Customers Bancorp, Inc.
Form 10-Q
November 14, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2012

¨ **Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to .

333-166225

(Commission File number)

(Exact name of registrant as specified in its charter)

Pennsylvania	**27-2290659**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

1015 Penn Avenue

Suite 103

Wyomissing PA 19610

(Address of principal executive offices)

(610) 933-2000

(Issuer s telephone number)

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (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 x

On November 14, 2012, 13,767,605 shares of Voting Common Stock were outstanding, and 4,691,897 shares of Class B Non-Voting Common Stock were outstanding.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

Customers Bancorp, Inc.

Table of Contents

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET - UNAUDITED

	September 30, 2012	December 31, 2011
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	$ 9,112	$ 7,765
Interest earning deposits	148,398	65,805
Cash and cash equivalents	157,510	73,570
Investment securities available for sale, at fair value	130,705	79,137
Investment securities held to maturity (fair value 2011 $330,809)	0	319,547
Loans held for sale (including $1,063,666 of mortgage warehouse loans at fair value in 2012)	1,187,885	174,999
Loans receivable not covered under Loss Sharing Agreements with the FDIC	976,134	1,215,117
Loans receivable covered under Loss Sharing Agreements with the FDIC	110,965	126,276
Less: Allowance for loan losses	(24,974)	(15,032)
Total loans receivable, net	1,062,125	1,326,361
FDIC loss sharing receivable	12,306	13,077
Bank premises and equipment, net	9,708	8,448
Bank-owned life insurance	40,303	29,268
Other real estate owned (2012 $7,107; 2011 $6,166 covered under Loss Sharing Agreements with the FDIC)	10,699	11,814
Goodwill and other intangibles	3,697	3,705
Restricted stock	22,581	21,818
Accrued interest receivable and other assets	16,572	15,788
Total assets	$ 2,654,091	$ 2,077,532
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 213,229	$ 114,044
Interest bearing	2,134,955	1,469,145
Total deposits	2,348,184	1,583,189
Federal funds purchased	0	5,000
Other borrowings	36,000	331,000
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	6,405	8,595
Total liabilities	2,392,589	1,929,784
Shareholders equity:		
Preferred stock, par value $1,000 per share; 100,000,000 shares authorized; none issued	0	0
Common stock, par value $1.00 per share; 200,000,000 shares authorized; 18,507,121 shares issued and 18,459,502 outstanding at September 30, 2012 and 11,395,302 shares issued and 11,347,683 outstanding at December 31, 2011	18,507	11,395
Additional paid in capital	211,868	122,602
Retained earnings	30,748	14,496

Accumulated other comprehensive gain (loss)	879	(245)
Less: cost of treasury stock; 47,619 shares at September 30, 2012 and December 31, 2011	(500)	(500)
Total shareholders equity	261,502	147,748
Total liabilities and shareholders equity	$ 2,654,091	$ 2,077,532

See accompanying notes to the unaudited consolidated financial statements.

3

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
Interest income				
Loans receivable, taxable, including fees	$ 26,990	$ 11,280	$ 59,963	$ 30,958
Loans receivable, non-taxable, including fees	55	17	110	62
Investment securities, taxable	805	3,973	5,936	10,341
Investment securities, non-taxable	21	22	64	65
Other	91	67	225	380
Total interest income	27,962	15,359	66,298	41,806
Interest expense:				
Deposits	5,191	5,564	15,687	16,660
Federal funds purchased	5	0	8	0
Securities sold under repurchase agreements	0	21	0	28
Borrowed funds	194	95	434	304
Subordinated debt	17	16	52	49
Total interest expense	5,407	5,696	16,181	17,041
Net interest income	22,555	9,663	50,117	24,765
Provision for loan losses	10,116	900	14,654	6,550
Net interest income after provision for loan losses	12,439	8,763	35,463	18,215
Non-interest income:				
Deposit fees	124	114	357	313
Mortgage warehouse transactional fees	3,346	1,366	8,829	3,754
Bank owned life insurance	359	264	948	1,128
Gain on sale of investment securities	0	1,413	9,006	1,413
Accretion of FDIC loss sharing receivable	1,296	0	1,951	1,709
Gain (loss) on sale of loans	(71)	0	268	377
Other	4,712	85	5,436	388
Total non-interest income	9,766	3,242	26,795	9,082
Non-interest expense:				
Salaries and employee benefits	5,978	3,752	17,073	11,840
Occupancy	1,709	1,022	4,937	3,012
Technology, communication and bank operations	699	485	2,037	1,312
Advertising and promotion	270	206	846	639
Professional services	819	1,234	2,474	3,963
FDIC assessments, taxes, and regulatory fees	669	373	2,205	1,626
Other real estate owned	(287)	102	587	390
Loan workout	617	370	1,519	1,014
Merger related expenses	0	530	28	530
Stock offering expenses	97	0	1,437	0
Other	1,424	656	4,112	1,861

Total non-interest expense	11,995	8,730	37,255	26,187
Income before tax expense	10,210	3,275	25,003	1,110
Income tax expense	3,574	930	8,751	299
Net income	6,636	2,345	16,252	811
Dividends on preferred stock	0	5	0	5
Net income available to common shareholders	$ 6,636	$ 2,340	$ 16,252	$ 806
Basic income per share	$ 0.53	$ 0.24	$ 1.39	$ .08
Diluted income per share	$ 0.51	$ 0.23	$ 1.35	$ .08

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
	(Dollars in thousands)			
Net income	$ 6,636	$ 2,345	$ 16,252	$ 811
Other comprehensive income (loss):				
Unrealized holding gains on securities arising during the period	1,597	646	2,226	6,573
Income tax effect	(559)	(220)	(779)	(2,235)
Unrealized holding gain on securities transferred from the held-to-maturity category into the available-for-sale category	0	0	8,509	0
Income tax effect	0	0	(2,978)	0
Reclassification adjustment for gains included in net income	0	(1,413)	(9,006)	(1,413)
Income tax effect	0	477	3,152	480
Other comprehensive income (loss), net of tax	1,038	(510)	1,124	3,405
Comprehensive income	$ 7,674	$ 1,835	$ 17,376	$ 4,216

See accompanying notes to the unaudited consolidated financial statements.

