanish to (1) support both English- and Spanish language queues, as needed, and (2) understand all training materials, modules, and programs related to the Program and the Customer Support Services. Bank shall promptly provide additional Customer Support Agents that meet the above requirements at each Customer Service Center if additional bilingual Customer Support Agents are appropriate in light of volume or business requirements or are otherwise requested by Company.

(iii) Training. Bank shall provide training resources to support new-hire and recurrent training needs for new and then-current Customer Support Agents. Bank shall develop and provide training materials, modules, and programs related to the Program and the Customer Support Services. In addition, Bank shall develop and provide recurring training materials, modules, and programs related to the Program and the Customer Support Services to ensure a superior customer experience. Bank and Company shall agree to the content, quality, completeness, and delivery of such training materials, modules, and programs prior to the execution thereof. Without limiting the generality of the foregoing, Bank and Company agree that the training materials, modules, and programs shall include (1) compliance training, soft-skills and communications training, Program-specific product training (e.g., training related to the T-Mobile Financial Services), product-branding training, and Company culture training no less than once annually, (2) training-facilitator guides, (3) hands-on activities and exercises to develop communications skills (including soft skills), and (4) testing, on a material-, module-, and program-specific basis, to certify Customer Support Agents and Customer Service Center management. Bank reserves the right to take a "train-the-trainer" approach with respect to the training obligations set forth herein.

(c) Background Checks. Bank shall conduct or require its third parties to conduct background checks on all management and personnel involved in the Customer Support Services in accordance with Applicable Law and industry best practices. Background checks shall include criminal records. In addition, T-Mobile may request that Bank conduct periodic individual employee background checks during the course of an investigation. Without limiting the generality of the foregoing, all background checks shall include, at minimum, all counties of employment and residence for the last seven (7) years for the prospective employee, as well as



state and federal records. No prospective or current employee who has been convicted of a non pardoned felony (or equivalent charge), a gross misdemeanor, any misdemeanor relating to computer security or theft, violence, or fraud; or a breach of trust or act of dishonesty that is related to the job duties performed should be involved in the provision of Services. Costs incurred for background checks shall be Bank's responsibility.

3. Customer Service Centers.

(a) Bank shall be responsible for establishing and running each Customer Service Center at its own cost and expense, including all resources, premises, sites, systems, networks, hardware, software, and other equipment necessary to provide the Customer Support Services. Bank shall obtain or require its third parties to obtain and maintain all necessary rights, permits, and licenses to use each Customer Service Center and shall comply with all applicable registration, licensing, permitting, approval, and other governmental requirements to perform the Customer Support Services from such Customer Service Center.

(b) Bank represents that, as of the launch of the Program for commercial use, Bank will maintain one (1) Customer Service Center located in [\*\*], and that the Customer Support Services will be provided from such Customer Service Center. If Bank wishes to provide the Customer Support Services from a location other than the Customer Service Center in [\*\*], then Bank shall provide Company with all information requested by Company with respect to such location and shall obtain Company's written consent prior to providing the Customer Support Services from such location. If Bank provides the Customer Support Services from a location other than the Customer Service Center in [\*\*] and its Disaster Recovery site without Company's prior written consent, then Bank shall be deemed to be in material breach of the Agreement. Company agrees to provide a response to any Bank request to provide the Customer Support Services from a location other than the Customer Service Center in [\*\*],

(c) Bank agrees that each Customer Service Center will be designated for providing the Customer Support Services. To the extent that services other than the Customer Support Services are provided from a Customer Service Center, Bank shall ensure that a portion of such Customer Service Center is dedicated solely to providing the Customer Support Services and is branded for the Program prior to the launch of the Program for commercial use.

(d) Notwithstanding the foregoing, Company agrees that Bank's third-party service provider may use investigators located in locations other than the Customer Service Center, and that such investigators may provide incidental Customer Support Services in performing their duties.

4. Minimum Service Levels for the Customer Support Services.

(a) Generally. Bank shall provide the Customer Support Services in accordance with the following service levels (each, a "CSS Service Level"):

(i) Bank shall maintain an abandonment rate of no more than [\*\*] percent [\*\*]

on all Customer Contacts.

(ii) Bank shall resolve no less than [\*\*\*] percent [\*\*\*] of all Customer Contacts on a first-time basis as calculated using the aggregate One Call Resolution reports described in Section 5(a) below.

(iii) Bank shall answer no less than [\*\*\*] percent [\*\*\*] of all Customer Contacts within [\*\*\*] seconds.

(iv) Bank will use best efforts to maintain a Customer Contact quality score of no less than [\*\*\*] percent [\*\*\*] based on the Inbound Quality Call Review criteria provided on Exhibit 4(a)(iii) attached hereto and as otherwise established by Company from time to time

(b) Nonperformance. If Bank fails to comply with any CSS Service Level (each, a CSS Service Level Failure"), then Bank shall provide to Company a plan for correcting such CSS Service Level Failure within five (5) days following Bank's identification of the CSS Service Level Failure, which plan shall be subject to Company's approval, and Bank shall correct such CSS Service Level Failure. All the terms of the Agreement and Exhibit C shall apply to CSS Service Levels.

5. Monitoring and Reporting Key Performance Indicators.

(a) Generally. Bank shall regularly provide reports that summarize the performance of Customer Service Center management and Customer Support Agents. In addition, Bank shall prepare and provide to Company reports that detail the following information:

- (i) Bank's performance relative to each CSS Service Level;
- (ii) Bank's average speed of answering each Customer Contact;
- (iii) the number of Customer Contacts received, handled, and abandoned;
- (iv) the resolution time for each Customer Contact;
- (v) the maximum number of Customer Contacts in queue at any given time;
- (vi) the longest wait time and the average wait time for each Customer Contact;
- (vii) the average amount of time to abandon each Customer Contact;
- (viii) the average amount of hold time for each Customer Contact;
- (ix) the average amount of time to work each Customer Contact following the completion of each Customer Contact;

- (x) the average amount of interaction time for each Customer Contact; and
- (xi) the total number of transfers of Customer Contacts (percentage and number of calls)
- (xii) Aggregate One Call Resolution Reports (based on an audited sample).

(b) The reports prepared and provided by Bank may be updated from time to time upon the mutual agreement of the Parties.

(c) Bank shall implement a net promoter program to monitor, evaluate, and report on overall customer experience.

