

Customers Bancorp, Inc.
Form 10-Q
May 05, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016

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

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

On April 28, 2016, 27,044,750 shares of Voting Common Stock were issued and outstanding.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

Table of Contents

Part I

Item 1.	<u>Customers Bancorp, Inc. Consolidated Financial Statements as of March 31, 2016 and for the three month periods ended March 31, 2016 and 2015 (unaudited)</u>	<u>3</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>45</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>63</u>
Item 4.	<u>Controls and Procedures</u>	<u>66</u>

PART II

Item 1.	<u>Legal Proceedings</u>	<u>67</u>
Item 1A.	<u>Risk Factors</u>	<u>67</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>67</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>67</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>67</u>
Item 5.	<u>Other Information</u>	<u>67</u>
Item 6.	<u>Exhibits</u>	<u>68</u>

<u>SIGNATURES</u>	<u>69</u>
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Ex-31.1

Ex-31.2

Ex-32.1

Ex-32.2

Ex-101

Table of Contents

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

	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$63,849	\$ 53,550
Interest-earning deposits	198,789	211,043
Cash and cash equivalents	262,638	264,593
Investment securities available for sale, at fair value	556,165	560,253
Loans held for sale (includes \$1,941,602 and \$1,757,807, respectively, at fair value)	1,969,280	1,797,064
Loans receivable	5,907,315	5,453,479
Allowance for loan losses	(37,605) (35,647
Total loans receivable, net of allowance for loan losses	5,869,710	5,417,832
FHLB, Federal Reserve Bank, and other restricted stock	92,269	90,841
Accrued interest receivable	21,206	19,939
Bank premises and equipment, net	12,444	11,531
Bank-owned life insurance	158,339	157,211
Other real estate owned	5,106	5,057
Goodwill and other intangibles	3,648	3,651
Other assets	88,077	70,233
Total assets	\$9,038,882	\$ 8,398,205
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$779,568	\$ 653,679
Interest-bearing	5,699,047	5,255,822
Total deposits	6,478,615	5,909,501
Federal funds purchased	80,000	70,000
FHLB advances	1,633,700	1,625,300
Other borrowings	86,624	86,457
Subordinated debt	108,709	108,685
Accrued interest payable and other liabilities	51,985	44,360
Total liabilities	8,439,633	7,844,303
Shareholders' equity:		
Preferred stock, par value \$1.00 per share; liquidation preference \$25.00 per share; 100,000,000 shares authorized, 3,300,000 and 2,300,000 shares issued and outstanding as of March 31, 2016 and December 31, 2015	79,677	55,569
Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 27,567,265 and 27,432,061 shares issued as of March 31, 2016 and December 31, 2015; 27,037,005 and 26,901,801 shares outstanding as of March 31, 2016 and December 31, 2015	27,567	27,432
Additional paid in capital	364,647	362,607
Retained earnings	140,924	124,511
Accumulated other comprehensive loss, net	(5,333) (7,984
Treasury stock, at cost (530,260 shares as of March 31, 2016 and December 31, 2015)	(8,233) (8,233
Total shareholders' equity	599,249	553,902
Total liabilities and shareholders' equity	\$9,038,882	\$ 8,398,205
See accompanying notes to the unaudited consolidated financial statements.		

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Interest income:		
Loans receivable	\$54,472	\$43,093
Loans held for sale	14,106	10,900
Investment securities	3,709	2,363
Other	1,111	2,362
Total interest income	73,398	58,718
Interest expense:		
Deposits	10,212	7,526
Other borrowings	1,606	1,488
FHLB advances	2,268	1,689
Subordinated debt	1,685	1,685
Total interest expense	15,771	12,388
Net interest income	57,627	46,330
Provision for loan losses	1,980	2,964
Net interest income after provision for loan losses	55,647	43,366
Non-interest income:		
Mortgage warehouse transactional fees	2,548	2,273
Bank-owned life insurance	1,123	1,061
Gain on sale of loans	644	1,231
Deposit fees	255	179
Mortgage loans and banking income	165	151
Gain on sale of investment securities	26	—
Other	733	838
Total non-interest income	5,494	5,733
Non-interest expense:		
Salaries and employee benefits	17,332	13,952
FDIC assessments, taxes, and regulatory fees	4,030	3,278
Professional services	2,657	1,913
Technology, communication and bank operations	2,643	2,531
Occupancy	2,325	2,101
Loan workout	418	269
Other real estate owned	287	884
Advertising and promotion	256	347
Other	3,957	2,190
Total non-interest expense	33,905	27,465
Income before income tax expense	27,236	21,634
Income tax expense	9,537	7,682
Net income	17,699	13,952
Preferred stock dividends	1,286	—
Net income available to common shareholders	\$16,413	\$13,952
Basic earnings per common share	\$0.61	\$0.52

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Diluted earnings per common share	\$0.57	\$0.49
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See accompanying notes to the unaudited consolidated financial statements.