5

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY UNAUDITED

For the Nine Months Ended September 30, 2012 and 2011

(Dollars in thousands)

	Shares of Preferred Stock Outstanding	Shares of Common Stock Outstanding	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2010	0	8,398,015	$ 0	$ 8,398	$ 88,132	$ 10,506	$ (1,896)	$ 0	$ 105,140
Comprehensive income						811	3,405		4,216
Stock-based compensation expense					515				515
Common stock issued, net of costs		2,373,599		2,374	26,152				28,526
Shares issued in the acquisition of Berkshire Bancorp, Inc	3,037	623,990	3,037	623	7,614				11,274
Dividends preferred stock						(5)			(5)
Balance, September 30, 2011	3,037	11,395,604	$ 3,037	$ 11,395	$ 122,413	$ 11,312	$ 1,509	$ 0	$ 149,666

	Shares of Preferred Stock Outstanding	Shares of Common Stock Outstanding	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2011	0	11,347,683	$ 0	$ 11,395	$ 122,602	$ 14,496	$ (245)	$ (500)	$ 147,748
Comprehensive income						16,252	1,124		17,376
Stock-based compensation expense					1,616				1,616
Common stock issued, net of costs		7,111,819		7,112	87,650				94,762
Balance, September 30, 2012	0	18,459,502	$ 0	$ 18,507	$ 211,868	$ 30,748	$ 879	$ (500)	$ 261,502

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

Nine Months Ended September 30,	2012	2011
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income available to common shareholders	$ 16,252	$ 806
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	14,654	6,550
Provision for depreciation and amortization	1,447	967
Stock-based compensation	1,616	515
Deferred taxes	(1,112)	0
Net amortization (accretion) of investment securities premiums and discounts	2,897	(282)
Gain on sale of investment securities	(9,006)	(1,413)
Gain on sale of loans	(268)	(377)
Origination of loans held for sale	(7,305,339)	(1,685,972)
Proceeds from the sale of loans held for sale	6,292,453	1,680,915
Increase in FDIC loss sharing receivable	(4,537)	(1,709)
(Accretion) amortization of fair value discounts	(277)	330
Net loss (gain) on sales of other real estate owned	985	(235)
Impairment charges on other real estate owned	468	1,156
Change in investment in bank-owned life insurance	(1,035)	(1,128)
Increase in accrued interest receivable and other assets	(1,081)	(22,459)
Decrease in accrued interest payable and other liabilities	(2,190)	(2,456)
Net Cash Used in Operating Activities	(994,073)	(24,792)
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of investment securities available for sale	26,488	16,847
Proceeds from sales of investment securities available for sale	306,610	112,757
Purchases of investment securities available for sale	(108,249)	(72,960)
Purchases of investment securities held to maturity	0	(396,835)
Proceeds from maturities and principal repayments of investment securities held to maturity	50,968	35,647
Net decrease (increase) in loans	302,275	(220,626)
Purchase of loan portfolio	(63,246)	(13,000)
Proceeds from sales of SBA loans	3,689	5,172
Net cash proceeds from bank acquisition	0	19,207
Proceeds from bank-owned life insurance	0	273
Purchases of bank-owned life insurance	(10,000)	0
Purchases of restricted stock	(763)	(10,364)
Reimbursements from the FDIC on loss sharing agreements	5,308	6,551
Purchases of bank premises and equipment	(2,343)	(1,725)
Proceeds from sales of other real estate owned	7,383	5,377
Net Cash Provided by (Used in) Investing Activities	518,120	(513,679)
Cash Flows from Financing Activities		
Net increase in deposits	765,131	214,269
Net (decrease) increase in short-term borrowed funds	(300,000)	110,000
Payment of preferred dividend	0	(218)
Proceeds from issuance of common stock, net	94,762	28,526
Net Cash Provided by Financing Activities	559,893	352,577

Net Increase (Decrease) in Cash and Cash Equivalents	83,940	(185,894)
Cash and Cash Equivalents Beginning	73,570	238,724
Cash and Cash Equivalents Ending	$ 157,510	$ 52,830
Supplementary Cash Flows Information		
Interest paid	$ 16,257	$ 17,212
Income taxes paid	12,625	2,816
Non-cash items:		
Transfer of loans to other real estate owned	$ 8,293	$ 7,793
Transfer of held to maturity investments to available for sale	268,671	0
Berkshire Bancorp, Inc. Acquisition:		
Assets acquired	$ 0	$ 134,110
Liabilities assumed	0	122,836

See accompanying notes to the unaudited consolidated financial statements.

7

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Customers Bancorp, Inc. (the Bancorp) is a Pennsylvania corporation formed on April 7, 2010 to facilitate the reorganization of Customers Bank (the Bank) into a bank holding company structure. The reorganization was completed on September 17, 2011. Any financial information for periods prior to September 17, 2011 contained herein reflects that of Customers Bank as the predecessor entity.