6. Fees and Pricing. The following table and subsections (a) – (d) are appended to the end of Exhibit B of the Agreement.

| [***]          |         |                             |
|----------------|---------|-----------------------------|
| Site & Service | English | Bilingual (English/Spanish) |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
| [***]          | [***]   | [***]                       |
|                |         |                             |
| [***]          |         |                             |
| Fee            | Price   | Description                 |
| [***]          | [***]   |                             |
| [***]          | [***]   |                             |
| [***]          | [***]   | [***]                       |

|       |       |       |
|-------|-------|-------|
| [***] | [***] | [***] |
| [***] | [***] | [***] |
| [***] | [***] | [***] |
| [***] | [***] | [***] |
| [***] | [***] | [***] |

- (a) Bank will charge Company only for [\*\*\*].
- (b) Bank and Company agree to review and negotiate [\*\*\*].
- (c) Without limiting the generality of the requirements applicable to invoicing under the Agreement, for each invoice that Bank provides to Company for the Customer Support Agent fees, such invoice shall indicate (1) [\*\*\*].
- (d) The maximum number of training hours per Customer Service Agent [\*\*\*] for which Customer is obligated to pay will not exceed [\*\*\*]

[\*\*\*)].

(e) [\*\*\*) Tool Assessment. [\*\*\*)].

7. Compliance and Audits.

(a) Bank shall ensure that each Customer Service Center and the Customer Support Services are provided in accordance with the confidentiality, information security, and privacy requirements under the Agreement, including Exhibit J. Without limiting the generality of the foregoing, Bank shall (a) prohibit the use of cell phones and other personal devices, (b) maintain a paperless environment, (c) lock down desk tops, (d) secure entrances with badge access readers and maintain access logs, and (e) install and monitor security cameras, firewalls, logging facilities, anti-virus, endpoint protection, web blocking, and other security protocols in accordance with the PCI Standards.

(b) Bank represents, warrants, and covenants that (i) disaster recovery, business resumption, and contingency plans are and will remain in place in connection with each Customer Service Center and the Customer Support Services, (ii) such disaster recovery, business resumption, and contingency plans do and will comply with industry best practices and Applicable Law, and (iii) such disaster recovery, business resumption, and contingency plans do and will prevent any interruption or impairment to each Customer Service Center and the Customer Support Services.

(c) Upon at least [\*\*\*) days' notice to Bank, Company may conduct site visits and audits of all Customer Service Centers from time to time to evaluate Bank's compliance with this Schedule 7(a)(vii) to Exhibit D. Bank will make reasonable efforts to accommodate notices of less than 15 days.

**IN WITNESS WHEREOF**, this Fourth Amendment is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**CUSTOMERS BANK**

**CUSTOMERS BANK (CUBI)**

|                      |                      |
|----------------------|----------------------|
| By: <u>/s/ [***)</u> | By: <u>/s/ [***)</u> |
| Name: <u>[***)</u>   | Name: <u>[***)</u>   |
| Title: <u>[***)</u>  | Title: <u>[***)</u>  |
| Date: <u>12-1-18</u> | Date: <u>12/3/18</u> |

DocuSigned by:  
T-Mobile Legal Approval By:  
/s/ [\*\*\*)

Exhibit 4(a)(iii)  
Inbound Quality Call Review Criteria

|   |                 |                 |               |           |                |                |                |                             |
|---|-----------------|-----------------|---------------|-----------|----------------|----------------|----------------|-----------------------------|
| <b>Cobalt CARE QA Form 2018</b>   | Agent:          |                 |               |           |                |                |                |                             |
|   | Avaya Id:       |                 |               |           |                |                |                |                             |
|   | Record ID:      |                 |               |           |                |                |                |                             |
|   | Date&Time:      |                 |               |           |                |                |                |                             |
|   | NPS:            |                 |               |           |                |                |                |                             |
|   | Ticket No:      |                 |               |           |                |                |                |                             |
|   | <b>RATING</b>   |                 |               |           |                |                |                |                             |
|   | <b>Weights:</b> | <b>Possible</b> | <b>Earned</b> | <b>QA</b> |                |                |                |                             |
| <b>P.A.C.E</b>  | 100             | 100             | 100           | Rating    | QA Disposition | QA Disposition | QA Disposition | Quality Analyst<br>Comments |
|   | [***]           | [***]           | [***]         | [***]     |                |                |                |                             |
| P - Promises kept. Do what you said you will do.  | [***]           | [***]           | [***]         | [***]     |                |                |                |                             |
| A - As soon as possible. Resolve the customer issue ideally by sundown, at most 24 hours.   | [***]           | [***]           | [***]         | [***]     |                |                |                |                             |
| C - Correct information is always given to the customer. Listen carefully to understand the true customer question and then answer it accurately and fully. | [***]           | [***]           | [***]         | [***]     |                |                |                |                             |
| E - Empathy and respect are part of each customer interaction. We talk with a smile on our face. Be happy.  | [***]           | [***]           | [***]         | [***]     |                |                |                |                             |
| <b>Final Score</b>  |                 |                 | [***]         | [***]     |                |                |                |                             |

| Actions/Expectations of the Specialist |
|--|
| 1.<br>2.<br>3.                         |

**FIFTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **SIXTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of August 16, 2018, (the "Fifth Amendment Effective Date") is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Fifth Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program (the "Agreement");

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, and that certain Fourth Amendment to the Agreement, dated as of [pending signature], in each case, to amend and/or set forth certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Fifth Amendment to the Agreement to set forth terms and conditions to govern Bank's provision of the T-Mobile MONEY marketing site.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1. AMENDMENTS TO THE AGREEMENT**

**1.1** Exhibit D to the Agreement is hereby amended by adding, at the end thereof, the following new Section 13:

"13. T-Mobile MONEY Marketing Site. Bank will build, deploy, and operate the T- Mobile MONEY marketing site (the "TMM Site") and will make the TMM Site available at t-mobilemoney.com in accordance with the requirements established by Company from time to time, the terms of this Agreement, and Schedule 13."

**1.2** The Agreement is hereby amended by inserting, after Exhibit D and any schedules thereto, the new Schedule 13 to Exhibit D attached hereto as Attachment 1.

## 2. MISCELLANEOUS

**2.1** Reaffirmation of Agreement. Except as expressly amended or modified by this Fifth Amendment, the Agreement shall remain unchanged and in full force and effect. The Parties acknowledge and agree that each Party shall be bound by and obligated to perform its respective obligations under the Agreement, as amended hereby, and that all references to the "Agreement" contained in the Agreement shall mean and include the Agreement, as amended by this Fifth Amendment.

**2.2** Severability. If any provision of this Fifth Amendment is deemed by a court or Regulatory Authority of competent jurisdiction to be illegal, invalid, or unenforceable, then such provision shall be deemed to have been omitted from this Fifth Amendment and the remainder of this Fifth Amendment shall remain in full force and effect.