4

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$17,699	\$13,952
Unrealized gains on securities:		
Unrealized holding gains on securities arising during the period	6,867	459
Income tax effect	(2,575)	(216)
Less: reclassification adjustment for gains on securities included in net income	(26)	—
Income tax effect	10	—
Net unrealized gains	4,276	243
Unrealized losses on cash flow hedges:		
Unrealized losses on cash flow hedges arising during the period	(2,600)	(1,946)
Income tax effect	975	778
Net unrealized losses	(1,625)	(1,168)
Other comprehensive income (loss), net of tax	2,651	(925)
Comprehensive income	\$20,350	\$13,027
See accompanying notes to the unaudited consolidated financial statements.		

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY — UNAUDITED
(amounts in thousands, except shares outstanding data)

	Three Months Ended March 31, 2016								
	Preferred Stock Shares of Preferred Stock Outstanding	Preferred Stock	Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2015	2,300,000	\$ 55,569	26,901,801	\$ 27,432	\$ 362,607	\$ 124,511	\$ (7,984)	\$ (8,233)	\$ 553,902
Net income	—	—	—	—	—	17,699	—	—	17,699
Other comprehensive income	—	—	—	—	—	—	2,651	—	2,651
Issuance of common stock, net of offering costs of \$15	—	—	7,291	7	152	—	—	—	159
Issuance of preferred stock, net of offering costs of \$892	1,000,000	24,108	—	—	—	—	—	—	24,108
Preferred stock dividends	—	—	—	—	—	(1,286)	—	—	(1,286)
Share-based compensation expense	—	—	—	—	1,402	—	—	—	1,402
Exercise of warrants	—	—	12,377	12	106	—	—	—	118
Issuance of common stock under share-based compensation arrangements	—	—	115,536	116	380	—	—	—	496
Balance, March 31, 2016	3,300,000	\$ 79,677	27,037,005	\$ 27,567	\$ 364,647	\$ 140,924	\$ (5,333)	\$ (8,233)	\$ 599,249
	Three Months Ended March 31, 2015								
	Preferred Stock Shares of Preferred Stock Outstanding	Preferred Stock	Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2014	—	\$ —	26,745,529	\$ 27,278	\$ 355,822	\$ 68,421	\$ (122)	\$ (8,254)	\$ 443,145

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Net income	—	—	—	—	—	13,952	—	—	13,952
Other comprehensive loss	—	—	—	—	—	—	(925)	—	(925)
Share-based compensation expense	—	—	—	—	1,170	—	—	—	1,170
Issuance of common stock under share-based compensation arrangements	—	—	78,510	78	531	—	—	—	609
Balance, March 31, 2015	—	\$—	26,824,039	\$27,356	\$357,523	\$82,373	\$ (1,047)	\$(8,254)	\$457,951

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$17,699	\$13,952
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses, net of change to FDIC receivable and clawback liability	1,980	2,964
Provision for depreciation and amortization	970	1,033
Share-based compensation	1,689	1,416
Deferred taxes	573	(1,540)
Net amortization of investment securities premiums and discounts	205	211
Loss (gain) on sale of investment securities	(26)	—
Gain on sale of mortgages and other loans	(810)	(1,266)
Origination of loans held for sale	(6,876,748	(6,627,070
Proceeds from the sale of loans held for sale	6,693,763	6,285,952
Increase in FDIC loss sharing receivable net of clawback liability	304	(134)
Amortization (accretion) of fair value discounts	(114)	32
Net loss on sales of other real estate owned	15	441
Valuation and other adjustments to other real estate owned, net of FDIC receivable	170	343
Earnings on investment in bank-owned life insurance	(1,123)	(1,061)
Increase in accrued interest receivable and other assets	(21,304)	(3,259)
Increase in accrued interest payable and other liabilities	4,254	3,574
Net Cash Used In Operating Activities	(178,503)	(324,412)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	12,902	20,739
Proceeds from sales of investment securities available for sale	2,848	—
Purchases of investment securities available for sale	(5,000)	—
Net increase in loans	(448,956)	(148,554)
Proceeds from sales of loans	6,946	141,437
Purchases of bank-owned life insurance	—	(15,000)
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	(1,428)	204
Reimbursements from the FDIC on loss sharing agreements	(320)	(302)
Purchases of bank premises and equipment	(1,665)	(829)
Proceeds from sales of other real estate owned	86	1,619
Net Cash Used In Investing Activities	(434,587)	(686)
Cash Flows from Financing Activities		
Net increase in deposits	569,116	360,789
Net (decrease) increase in short-term borrowed funds from the FHLB	(16,600)	(98,000)
Net increase in federal funds purchased	10,000	—
Proceeds from long-term FHLB borrowings	25,000	25,000
Net proceeds from issuance of preferred stock	24,108	—
Preferred stock dividends paid	(1,214)	—
Exercise and redemption of warrants	118	—
Proceeds from issuance of common stock	607	109
Net Cash Provided by Financing Activities	611,135	287,898
Net Decrease in Cash and Cash Equivalents	(1,955)	(37,200)

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Cash and Cash Equivalents – Beginning	264,593	371,023
Cash and Cash Equivalents – Ending	\$262,638	\$333,823

(continued)

Supplementary Cash Flows Information

Interest paid	\$13,018	\$10,550
Income taxes paid	15,789	2,762
Non-cash items:		
Transfer of loans to other real estate owned	\$320	\$159

See accompanying notes to the unaudited consolidated financial statements.

7