The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Bancorp believes that the disclosures made are adequate to make the information not misleading. The Bancorp s unaudited consolidated interim financial statements reflect all adjustments that are, in the opinion of management, necessary for fair statement of the results of interim periods presented. Certain amounts reported in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications did not significantly impact the Bancorp s financial position or results of operations.

Operating results for the three-month and nine-month periods ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

The accounting policies of Customers Bancorp, Inc. and Subsidiaries, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as disclosed on pages 80 through 90 of Customers Annual Report on Form 10-K for the fiscal year ended December 31, 2011. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the latest Form 10-K. In addition, the Bancorp has made accounting changes in the third quarter of 2012 that are detailed in the following section entitled **ACCOUNTING CHANGES**.

The Bancorp evaluated its September 30, 2012 consolidated financial statements for subsequent events through the date the financial statements were issued. The Bancorp is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

ACCOUNTING CHANGES

The Fair Value Option

During the third quarter of 2012, we elected the fair value option for warehouse lending transactions documented under a Master Repurchase Agreement originated after July 1, 2012 in order to more accurately represent the short term nature of the transaction and its inherent credit risk. This adoption is in accordance with the parameters established by Accounting Standards Codification (ASC) 825-10-25, *Financial Instruments-Overall-Recognition: The Fair Value Option.* As a result of this election, new warehouse lending transactions were classified as Loans held for sale on the balance sheet. The interest income from the warehouse lending transactions was classified in Interest Income Loans receivable, taxable, including fees on the income statement for the third quarter of 2012. As Loans Receivable, the warehouse lending transactions were accounted for on an amortized cost basis less an allowance for loan loss. An allowance for loan losses is not recorded for the warehouse lending transactions when measured at fair value since under ASC 825, the exit price (the repurchase price) for warehouse lending transactions considers the effect of expected credit losses.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION (continued)

Change in Accounting Estimates

Estimates of cash flows from purchased credit-impaired (PCI) loans were revised during the third quarter of 2012 due to conversion to a more sophisticated and precise loan valuation system. In accordance with the guidance in ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*, interest income is based on an acquired loan s expected cash flows. Acquired loans are generally assessed to be within the scope of ASC 310-30 if: (1) the asset shows evidence of having deteriorated in credit quality since it was originated, and (2) it is probable that the acquirer will be unable to collect all contractually required payments receivable. Complex models are needed to calculate loan-level and/or pool level expected cash flows in accordance with ASC 310-30. The loan data analysis provided by the new software is a more precise quantification of future cash flows than the analysis that was previously calculated manually. Conversion to the new system was completed in September 2012, and as a result, estimates of cash flows from PCI loans were revised. When converting to the new software system, we were required to calculate the estimated cash flows from the various acquisition dates of the PCI loans through the date the software was implemented as it was impracticable to perform these calculations on a monthly or quarterly basis. These changes in estimates are accounted for prospectively as a change in accounting estimate. In the third quarter of 2012, approximately $4.4 million was recognized in other non-interest income related to this change.

Also during the third quarter of 2012, we performed an initial re-estimation of the cash flows for the PCI loans. The re-estimation process updates the existing loan data for current loan assumptions. As a result of the initial re-estimation an increase of $4.5 million was recorded to interest income. As required by ASC 310-30, the recorded loan balance included accrued interest receivable. Due to the higher loan balance, we evaluated the adequacy of the allowance for loan losses and determined that an additional provision for loan losses of $7.5 million was appropriate. In the future, we will re-estimate the cash flows on the PCI loans on a quarterly basis, and adjustments, if any, are not expected to have a material impact on future earnings.

As a result of the changes in estimates, net income increased by $911,000, net of tax, and basic and diluted earnings increased by $0.08 per share.

NOTE 2 REORGANIZATION AND ACQUISITION ACTIVITY

Reorganization into Customers Bancorp, Inc.

The Bancorp and the Bank entered into a Plan of Merger and Reorganization effective September 17, 2011 pursuant to which all of the issued and outstanding common stock of the Bank was exchanged on a three to one basis for shares of common stock and Class B Non-Voting common stock of the Bancorp. The Bank became a wholly owned subsidiary of the Bancorp (the Reorganization). The Bancorp is authorized to issue up to 100,000,000 shares of common stock, 100,000,000 shares of Class B Non-Voting Common Stock and 100,000,000 shares of preferred stock. All share and per share information has been retrospectively restated to reflect the Reorganization, including the three-for-one consideration used in the Reorganization.

In the Reorganization, the Bank s issued and outstanding shares of common stock of 22,525,825 shares and Class B Non-Voting common stock of 6,834,895 shares converted into 7,508,473 shares of the Bancorp s common stock and 2,278,294 shares of the Bancorp s Class B Non-Voting common stock. Cash was paid in lieu of fractional shares. Outstanding warrants to purchase 1,410,732 shares of the Bank s common stock with a weighted-average exercise price of $3.55 per share and 243,102 shares of the Bank s Class B Non-Voting common stock with a weighted-average exercise price of $3.50 per share were converted into warrants to purchase 470,260 shares of the Bancorp s common stock with a weighted-average exercise price of $10.64 per share and warrants to purchase 81,036 shares of the Bancorp s Class B Non-Voting common stock with a weighted-average exercise price of $10.50 per share. Outstanding stock options to purchase 2,572,404 shares of the Bank s common stock with a weighted-average exercise price of $3.50 per share and stock options to purchase 231,500 shares of the Bank s Class B Non-Voting common stock with a weighted-average exercise price of $4.00 per share were converted into stock options to purchase 855,774 shares of the Bancorp s common stock with a weighted-average exercise price of $10.49 per share and stock options to purchase 77,166 shares of the