**2.3** Counterparts. This Fifth Amendment may be executed in one or more counterparts, each of which shall be an original but all of which, taken together, shall constitute one and the same instrument.

[Signature page follows.]



IN WITNESS WHEREOF, this Fifth Amendment is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

**CUSTOMERS BANK (CUBI)**

By: /s/ [\*\*]

By: /s/ [\*\*]

Name: [\*\*]

Name: [\*\*]

Title: [\*\*]

Title: [\*\*]

Date: 8/16/2018 | 8:57 PM PDT

Date: 08/16/2018

DocuSigned by:

T-Mobile Legal Approval By:

/s/ [\*\*]

**ATTACHMENT 1 TO THE FIFTH AMENDMENT**

**SCHEDULE 13 TO EXHIBIT D TMM SITE**

1. Description of Services/Deliverables.

(a) Generally. Bank will build, deploy, and operate the T-Mobile MONEY marketing site and will make such site available at t-mobilemoney.com (the "TMM Site"). The TMM Site will be hosted and managed through a content management system that will be mutually agreed to by both Parties (the "CMS"). Company will provide to Bank the proposed design and content of the TMM Site and Bank will build, deploy, and operate the TMM Site in accordance with such requirements. Bank will develop and maintain a content management process within the CMS to support, at a minimum, all of the content on the TMM Site. Bank acknowledges and agrees that the TMM Site, the CMS, and the TMM Site Deliverables (as defined below) contemplated by this Schedule 13 constitute Program Solutions under the Agreement and are subject to the terms and conditions of the Agreement, including Section 11 of Exhibit D to the Agreement.

(b) Requirements and Criteria.

(i) Marketing Materials. Bank will display pre-approved marketing materials on the TMM Site in the forms and formats approved by Company.

(ii) Privacy Policy. Bank will deliver the TMM Site in compliance with Company's then-current privacy policy (the "Company Privacy Policy") and will ensure, at all times, that the TMM Site is operated in a manner that complies with the Company Privacy Policy.

(c) Deliverables. In connection with the TMM Site, Bank will provide the deliverables set forth in this Section 1(c) (collectively, the "TMM Site Deliverables"). Bank acknowledges and agrees that:

(i) Bank will provide at least [\*\*\*] content pages with [\*\*\*] different layouts displaying various marketing materials. Bank will build, deploy, and operate the TMM Site in accordance with Company's proposed design and content, which TMM Site will be subject to Company's final acceptance of the TMM Site.

(ii) Bank will create a content workflow approval process in the CMS in accordance with the following steps/roles below:

(1) Content author, which will be the individuals from Bank and Company with access to enter and edit content and pages on the TMM Site;

(2) Marketing approver, which will be the individuals from the marketing departments of Bank and Company to approve or reject the content entered or edited on the TMM Site;

(3) Legal approver, which will be the individuals from the legal departments of Bank and Company to approve the content on the TMM Site; and

(4) Final publisher, which will be the individual that will cause the content to go live once each Party's marketing and legal departments have approved the content.

The Parties agree that any content approval and revision process prior to the development of the CMS will be handled offline and that the workflow set forth in this Section 1(c)(ii) of this Schedule 13 only relates to the process applicable to the CMS.

- (iii) Bank will provide an out-of-the box log-in function from the CMS.
- (iv) Bank will develop a link from the TMM site to sign-up and secure banking login sites. At a later date, Bank will work with Company to deploy a JavaScript SDK or similar solution to enable full login functionality from the TMM site.
- (v) Bank will investigate a way to identify and track a new or returning user (and if possible, a returning customer) on the TMM site, within Bank's acceptable information security practices. As needed, Bank will work with Company to deploy such a solution.
- (vi) Bank will develop [\*\*\*] landing-page templates based on pre- approved landing-page templates received from Company for TMM Site marketing purposes. All completed landing-page templates will be subject to final acceptance by Company.
- (vii) Bank will implement Adobe Analytics Standard tracking for the entirety of the TMM Site and, subject to Bank's agreements with Adobe, will provide user accounts to Company employees, upon request, to enable such employees to access the TMM Site reporting suites in the Adobe Analytics web portal.
- (viii) Bank will work with Company to track the journeys of end users from Company wireless digital properties to the TMM Site, to sign-up, and to banking solutions as part of Bank's existing reporting work stream. If Company's desired tracking of the end-to-end journey cannot be entirely satisfied as part of Bank's existing reporting work stream, Bank will work with Company to deploy Company analytic tags to the TMM Site if it is technically feasible. The foregoing sentence only covers the Company wireless and TMM Site portion of this capability.
- (ix) Azure will provide hosting services for the TMM Site. Bank will be responsible for the direct relationship with Azure. Fees will be paid in accordance with Section 4(e) of this Schedule 13.
- (x) Bank will ensure that the architecture is deployed in order to scale and will ensure that disaster recovery, business resumption, and contingency plans, including redundancies, and a disaster recovery site in Azure central are in place. As the scope or capabilities change, this may impact platform pass-through costs for hardware, but the solution will be architected to be extendable with hardware for additional scale beyond the initial, three node set-up.
- (xi) Bank will provide a separate workflow from the TMM Site such that changes to the frequently asked questions (the "FAQs") can be initiated by either Company or Bank. This workflow will be based on the permissions in the CMS and what elements a user may edit. Bank may not make any changes to the FAQs without Company's prior written consent.
- (xii) Bank will provide management of and updates to the TMM Site, including any content changes and new pages that can be created using existing templates and modules provided during the initial implementation. This authoring work will follow the content approval work flow indicated above in Section 1(c)(ii) of this Schedule 13 with any prior effort to be done offline and outside the CMS. Only final approved content will be created in the CMS. Any new requests that require the creation of a new content model, component, or template in the CMS will require additional resourcing.

(xiii) Bank will contract directly with Adobe to secure the use of the following products and services for the TMM Site:

(1) Adobe Analytics Standard, which is the standard analytics package from Adobe.

(2) Adobe Experience Manager ("AEM") Assets, which is a digital asset-management tool that is integrated with the Adobe Experience Manager platform and enables users to share and distribute digital assets. Users can manage, store, and access images, videos, documents, audio clips, and rich media for use on the web, in print, and for digital distribution.

(3) AEM Sites, which is a web-content management platform for delivering digital, cross-channel customer experiences and provides an authoring environment with support for in-place editing, drag-and-drop page composition from a library of web components, and controls for search-engine optimization, scheduled delivery, and landing-page optimization.

(4) AEM Sites, Opt ADDL Instances 1L, which is an additional publish instance for AEM as AEM On-Premise comes with One Publish and One Author.