Bancorp s Class B Non-Voting common stock with a weighted-average exercise price of $12.00 per share.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 2 REORGANIZATION AND ACQUISITION ACTIVITY (continued)

Acacia Federal Savings Bank Acquisition

On June 21, 2012, the Bancorp announced the entry into a definitive agreement to acquire Acacia Federal Savings Bank (Acacia) located in Falls Church, Virginia from two subsidiaries of Ameritas Mutual Holding Company (Ameritas). Acacia serves the metro Washington, D.C. market. Pursuant to the terms of the agreement, the Bancorp will acquire 100% of the stock of Acacia from Ameritas Mutual Holding Company for a total purchase price of $65.0 million to be paid in Voting Common Stock (resulting in a 9.9% voting ownership interest in the Bancorp), Class B Non-Voting Common Stock (resulting in up to 19.9% total common ownership interest (voting and non-voting, taking into account outstanding securities convertible into common stock) in the Bancorp), and Perpetual Non-Cumulative Preferred Stock, Series C (with an aggregate liquidation value of $65.0 million minus the value of the Common Stock and Class B Non-Voting Common Stock to be issued in the acquisition). The Bancorp expects to issue its Voting Common Stock and Class B Non-Voting Common Stock at 115% of GAAP book value at the time of closing.

The Bancorp will not be acquiring any non-performing loans, other real estate owned or other assets that it deems to possess higher risk. In addition, the Bancorp will not be responsible for any severance obligations, charges associated with the early termination of the O.S.I. technology contract or lease termination charges on Acacia s corporate headquarters beyond one year. The closing is expected to take place during the fourth quarter of 2012.

The consummation of the Acacia Transaction is contingent upon a number of conditions including, but not limited to, receipt of various regulatory approvals.

CMS Bancorp Acquisition

On August 10, 2012, Customers Bancorp Inc. announced the entry into a definitive agreement to acquire via merger CMS Bancorp (CMS Bancorp) located in White Plains, New York and ultimately CMS Bank. CMS Bank, with five branches, serves Westchester County, New York, and the surrounding areas.

The total transaction value is approximately $20.8 million, and the agreement provides for CMS Bancorp stockholders to receive shares of Customers Bancorp voting common stock based upon an exchange ratio to be determined as the quotient of (i) the CMS Valuation, divided by (ii) the Customers Valuation, with fractional shares to be cashed out. The CMS Valuation will be calculated as 95% of CMS Bancorp s common stockholders equity as of the month end prior to the closing, while the Customers Valuation will be calculated as 125% of Customer Bancorp s modified stockholder equity as of the month end prior to closing. Modified stockholders equity is defined as June 30, 2012 book value plus additions to retained earnings through the month-end prior to closing. Shares issued by Customers Bancorp in capital raises and purchase accounting adjustments from any other acquisitions will not be included in calculating modified stockholders equity. By way of example, based on the March 31, 2012 book value per share of CMS Bancorp and the June 30, 2012 modified stockholders equity of Customers Bancorp, $11.75 and $13.99, respectively, the exchange ratio would be 0.6383. The foregoing calculation is provided as an example only, and does not purport to be the actual exchange ratio. The actual exchange ratio will likely be different at closing.

The acquisition of CMS will enhance the Bancorp s New York franchise. Closing of the CMS Bancorp merger, which is subject to regulatory approval, customary closing conditions and the approval of CMS Bancorp s stockholders, is expected to occur in the first half of 2013.

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-03, *Reconsideration of Effective Control for Repurchase Agreements.* This ASU removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This guidance was effective for the first interim or annual period beginning on or after December 15, 2011 and is to be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Adoption of this guidance has not had a material impact on results of operations or financial condition.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS.* The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The guidance was effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. Adoption of this guidance has not had a material impact on Customers Bancorp s financial statements.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS - (continued)

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income.* Under the new guidance, the components of net income and the components of other comprehensive income can be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present components of other comprehensive income as part of the changes in shareholders equity. This amendment is to be applied retrospectively and was effective for fiscal years and interim periods ending after December 15, 2011 for public companies. Adoption of this guidance has not had a significant impact on Customers Bancorp s financial statements.

In September, 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment.* The purpose of this ASU is to simplify how entities test goodwill for impairment by adding a new first step to the preexisting goodwill impairment test under ASC Topic 350,

Intangibles Goodwill and other. This amendment gives the entity the option to first assess a variety of qualitative factors such as economic conditions, cash flows, and competition to determine whether it was more likely than not that the fair value of goodwill has fallen below its carrying value. If the entity determines that it is not likely that the fair value has fallen below its carrying value, then the entity will not have to complete the original two-step test under Topic 350. The amendments in this ASU were effective for impairment tests performed for fiscal years beginning after December 15, 2011. Adoption of this guidance has not had a material impact on results of operations or financial condition.