(ix) Bank will ensure that the general management of the TMM Site, the CMS, the TMM Site Deliverables, and any infrastructure complies with all aspects of Section 11 of Exhibit D to the Agreement, including the provisions thereof related to maintenance, updates and upgrades, and service levels and support, and all aspects of Exhibit C. Without limiting the generality of the foregoing, Bank will ensure that it:

(1) Conducts twenty-four (24) hours a day, seven (7) days a week monitoring and restarts (as necessary);

(2) Performs regular backups on a daily basis and restorations (as necessary);

(3) Obtains Company's prior written consent and a written amendment to this Schedule 13 before proceeding with or otherwise implementing any major release of the CMS;

(4) Reviews, on a monthly basis, utilization of capacity; and

(5) Obtains Company's prior written consent and a written amendment to this Schedule 13 before proceeding with or otherwise implementing any capacity increase beyond the capacity contemplated as of the go-live date if such capacity increase will require labor and additional infrastructure resources.

2. Other Responsibilities of Bank Bank will provide a single point of contact and accountability from Bank to act as project manager (the "Bank SPOC") to work with Company's single point of contact or other designated representative of Company (the "Company Point of Contact"). The Bank SPOC must be senior level and must possess technical expertise to answer questions and act in a prompt and accurate manner.

3. Company's Responsibilities.

(a) Company will provide the Company Point of Contact.

- (b) Company will provide input and feedback to Bank for Bank to comply with Company's requirements and to drive continuous improvement.
- (c) Company will approve deployment of each release of the TMM Site.

4. Miscellaneous.

- (a) Service Levels and Support. Bank will perform its obligations under this Schedule 13 in accordance with the Agreement, including Exhibit C of the Agreement and Section 11 of Exhibit D to the Agreement.
- (b) Transition Assistance. For the avoidance of doubt, Bank's obligations with respect to the TMM Site and this Schedule 13 will be subject to the transition assistance provisions of the Agreement.
- (c) Project Managers. The following individuals will act as the Bank SPOC and the Company Point of Contact, as applicable, in connection with each Party's performance of its obligations hereunder.

| Bank SPOC  | Company Point of Contact                                 |
|--|--|
| [**]   | [**]   |
| 99 Bridge Street, Phoenixville, Pennsylvania 19460 | 12920 SE 38th Street, Bellevue, Washington<br>98006-1350 |
| [**]   | [**]   |
| [**]   | [**]   |

- (d) Expenses. [\*\*] will bear sole responsibility for all costs, expenses, and other amounts incurred in connection with this Schedule 13, except as otherwise set forth below or agreed in writing by [\*\*].
- (e) Payment. [\*\*].

| Scope Item | Cost Type | Term | Price |
|------------|-----------|------|-------|
| [**]       | [**]      | [**] | [**]  |
| [**]       | [**]      | [**] | [**]  |

|      |      |      |      |
|------|------|------|------|
|      | [**] |      |      |
| [**] | [**] | [**] | [**] |

|      |      |      |      |
|------|------|------|------|
|      | [**] |      |      |
| [**] | [**] | [**] | [**] |
| [**] | [**] | [**] | [**] |

**SIXTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT – MASTERCARD REPOWER SUPPORT**

This **SIXTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of September \_\_\_\_, 2018 (the "Sixth Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Sixth Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program (the "Agreement");

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, and that certain Fourth Amendment to the Agreement, dated as of [pending signature], and that certain Fifth Amendment to the Agreement, dated as of August 16, 2018, in each case, to amend certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Sixth Amendment to the Agreement to further amend the Agreement and to set forth additional terms and conditions to govern the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1 AMENDMENTS TO THE AGREEMENT**

- 1.1 In order to implement the [\*\*\*] functionality that was added to Additional Features, Functionality and Support under Exhibit F pursuant to Amendment 1 of the Agreement dated as of September 30, 2017, Company will [\*\*\*]



1.2 Exhibit F to the Agreement is hereby further amended by adding, at the end thereof, the table attached hereto as Attachment A. The IVR description included in Attachment A will be included in the features, functionality and support provided by the Bank. The described IVR items will be delivered by Bank [\*\*] upon delivery and written acceptance by Company; all payments to be made in accordance with the payment and invoicing procedures as described in Section 9.4 of the Agreement.

IN WITNESS WHEREOF, this Sixth Amendment is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

**CUSTOMERS BANK (CUBI)**

By: /s/ [\*\*]

By: /s/ [\*\*]

Name: [\*\*]

Name: [\*\*]

Title: [\*\*]

Title: [\*\*]

Date: 9/28/2018

Date: 09/21/2018

DocuSigned by:  
T-Mobile Legal Approval By:  
/s/ [\*\*]

**ATTACHMENT A TO THE SIXTH AMENDMENT**  
**EXHIBIT F - ADDITIONAL FEATURES, FUNCTIONALITY AND SUPPORT**

| <b>Feature #</b> | <b>Current State Feature Name</b> | <b>Current State Feature Description</b> | <b>Future State Feature Name</b> | <b>Future State Feature Description</b> |
|------------------|-----------------------------------|--|----------------------------------|---|
| [***]            | [***]                             | [***]                                    | [***]                            | [***]                                   |
| [***]            | [***]                             | [***]                                    | [***]                            | [***]                                   |
| [***]            | [***]                             | [***]                                    | [***]                            | [***]                                   |

|  |  |       |  |       |
|--|--|-------|--|-------|
|  |  | [***] |  | [***] |
|--|--|-------|--|-------|

**SEVENTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT – [\*\*\*]/[\*\*\*]**

This **SEVENTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of September \_\_, 2018 (the "Seventh Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Seventh Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program (the "Agreement");

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, and that certain Fourth Amendment to the Agreement, dated as of [pending signature], that certain Fifth Amendment to the Agreement, dated as of August 16, 2018, and that certain Sixth Amendment to the Agreement, dated as of [pending signature], in each case, to amend certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Seventh Amendment to the Agreement to further amend the Agreement and to set forth additional terms and conditions to govern the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1 AMENDMENTS TO THE AGREEMENT**

**1.1** Exhibit F to the Agreement is hereby further amended by adding, at the end thereof, the table attached hereto as Attachment A.

**1.1.1** Company agrees to pay Bank [\*\*\*] for work already performed for this Amendment, [\*\*\*] completed between January 2018 and August 10<sup>th</sup>, 2018. A detailed fee schedule is attached hereto as

Attachment A. The payment for all work completed is due in accordance with invoicing procedures in Section 9.4 of the Agreement.