In December, 2011, the FASB issued ASU 2011-10, *Derecognition of in Substance Real Estate a Scope Clarification.* This ASU clarifies previous guidance for situations in which a reporting entity would relinquish control of the assets of a subsidiary in order to satisfy the nonrecourse debt of the subsidiary. The ASU concludes that if control of the assets has been transferred to the lender, but not legal ownership of the assets; then the reporting entity must continue to include the assets of the subsidiary in its consolidated financial statements. The amendments in this ASU were effective for public entities for annual and interim periods beginning on or after June 15, 2012. Adoption of this guidance has not had a material impact on results of operations or financial condition.

In December, 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities,* in an effort to improve comparability between U.S. GAAP and IFRS financial statements with regard to the presentation of offsetting assets and liabilities on the statement of financial position arising from financial and derivative instruments, and repurchase agreements. The ASU establishes additional disclosures presenting the gross amounts of recognized assets and liabilities, offsetting amounts, and the net balance reflected in the statement of financial position. Descriptive information regarding the nature and rights of the offset must also be disclosed. This ASU is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. Customers Bancorp does not expect this ASU to have a significant impact on its consolidated financial statements.

In July 2012, the FASB issued guidance amending the way companies test for indefinite-lived intangible asset impairment, allowing the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. This guidance is effective for interim and annual periods beginning after September 15, 2012, with early adoption permitted. Customers Bancorp will adopt the guidance in connection with its annual indefinite-lived intangible assets impairment test in the fourth quarter of fiscal 2012. Customers Bancorp does not expect the adoption will have a significant impact on its consolidated financial statements.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 4 EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to purchase common stock were exercised, warrants to purchase common stock were exercised, and restricted stock units vested and common stock was issued. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

The following are the components of the Bancorp s earnings per share for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	(Dollars in thousands, except per share data)			
	2012	2011	2012	2011
Net income allocated to common shareholders	$ 6,636	$ 2,340	$ 16,252	$ 806
Weighted-average number of common shares basic	12,465,744	9,876,004	11,723,090	9,621,548
Share-based compensation plans	310,845	144,560	231,674	127,561
Warrants	134,926	73,258	112,265	64,360
Weighted-average number of common shares diluted	12,911,515	10,093,822	12,067,029	9,813,469
Basic earnings per share	$ 0.53	$ 0.24	$ 1.39	$ 0.08
Diluted earnings per share	$ 0.51	$ 0.23	$ 1.35	$ 0.08

Anti-dilutive Securities Excluded from the Computation of Earnings per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Anti-dilutive securities:				
Share-based compensation awards	6,592	34,130	6,592	34,130
Warrants	129,946	130,047	129,946	130,047
Total anti-dilutive securities	136,538	164,177	136,538	164,177

NOTE 5 INVESTMENT SECURITIES

In May 2012, Customers Bancorp reclassified its $269.0 million held-to-maturity investment portfolio to available for sale. Due to its strong outlook for loan growth, falling interest rates, and its recent decision to postpone its initial public offering of stock, the Bancorp decided to proceed with this reclassification to provide liquidity. The reclassification increased total shareholders equity by $5.5 million associated with the recording of the net security gains on the portfolio, net of tax effects, to accumulated other comprehensive income. Subsequently, the Bancorp sold $257.6 million of available-for-sale securities and realized a pre-tax gain of $8.8 million. In accordance with regulatory and accounting requirements, the Bancorp is prohibited from classifying security purchases as held to maturity for a period of two years.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES - (continued)

The amortized cost and approximate fair value of investment securities as of September 30, 2012 and December 31, 2011 are summarized as follows:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale:				
Mortgage-backed securities (1)	$ 101,736	$ 1,689	$ (27)	$ 103,398
Asset-backed securities	553	10	0	563
Municipal securities	2,058	9	(1)	2,066
Corporate notes	25,000	0	(328)	24,672
Equities	6	0	0	6
	$ 129,353	$ 1,708	$ (356)	$ 130,705

(1) Includes private-label securities with an aggregate amortized cost of $659 and an aggregate fair value of $636.

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale:				
U.S. Treasury and government agencies	$ 1,002	$ 0	$ (1)	$ 1,001
Mortgage-backed securities (1) (2)	55,818	581	(107)	56,292
Asset-backed securities	622	5	0	627
Municipal securities	2,071	0	(71)	2,000
Corporate notes	20,000	0	(783)	19,217
	$ 79,513	$ 586	$ (962)	$ 79,137
Held to Maturity:				
Mortgage-backed securities	$ 319,547	$ 11,262	$ 0	$ 330,809

(1) Includes an interest only strip security of $2,894.
(2) Includes private-label securities with an aggregate amortized cost of $765 and an aggregate fair value of $662.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES (continued)

The following tables show proceeds from the sale of available for sale investment securities, gross gains and gross losses on those sales of securities for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
	(Dollars in thousands)	
Proceeds from sale of available-for-sale investment securities	$ 0	$ 112,757
Gross gains	$ 0	$ 1,413
Gross losses	0	0
Net gains	$ 0	$ 1,413

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Dollars in thousands)	
Proceeds from sale of available-for-sale investment securities	$ 306,610	$ 112,757
Gross gains	$ 9,006	$ 1,413
Gross losses	0	0
Net gains	$ 9,006	$ 1,413

These gains and losses were determined using the specific identification method and were included in non-interest income.