IN WITNESS WHEREOF, this Seventh Amendment is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

By: /s/ [\*\*]  
Name: [\*\*]  
Title: [\*\*]  
Date: 9/28/2018

**CUSTOMERS BANK (CUBI)**

By: /s/ [\*\*]  
Name: [\*\*]  
Title: [\*\*]  
Date: 09/21/2018

DocuSigned by:  
T-Mobile Legal Approval By:  
/s/ [\*\*]



**EIGHTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **EIGHTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of December 9, 2018 (the “Eighth Amendment Effective Date”), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 (“Company”), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 (“Bank”), and amends the Agreement (as defined below) (this “Eighth Amendment”). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party’s rights and responsibilities with respect to developing, marketing, and offering the Program (the “Agreement”);

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, and that certain Fourth Amendment to the Agreement, dated as of [pending signature], that certain Fifth Amendment to the Agreement, dated as of August 16, 2018, that certain Sixth Amendment to the Agreement, dated as of [pending signature], that certain Seventh Amendment to the Agreement, dated as of [pending signature], in each case, to amend certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Eighth Amendment to the Agreement to further amend the Agreement and to set forth additional terms and conditions to govern the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

**1 AMENDMENTS TO THE AGREEMENT**

**1.1** The Parties add to the Agreement as Exhibit “K” the document attached hereto as Attachment “A” for a fixed cost proposal for services listed.

IN WITNESS WHEREOF, this Eighth Amendment is executed by the Parties’ authorized officers or representatives and shall be effective as of the date first above-written.

| <b>T-MOBILE USA, INC. (COMPANY)</b> | <b>CUSTOMERS BANK (CUBI)</b> |
|-------------------------------------|------------------------------|
| By: <u>/s/ [**]</u>                 | By: <u>/s/ [**]</u>          |
| Name: <u>[**]</u>                   | Name: <u>[**]</u>            |
| Title: <u>[**]</u>                  | Title: <u>[**]</u>           |
| Date: <u>11/13/2018</u>             | Date: <u>11/9/2018</u>       |

DocuSigned by:  
T-Mobile Legal Approval By:  
/s/ [\*\*]



## ATTACHMENT A TO THE EIGHTH AMENDMENT

### Exhibit K

#### DEVELOPMENT OF [\*\*\*] PROPOSAL TO ADD ADDITIONAL SERVICES TO THE AGREEMENT

- 1.1 Bank will prepare a [\*\*\*] proposal detailing [\*\*\*] associated with the additional services Company requests to be added to the Agreement and outlined below (“Proposal”). The terms applicable to the development and delivery of this Proposal are as outlined below.
    - 1.1.1 Bank will deliver a Proposal to Company outlining the details [\*\*\*] that will be associated with delivering the services set forth in the table below. To complete and deliver the Proposal, Bank will perform [\*\*\*]. Nothing in this Exhibit “K” obligates Bank to begin any technological development work on any of the services to be discussed in the Proposal or set forth in the table below.
    - 1.1.2 Bank contemplates that the Proposal will include a [\*\*\*] to develop and implement the various services set forth in the table below [\*\*\*] should Company and Bank agree to the development and implementation of the services contained in the Proposal.
    - 1.1.3 Bank will begin work on the Proposal, [\*\*\*], and continuing until the Proposal is complete or Company gives notice of termination concerning the work on this Proposal. [\*\*\*].
    - 1.1.4 Company may terminate any work under this Proposal upon sixty (60) days’ written notice to Bank. [\*\*\*].
    - 1.1.5 If Company desires that the services set forth in the Proposal be added to the Agreement, the parties shall enter into a further written agreement setting forth the terms and conditions upon which the Bank will perform those additional services. Bank is not obligated to provide any services described in the Proposal until such SOW has been agreed to by Bank and Company and added to the Agreement at a future date.
-

**SCOPE OF PROPOSED SERVICES TO BE ADDRESSED IN PROPOSAL**

| Item              | Description |
|-------------------|-------------|
| <b>Category 1</b> |             |
| [***] and [***]   | [***]       |
| [***]             | [***]       |

| Item  | Description |
|-------|-------------|
|       | [***]       |
| [***] | [***]       |

| Category 2 |       |
|------------|-------|
| [***]      | [***] |
| [***]      | [***] |

Portions of this Exhibit, indicated by the mark "[\*\*]" have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to this omitted information.

|      |      |
|------|------|
|      | [**] |
| [**] | [**] |
| [**] | [**] |

## NINTH AMENDMENT TO PRIVATE LABEL BANKING PROGRAM AGREEMENT

This **NINTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of September 28, 2018 (the "Ninth Amendment Effective Date"), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 ("Company"), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 ("Bank"), and amends the Agreement (as defined below) (this "Ninth Amendment"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

### RECITALS

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party's rights and responsibilities with respect to developing, marketing, and offering the Program (the "Agreement");

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, that certain Fourth Amendment to the Agreement, dated as of [pending signature], that certain Fifth Amendment to the Agreement, dated as of August 16, 2018, that certain Sixth Amendment to the Agreement, dated as of September 26, 2018, that certain Seventh Amendment to the Agreement, dated as of September 26, 2018, and that certain Eighth Amendment to the Agreement, dated as of [pending signature], in each case, to amend certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Ninth Amendment to the Agreement to further amend the Agreement and to set forth additional terms and conditions to govern the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

### AMENDMENTS TO THE AGREEMENT

- 1) Warranty Period - Maintenance of Program Launch Resources: For a period of [\*\*] from the Launch Date, Bank will maintain the business and technical resources listed on Schedule "A" to support, respond to and remedy any technical issues, bug fixes or issues with the Program for [\*\*].

- 2) Additional Resources: Bank deployed the business and technical resources to support T-Mobile-specific features delivered from [\*\*] related to the following Company-specific features:
- i) Usage of [\*\*] throughout the T-Mobile MONEY experience, [\*\*];
  - ii) Removing [\*\*] throughout the app and updates to support Company brand;
  - iii) Various updates to the application content and style, including promotional programs such as [\*\*] language changes, T-Mobile MONEY logo, content, and UX improvements;
  - iv) Change request to [\*\*], and make it configurable post-launch;
  - v) Company employee support for [\*\*] through [\*\*];
  - vi) [\*\*];
  - vii) Various updates to data integration between Company and Bank based on changes discovered in testing, or descopes from Company.
- 3) [\*\*]

IN WITNESS WHEREOF, this Ninth Amendment is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

| <b>T-MOBILE USA, INC. (COMPANY)</b> | <b>CUSTOMERS BANK (CUBI)</b> |
|-------------------------------------|------------------------------|
| By: <u>/s/ [**]</u>                 | By: <u>/s/ [**]</u>          |
| Name: <u>[**]</u>                   | Name: <u>[**]</u>            |
| Title: <u>[**]</u>                  | Title: <u>[**]</u>           |
| Date: <u>10/9/2018</u>              | Date: <u>09/28/2018</u>      |

DocuSigned by:  
T-Mobile Legal Approval By  
/s/ [\*\*]

Schedule A

List of Resources for Warranty Period

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]



**TENTH AMENDMENT TO  
PRIVATE LABEL BANKING PROGRAM AGREEMENT**

This **TENTH AMENDMENT TO THE PRIVATE LABEL BANKING PROGRAM AGREEMENT**, dated as of December 27th, 2018 (the “Tenth Amendment Effective Date”), is by and between **T-MOBILE USA, INC.**, a corporation organized and existing under the laws of Delaware, with offices located at 12920 SE 38th Street, Bellevue, Washington 98006-1250 (“Company”), and **CUSTOMERS BANK**, a Pennsylvania state-chartered banking institution with a mailing address of 99 Bridge Street, Phoenixville, Pennsylvania 19460 (“Bank”), and amends the Agreement (as defined below) (this “Tenth Amendment”). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement.

**RECITALS**

WHEREAS, Bank and Company entered into that certain Private Label Banking Program Agreement, effective as of February 24, 2017, which sets forth each Party’s rights and responsibilities with respect to developing, marketing, and offering the Program (the “Agreement”);

WHEREAS, Bank and Company entered into that certain First Amendment to the Agreement, dated as of September 30, 2017, that certain Second Amendment to the Agreement, dated as of September 30, 2017, that certain Third Amendment to the Agreement, dated as of December 21, 2017, that certain Fourth Amendment to the Agreement, dated as of December 1, 2018, that certain Fifth Amendment to the Agreement, dated as of August 16, 2018, that certain Sixth Amendment to the Agreement, dated as of September 26, 2018, that certain Seventh Amendment to the Agreement, dated as of September 26, 2018, that certain Eighth Amendment to the Agreement, dated as of November 9, 2018, and that certain Ninth Amendment to the Agreement, dated as of September 31, 2018, in each case, to amend certain terms and conditions of the Agreement; and

WHEREAS, Bank and Company desire to enter into this Tenth Amendment to the Agreement to further amend the Agreement and to set forth additional terms and conditions to govern the Program.

**NOW, THEREFORE**, in consideration of the promises, covenants, and agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Section 9.2 of the Agreement is hereby amended by adding, at the end thereof, the following provision:

- (a) [\*\*\*] in connection with the development, design, and creation of additional features and functionality which were launched in beta releases in 2018, not previously referenced in this Agreement, attached hereto as Attachment A. These items are pending delivery in a production release before [\*\*\*]



[\*\*]

IN WITNESS WHEREOF, this Agreement is executed by the Parties' authorized officers or representatives and shall be effective as of the date first above-written.

**T-MOBILE USA, INC. (COMPANY)**

**CUSTOMERS BANK (CUBI)**

By: /s/ [\*\*]

By: /s/ [\*\*]

Name: [\*\*]

Name: [\*\*]

Title: [\*\*]

Title: [\*\*]

Date: 12/30/2018 | 7:59 AM PST

Date: 12/28/2018 | 10:06 AM PST

DocuSigned by:

T-Mobile Legal Approval By:

/s/ [\*\*]



**ATTACHMENT A**

[\*\*\*]

**CHANGE OF CONTROL AGREEMENT**

THIS CHANGE OF CONTROL AGREEMENT (this "Agreement"), made as of August 14, 2017 is by and among CUSTOMERS BANK, a Pennsylvania bank ("Bank"), and Carla Leibold an individual ("Executive"). This Agreement and all terms and conditions contained herein shall become operative only upon the event of a Change of Control as defined in this Agreement.

**Background**

Bank wishes to secure the future services of Executive by providing Executive the severance payments provided in this Agreement as additional incentive to induce Executive to devote Executive's time and attention to the interests and affairs of the Bank (the "Agreement").

NOW THEREFORE, in consideration of the mutual promises and agreements set forth herein, and intending to be legally bound hereby, the parties agree as follows:

1. Employment. Except strictly to such extent (if any) as may be provided in another agreement between Bank and Executive, Executive shall remain an employee at will of the Bank hereafter. This Agreement is not an employment agreement, but shall only be interpreted as governing the payment of severance, which may be due to Executive upon termination of Executive's employment with Bank under the specific circumstances described in this Agreement. No provision of this Agreement shall be interpreted to derogate from the power of Bank or its Board of Directors to terminate the employment of the Executive, subject nevertheless to the terms of this Agreement.
2. Compensation. The compensation to be paid by Bank to Executive from time to time, including any fringe benefits or other employee benefits, shall not be governed by this Agreement. This Agreement shall not be deemed to affect the terms of any stock options, employee benefits or other agreements between the Bank and Executive.
3. Severance Payments upon Termination of Employment After a "Change in Control." This Agreement does not govern any termination of Executive's employment with Bank which occurs prior to a "Change in Control" as defined in subsection (e) of this Section. No inference shall be drawn from any provision of this Section concerning the rights and obligations of the parties in connection with a termination of Executive's employment prior to a Change in Control.
  - (a) Termination by Company for Cause or Not for Cause. If Executive's employment is terminated by Bank (i) for "Cause" (as defined in subsection (c) of this Section) at any time, or (ii) with or without Cause prior to a Change in Control, Executive shall have no right to any severance under this Agreement due to such termination. If Executive is terminated by Bank other than for Cause within one (1) year after the date of a Change in Control, Executive's right to a severance payment under this Agreement shall be as set forth in subsection (f) of this Section. If Executive is terminated by the Bank within the second year after the date of a Change of Control, the severance shall be reduced from 200% to 100% of the calculation as set forth in subsection (f)(i) and (ii) of this section.
  - (b) Termination by Executive for Good Reason or Not for Good Reason. If Executive terminates Executive's employment with Bank (i) prior to a Change in Control, or (ii) without "Good Reason" (as defined in subsection (d) of this Section) at any time, Executive shall have no right to any severance under this Agreement due to such termination. If Executive terminates Executive's employment with Bank for Good Reason within one (1) year after a transaction resulting in a Change in Control is consummated,

Executive's right to a severance payment under this Agreement shall be as set forth in subsection (f) of this Section.