The following table shows 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:

	September 30, 2012 Available for Sale	
	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	$ 1,090	$ 1,090
Due after one year through five years	26,450	26,139
Due after five years through ten years	38	39
Due after ten years	33	33
	27,611	27,301
Mortgage-backed securities	101,736	103,398

Total debt securities	$ 129,347	$ 130,699

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES (continued)

The Bancorp s investments gross unrealized losses and fair value, aggregated by investment category and length of time for individual securities that have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale:						
Mortgage-backed securities	$ 6	$ (1)	$ 440	$ (26)	$ 446	$ (27)
Municipal securities	0	0	1,005	(1)	1,005	(1)
Corporate notes	4,912	(88)	19,760	(240)	24,672	(328)
Total	$ 4,918	$ (89)	$ 21,205	$ (267)	$ 26,123	$ (356)

	December 31, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale:						
U.S. Treasury and government agencies	$ 1,001	$ (1)	$ 0	$ 0	$ 1,001	$ (1)
Mortgage-backed securities	166	(1)	412	(106)	578	(107)
Municipal securities	0	0	2,000	(71)	2,000	(71)
Corporate notes	19,218	(783)	0	0	19,218	(783)
Total	$ 20,385	$ (785)	$ 2,412	$ (177)	$ 22,797	$ (962)

At September 30, 2012, there were three available-for-sale investment securities in the less-than-twelve-month category and ten available-for-sale investment securities in the twelve-month-or-more category. At December 31, 2011, there were ten available-for-sale investment securities in the less-than-twelve-month category and six available-for-sale investment securities in the twelve-month-or-more category. In management s opinion, the unrealized losses reflect primarily changes in interest rates due to changes in economic conditions and the liquidity of the market, and not credit quality. In addition, the Bancorp does not believe that it will be more likely than not that the Bancorp will be required to sell the securities prior to maturity or market-price recovery.

During June 2012, Moody s downgraded all five corporate bonds in the Bancorp s portfolio. This downgrade was anticipated since Moody s placed these bonds on negative watch in February 2012. The Bancorp analyzed these bonds in more detail at the time of downgrade. The Bancorp does not intend to sell these debt securities prior to recovery, and it is more likely than not that the Bancorp will not have to sell these debt securities prior to recovery. These bonds continue to pay their scheduled interest payments on time. No additional downgrades are anticipated at this time. The holdings are all in the financial services industry and all are well capitalized.

At September 30, 2012 and December 31, 2011, the Bancorp had pledged investment securities aggregating $105.4 million and $311.4 million, respectively, as collateral for borrowings.

15

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The composition of net loans receivable at September 30, 2012 and December 31, 2011 was as follows:

	2012	2011
	(Dollars in thousands)	
Construction	$ 28,932	$ 37,926
Commercial real estate	45,724	48,789
Commercial and industrial	12,164	13,084
Residential real estate	20,278	22,465
Manufactured housing	3,867	4,012
Total loans receivable covered under FDIC Loss Sharing Agreements (1)	110,965	126,276
Construction	13,242	15,271
Commercial real estate	605,373	350,929
Commercial and industrial	76,641	69,736
Mortgage warehouse (2)	9,321	619,318
Manufactured housing	158,457	104,565
Residential real estate	107,855	53,476
Consumer	2,451	2,211
Total loans receivable not covered under FDIC Loss Sharing Agreements	973,340	1,215,506
Total loans receivable	1,084,305	1,341,782
Deferred (fees) costs, net	2,794	(389)
Allowance for loan losses	(24,974)	(15,032)
Loans receivable, net	$ 1,062,125	$ 1,326,361

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

(2) During the third quarter of 2012, we elected the fair value option for warehouse lending transactions documented under a Master Repurchase Agreement originated after July 1, 2012. As a result of this election, new warehouse lending transactions were classified as Loans held for sale on the balance sheet. For additional information about our election of the fair value option refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *The Fair Value Option* in this Form 10-Q. Certain classes of warehouse lending loans were not eligible for fair value option accounting.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Non-Covered Nonaccrual Loans and Loans Past Due

The following tables summarize non-covered loans, by class, at September 30, 2012:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Non-Accrual	Current (2)	Total Loans (4)
			(Dollars in thousands)			
Commercial and industrial						
Acquired with credit deterioration	$ 1	$ 0	$ 1	$ 129	$ 2,288	$ 2,418
Remaining loans (5)	85	0	85	655	73,483	74,223
Commercial real estate						
Acquired with credit deterioration	1,269	0	1,269	5,279	43,265	49,813
Remaining loans (5)	772	0	772	18,294	536,494	555,560
Construction						
Acquired with credit deterioration	0	0	0	0	2,001	2,001
Remaining loans (5)	0	0	0	2,423	8,818	11,241
Residential real estate						
Acquired with credit deterioration	477	0	477	947	11,215	12,639
First mortgages (5)	519	0	519	549	69,149	70,217
Home equity (5)	50	0	50	915	24,034	24,999
Consumer						
Acquired with credit deterioration	11	0	11	80	459	550
Remaining loans (5)	1	0	1	56	1,844	1,901
Mortgage warehouse						
Acquired with credit deterioration	0	0	0	0	0	0
Remaining loans (5)	0	0	0	0	9,321	9,321
Manufactured housing (3)						
Acquired with credit deterioration	834	0	834	2,814	3,933	7,581
Remaining loans (5)	6,392	1,473	7,865	652	142,359	150,876
Total	$ 10,411	$ 1,473	$ 11,884	$ 32,793	$ 928,663	$ 973,340

(1) Loan balances do not include non-accrual loans.
(2) Loans where payments are due within 29 days of the scheduled payment date.
(3) Purchased manufactured housing loans, purchased in 2010, are subject to cash reserves held at the Bank that are used to fund the 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.
(4) Loans exclude deferred costs and fees.
(5) Loans that were not identified at the acquisition date as a loan with credit deterioration.