- (c) Definition of "Cause." For the purpose of this Agreement, "Cause" means actions of or failure to act by Executive which would authorize the forfeiture of fringe benefits or other remuneration under Executive's written contract of employment with the Bank or, if there is no written contract of employment, (1) the willful material failure to perform the duties to the Bank required of Executive (other than any such failure resulting from incapacity due to physical or mental illness of Executive or material changes in the direction and policies of the Board of Directors of Bank), if such failure continues for thirty (30) days after a written demand for substantial performance is delivered to Executive by the Bank which specifically identifies the manner in which it is believed that Executive has failed to attempt to perform his or her duties here under; (2) the willful engaging by Executive in misconduct materially injurious to the Bank; (3) receipt by the Bank of a notice (which shall not have been appealed by Executive or shall have become final and non-appealable) of any governmental body or entity having jurisdiction over the Bank requiring termination or removal of Executive from his or her then present position, or receipt of a written directive or order of any governmental body or entity having jurisdiction over the Bank (which shall not have been appealed by Executive or shall have become final and non-appealable) requiring termination or removal of Executive from his or her then present position; or (4) personal dishonesty, incompetence, willful misconduct, willful breach of fiduciary duty involving personal profit or conviction of a felony. For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done by Executive in bad faith and without reasonable belief that his or her action or omission was in the best interest of Bank. Any act or omission to act by Executive in reliance upon a written opinion of counsel to Bank shall not be deemed to be willful.
- (d) Definition of "Good Reason." For purposes of this Agreement, "Good Reason" shall mean (i) any reduction in title or an adverse change in Executive's responsibilities or authority which are inconsistent with, or the assignment to Executive of duties inconsistent with, Executive's position with the Bank immediately prior to such action; or (ii) any reduction in Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time, or (iii) any reassignment of Executive, on a permanent or temporary basis, to an office located More than 20 miles from the Executive's office as of the date of this Agreement, unless such reassignment results in the Executive's office being closer to Executive's primary residence or does not substantially increase the average commuting time of the Executive.
- (e) Definition of "Change in Control." For purposes of this Agreement, a "Change in Control" of the Bank shall mean:
- (i) There occurs a merger, consolidation or other business combination or reorganization to which the Bank is a party, whether or not approved in advance by the Board of Directors of the Bank, in which (A) the members of the Board of Directors of the Bank immediately preceding the consummation of such transaction do not constitute a majority of the members of the Board of Directors of the resulting corporation and of any parent corporation thereof immediately after the consummation of such transaction, and (B) the shareholders of the Bank immediately before such transaction do not hold more than fifty percent (50%) of the voting power of securities of the resulting corporation;
  - (ii) There occurs a sale, exchange, transfer, or other disposition of at least fifty percent (50%) of the assets of the Bank to another entity, whether or not approved in advance by the Board of Directors of the Bank (for purpose of this Agreement, a sale of more than one-half of the branches of the Bank would

constitute a Change in Control, but for purposes of this paragraph, no branches or assets will be deemed to have been sold if they are leased back contemporaneously with or promptly after their sale);

- (iii) A plan of liquidation or dissolution is adopted for the Bank; or
  - (iv) Any "person" or any group of "persons" (as such term is defined in Sections 13(d) and 14(d) of the Exchange Act), as if such provisions were applicable to the Bank, other than the holders of shares of the Bank's common stock in existence on the date of the Opening for Business, is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), as if such rule were applicable to the Bank, directly or indirectly, of securities of the Bank representing 50% or more of the combined voting power of the Bank's then outstanding securities.
  - (v) For purposes of this agreement, the date of the Change of Control shall be the calendar date upon which a change of control event occurs. However, if an executive is terminated for other than Cause during the period between when a written undertaking outlining the principal conditions of a contemplated change of control transaction (including, but not limited to, a letter of interest or intent) is executed by the parties and the date of the Change of Control, the Executive shall be entitled to the same compensation and benefits as the Executive would have received had the Executive been terminated in the first year following the Change of Control date.
- (f) Severance. If Executive is entitled to severance under subsection (a) or (b) of this Section, Bank shall pay as severance to Executive the sum of the following amounts in a single lump sum within 60 days following the date of his termination of employment, subject to all tax withholding obligations of the Bank: (i) two hundred percent (200%) of the highest rate of base annual salary that was payable to or for the benefit of Executive at any time during the 12-month period ending on the date of Executive's termination of employment; and (ii) two hundred percent (200%) of the average of the aggregate annual performance bonuses that have been earned by the Executive for performance by the Executive during each of the three (3) most recent fiscal years of the Bank ended with or prior to the date of Executive's termination of employment. If Executive shall not have been employed by the Bank for three (3) full fiscal years prior to the time the Executive becomes entitled to severance payments under this Section, the average used shall be determined based on the number of full and partial fiscal years of the Bank in which the Executive was so employed and that have ended with or prior to the date of Executive's termination of employment.
- (g) Any termination of Executive's employment by Bank or by Executive shall be communicated by a dated, written notice, signed by the party giving the notice, which shall (i) indicate the specific termination provision in this Agreement relied upon; (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated; and (iii) specify the effective date of termination. In addition, Executive shall not be considered to have terminated his employment for Good Reason unless he provides such written notice to the Bank within 90 days of Executive's being notified or otherwise becoming aware of the initial existence of a condition creating Good Reason, and upon notice of which the Bank must be provided a period of at least 30 days during which it may remedy the condition and not be required to pay the severance payment.
- (h) Notwithstanding any provision of this Agreement to the contrary, if, as a result of a payment provided for under or pursuant to this Agreement, together with all other payments in the nature of compensation provided to or for the benefit of the Executive under any other plans or agreements in connection with a Change in Control, the

Executive becomes subject to excise taxes under Section 4999 of the Code, then the amount of severance to be paid pursuant to this Agreement shall be reduced to the maximum amount allowable without causing Executive to become subject to such excise taxes. Such maximum amount shall be determined by a registered public accounting firm selected by the Compensation Committee of the Board of Directors of the Bank, whose determination, absent manifest error, shall be treated as conclusive and binding.