17

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following tables summarize non-covered loans, by class, at December 31, 2011:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due(1)	Non-Accrual	Current (2)	Total Loans (4)
			(Dollars in thousands)			
Commercial and industrial						
Acquired with credit deterioration	$ 0	$ 0	$ 0	$ 178	$ 4,946	$ 5,124
Remaining loans (5)	0	0	0	2,817	61,795	64,612
Commercial real estate						
Acquired with credit deterioration	89	0	89	8,527	57,542	66,158
Remaining loans (5)	1,025	0	1,025	17,581	266,165	284,771
Construction						
Acquired with credit deterioration	0	0	0	0	3,393	3,393
Remaining loans (5)	0	0	0	5,630	6,248	11,878
Residential real estate						
Acquired with credit deterioration	1,002	0	1,002	1,423	16,156	18,581
First mortgages (5)	314	0	314	700	14,652	15,666
Home equity (5)	183	0	183	823	18,223	19,229
Consumer						
Acquired with credit deterioration	7	0	7	6	233	246
Remaining loans (5)	14	0	14	34	1,917	1,965
Mortgage warehouse	0	0	0	0	619,318	619,318
Manufactured housing (3)						
Acquired with credit deterioration	1,681	0	1,681	0	7,048	8,729
Remaining loans (5)	3,481	0	3,481	0	92,355	95,836
Total	$ 7,796	$ 0	$ 7,796	$ 37,719	$ 1,169,991	$ 1,215,506

(1) Loan balances do not include non-accrual loans.
(2) Loans where payments are due within 29 days of the scheduled payment date.
(3) Purchased manufactured housing loans, purchased in 2010, are subject to cash reserves held at the Bank that are used to fund the past-due payments when the loan becomes 90 days or more delinquent.
(4) Loans exclude deferred costs and fees.
(5) Loans that were not identified at the acquisition date as a loan with credit deterioration.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Covered Nonaccrual Loans and Loans Past Due

The following tables summarize covered loans, by class, at September 30, 2012 and December 31, 2011

September 30, 2012	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Nonaccrual	Current (3)	Total Loans
			(Dollars in thousands)			
Commercial and industrial						
Acquired with credit deterioration	$ 0	$ 0	$ 0	$ 745	$ 2,014	$ 2,759
Remaining loans (2)	0	0	0	100	9,305	9,405
Commercial real estate						
Acquired with credit deterioration	0	0	0	14,737	5,527	20,264
Remaining loans (2)	0	0	0	3,998	21,462	25,460
Construction						
Acquired with credit deterioration	0	0	0	15,949	0	15,949
Remaining loans (2)	0	0	0	6,506	6,477	12,983
Residential real estate						
Acquired with credit deterioration	0	0	0	4,020	255	4,275
First mortgages (2)	565	0	565	0	6,864	7,429
Home equity (2)	0	0	0	1,364	7,210	8,574
Manufactured housing						
Acquired with credit deterioration	0	0	0	66	0	66
Remaining loans (2)	21	0	21	161	3,619	3,801
	$ 586	$ 0	$ 586	$ 47,646	$ 62,733	$ 110,965

(1) Loans balances do not include nonaccrual loans.
(2) Loans that were not identified at the acquisition date as a loan with credit deterioration.
(3) Loans where payments are due within 29 days of the scheduled payment date.

December 31, 2011	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Nonaccrual	Current (3)	Total Loans
			(Dollars in thousands)			
Commercial and industrial						
Acquired with credit deterioration	$ 0	$ 0	$ 0	$ 378	$ 0	$ 378
Remaining loans (2)	2,672	0	2,672	0	7,204	9,876
Commercial real estate						
Acquired with credit deterioration	0	0	0	16,204	2,039	18,243
Remaining loans (2)	1,074	0	1,074	1,462	30,840	33,376

Construction						
Acquired with credit deterioration	0	0	0	18,896	3,266	22,162
Remaining loans (2)	91	0	91	2,584	13,089	15,764
Residential real estate						
Acquired with credit deterioration	0	0	0	4,002	0	4,002
First mortgages (2)	570	0	570	0	8,600	9,170
Home equity (2)	281	0	281	1,532	7,479	9,292
Manufactured housing						
Acquired with credit deterioration	0	0	0	77	0	77
Remaining loans (2)	6	0	6	78	3,852	3,936
	$ 4,694	$ 0	$ 4,694	$ 45,213	$ 76,369	$ 126,276

(1) Loans balances do not include nonaccrual loans.
(2) Loans receivable that were not identified upon acquisition as a loan with credit deterioration.
(3) Loans where payments are due within 29 days of the scheduled payment date.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans Covered and Non-Covered

The following table presents a summary of impaired loans:

	September 30, 2012		For the Nine Months Ended September 30, 2012	
	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded:				
Commercial and industrial	$ 3,987		$ 5,191	$ 160
Commercial real estate	27,835		22,205	748
Construction	7,147		7,627	19
Consumer	217		105	3
Residential real estate	3,136		2,382	55
With an allowance recorded:				
Commercial and industrial	571	$ 349	748	9
Commercial real estate	9,416	2,787	9,071	205
Construction	6,022	2,450	6,903	154
Consumer	55	3	29	4
Residential real estate	1,404	250	967	13
Total	$ 59,790	$ 5,839	$ 55,228	$ 1,370

(1) Also represents the recorded investment.