- (i) Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise . The severance payment provided for in this Agreement shall not be reduced by any compensation or other payments received by Executive after the date of termination of Executive's employment from any source.
- 4. Payment Obligations Absolute. Provided that the preconditions for payment set forth in this Agreement are fully satisfied, Bank's obligation to pay Executive the severance payment provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off counter claim, recoupment, defense or other right which Bank may have against Executive. All amounts payable by Bank hereunder shall be paid without notice or demand.
- 5. Executive's Covenants. Executive agrees to the restrictions set forth in this Section.
  - (a) Executive covenants and agrees that Executive will not at any time, either during his or her employment with the Bank or thereafter, use, disclose or make accessible to any other person, firm, partnership, corporation or any other entity any Confidential and Proprietary Information (as defined herein), other than to (i) Executive's attorney or spouse in confidence, (ii) while employed by the Bank, in the business and for the benefit of the Bank, or (iii) when required to do so by a court of competent jurisdiction, any government agency having supervisory authority over the business of the Executive or the Bank or any administrative body or legislative body, including a committee thereof, with jurisdiction . For purposes of this Agreement, "Confidential and Proprietary Information" shall mean non-public, confidential, and proprietary information provided to the Executive concerning, without limitation , the Bank's financial condition and/or results of operations, statistical data, products, lists of customers or customer information, information relating to marketing plans, management development reviews, including information regarding the capabilities and experience of the Bank's employees, compensation, recruiting and training , and human resource policies and procedures, policy and procedure manuals, together with all materials and documents in any form or medium (including oral, written, tangible, intangible, or electronic) concerning any of the above, and other nonpublic, proprietary and confidential information of the Bank; provided, however, that Confidential and Proprietary Information shall not include any information that is known generally to the public or within the industry other than as a result of unauthorized disclosure by the Executive. It is specifically understood and agreed by the Executive that any non-public information received by the Executive during Executive's employment by the Bank is deemed Confidential and Proprietary Information for purposes of this Agreement. In the event the Executive's employment is terminated for any reason, the Executive shall immediately return to the Bank upon request all Confidential and Proprietary Information in Executive's possession or control.
  - (b) Executive agrees that during his or her employment with the Bank and for a period of twelve (12) months thereafter, provided that Executive has received or is entitled to receive severance hereunder, unless the Executive obtains the Bank's prior written permission, which may be granted or denied at the Bank's sole and absolute discretion,

the Executive shall not: (i) solicit or divert to any competitor of the Bank or, upon termination of the Executive's employment with the Bank, accept any business from any individual or entity that is a customer or a prospective customer of the Bank, to the extent that such prospective customer was identifiable as such prior to the date of the Executive's termination, except that this covenant of non-solicitation shall not apply with respect to anyone who, while having previously been a customer or prospect of the Bank, is no longer a customer or prospect of the Bank at the time of the solicitation; or (ii) induce or encourage any officer and/or employee of the Bank to leave the employ of the Bank, hire any individual who was an employee of the Bank as of the date of the termination of the Executive's, or induce or encourage any customer, vendor, participant, agent or other business relation of the Bank to cease or reduce doing business with the Bank or in any way interfere with the relationship between any such customer, vendor, participant, agent or other business relation and the Bank.

- (c) For a period of twelve (12) months, after any resignation or termination of Executive's employment for any reason, provided that Executive has received or is entitled to receive severance hereunder, Executive shall not, directly or indirectly, within 0 miles from the Executive's primary work location as of the Change of Control date, enter into or engage directly or indirectly in competition with the Bank or any subsidiary or other company under common control with the Bank, in any financial services business conducted by the Bank or any such subsidiary at the time of such resignation or termination, either as an individual on his own or as a partner or joint venture, or as a director, officer, shareholder, employee, agent, independent contractor, nor shall Executive assist any other person or entity in engaging directly or indirectly in such competition.
6. Amendments. No amendments to this Agreement shall be binding unless in writing, signed by both parties, which states expressly that it amends this Agreement.
7. Notices. Notices under this Agreement shall be deemed sufficient and effective if (i) in writing and (ii) either (A) when delivered in person or by facsimile, e-mail, telegraph or other electronic means capable of being embodied in written form or (B) forty-eight (48) hours after deposit thereof in the U.S. mails by certified or registered mail, return receipt requested, postage prepaid, addressed to each party at such party's address first set forth above and, in the case of Bank, to the attention of the Chairman of the Board, or to such other notice address as the party to be notified may have designated by written notice to the sending party.
8. Prior Agreements. There are no other agreements between Bank and Executive regarding Executive's employment as of the date of this Agreement. This Agreement is the entire agreement of the parties with respect to its subject matter and supersedes any and all prior or contemporaneous discussions, representations, understandings or agreements regarding its subject matter.
9. Assigns and Successors. The rights and obligations of Bank under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Bank and Executive, provided, however, that Executive shall not assign or anticipate any of his Rights hereunder, whether by operation of the law or otherwise. For purposes of the this Agreement "Bank" shall also refer to any successor to Bank, whether such succession occurs by merger, consolidation, purchase and assumption, sale of assets or otherwise.
10. Executive's Acknowledgement of Terms. Executive acknowledges that he or she has read the Agreement fully and carefully, understands its terms and it has been entered into by Executive voluntarily. Executive acknowledges that any payments be made hereunder will constitute additional compensation to Executive.



IN WITNESS WHEREOF, the parties hereto have caused the due execution of this Agreement as of the date first set forth above.

Attest:

/s/ Kathleen Fitzpatrick

Print Name: Kathleen Fitzpatrick  
Title: AVP, Senior Legal Specialist

Witness:

/s/ Carlyn D'Amico

Print Name: Carlyn D'amico

Bank:  
CUSTOMERS BANK

By: /s/ Robert E Wahlman

Print Name: Robert E Wahlman  
Title: EVP & CFO

Executive:

/s/ Carla Leibold

Print Name: Carla Leibold

List of Significant Subsidiaries of Customers Bancorp, Inc.

| <u>Name:</u>      | <u>Jurisdiction</u> |
|-------------------|---------------------|
| 1. Customers Bank | Pennsylvania        |

Consent of Independent Registered Public Accounting Firm

Customers Bancorp, Inc.  
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-218483 and No. 333-209760) and Form S-8 (No. 333-197977 and No. 333-186544) of Customers Bancorp, Inc. of our reports dated March 1, 2019, relating to the consolidated financial statements, and the effectiveness of Customers Bancorp, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Philadelphia, Pennsylvania  
March 1, 2019

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jay S. Sidhu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jay S. Sidhu

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Jay S. Sidhu

*Chairman and Chief Executive Officer*  
(Principal Executive Officer)

Date: March 1, 2019

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Carla A. Leibold, certify that:

1. I have reviewed this Annual Report on Form 10-K of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Carla A. Leibold

Carla A. Leibold

*Chief Financial Officer and Treasurer*  
(Principal Financial Officer)

Date: March 1, 2019

**Certification Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Customers Bancorp, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay S. Sidhu, Chairman and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2019

/s/ Jay S. Sidhu

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**Jay S. Sidhu, Chairman and Chief Executive Officer  
(Principal Executive Officer)**

**Certification Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Customers Bancorp, Inc. (the "Corporation") on Form 10-K for the period ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carla A. Leibold, Chief Financial Officer and Treasurer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2019

/s/ Carla A. Leibold

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**Carla A. Leibold, Chief Financial Officer and Treasurer  
(Principal Financial Officer)**