	December 31, 2011		For the Nine Months Ended September 30, 2011	
	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded:				
Commercial and industrial	$ 6,975		$ 1,893	$ 95
Commercial real estate	20,431		15,096	525
Construction	8,773		3,420	92
Consumer	0		0	2
Residential real estate	343		618	35
With an allowance recorded:				
Commercial and industrial	800	$ 426	3,320	124

Commercial real estate	12,195	2,047	10,880	473
Construction	7,369	2,986	3,420	46
Consumer	22	22	22	0
Residential real estate	869	195	618	232
Total	$ 57,777	$ 5,676	$ 39,287	$ 1,624

(1) Also represents the recorded investment.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Troubled Debt Restructurings

At September 30, 2012, there was $8.2 million in loans categorized as troubled debt restructurings (TDR). Of this amount, $1.5 million was performing in accordance with the modified terms. All TDRs are considered impaired loans at the time of their restructuring. In subsequent years, a TDR may cease being classified as impaired if the loan was modified at a market rate at the time of modification and has performed according to the modified terms for at least six months. A loan that has been modified at a below market rate will return to performing status if it satisfies the six-month performance requirement; however, it will remain classified as impaired.

The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three and nine months ended September 30, 2012 and 2011. There were no modifications that involved forgiveness of debt.

	TDRs in compliance with their modified terms and accruing interest	TDRs that are not accruing interest	Total
		(Dollars in thousands)	
Three months ended September 30, 2012			
Extended under forbearance	$ 0	$ 593	$ 593
Multiple extensions resulting from financial difficulty	0	0	0
Interest-rate reductions	0	219	219
Total	$ 0	$ 812	$ 812
Nine months ended September 30, 2012			
Extended under forbearance	$ 0	$ 711	$ 711
Multiple extensions resulting from financial difficulty	103	0	103
Interest-rate reductions	69	493	562
Total	$ 172	$ 1,204	$ 1,376
Three months ended September 30, 2011			
Extended under forbearance	$ 0	$ 1,423	$ 1,423
Multiple extensions resulting from financial difficulty	72	0	72
Interest-rate reductions	901	0	901
Total	$ 973	$ 1,423	$ 2,396
Nine months ended September 30, 2011			

Extended under forbearance	$ 3,093	$ 5,394	$ 8,487
Multiple extensions resulting from financial difficulty	74	0	74
Interest-rate reductions	1,009	132	1,141
Total	$ 4,176	$ 5,526	$ 9,702

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table provides, by class, the number of loans modified in troubled debt restructurings and the recorded investments and unpaid principal balances during the three and nine months ended September 30, 2012 and 2011.

	TDRs in compliance with their modified terms and accruing interest		TDRs that are not accruing interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
Three months ended September 30, 2012				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	0	0	2	173
Residential real estate	0	0	3	188
Consumer	0	0	2	451
Total	0	$ 0	7	$ 812
Nine months ended September 30, 2012				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	3	172	8	447
Residential real estate	0	0	4	306
Consumer	0	0	2	451
Total	3	$ 172	14	$ 1,204
Three months ended September 30, 2011				
Commercial and industrial	0	$ 0	0	$ 0
Commercial real estate	0	0	4	1,423
Construction	0	0	0	0
Manufactured housing	12	973	0	0
Residential real estate	0	0	0	0
Consumer	0	0	0	0
Total	12	$ 973	4	$ 1,423
Nine months ended September 30, 2011				
Commercial and industrial	1	$ 108	0	$ 0
Commercial real estate	3	2,543	18	4,904
Construction	1	550	0	0

Manufactured housing	12	973	0	0
Residential real estate	0	0	1	622
Consumer	1	2	0	0
Total	18	$ 4,176	19	$ 5,526

As of September 30, 2012 and 2011, there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt restructuring.

All loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses. There were no specific reserves resulting from the addition of TDR modifications, and there were no TDRs with subsequent defaults in the three and nine month periods ended September 30, 2012 and September 30, 2011.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Credit Quality Indicators

Credit quality indicators for commercial and industrial, commercial real estate, residential real estate and construction loans are based on an internal risk-rating system and are assigned at the loan origination and reviewed on a periodic or on an as needed basis. Consumer, mortgage warehouse and manufactured housing loans are evaluated based on the payment activity of the loan.

The following presents the credit quality tables as of September 30, 2012 and December 31, 2011 for the non-covered loan portfolio.

	September 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(Dollars in thousands)			
Pass/Satisfactory	$ 72,052	$ 561,061	$ 10,515	$ 104,307
Special Mention	3,752	20,064	231	1,229
Substandard	837	23,487	2,044	2,319
Doubtful	0	761	452	0
Total	$ 76,641	$ 605,373	$ 13,242	$ 107,855

	Consumer	Mortgage Warehouse	Manufactured Housing
	(Dollars in thousands)		
Performing	$ 2,398	$ 9,321	$ 158,457
Nonperforming (1)	53	0	0
Total	$ 2,451	$ 9,321	$ 158,457

(1) Includes loans that are on nonaccrual status or past due ninety days or more at September 30, 2012.

	December 31, 2011			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(Dollars in thousands)			
Pass/Satisfactory	$ 61,851	$ 307,734	$ 9,314	$ 50,517
Special Mention	57	13,402	237	0
Substandard	7,506	28,131	4,349	2,959

Doubtful	322	1,662	1,371	0
Total	$ 69,736	$ 350,929	$ 15,271	$ 53,476

	Consumer	Mortgage Warehouse	Manufactured Housing
		(Dollars in thousands)	
Performing	$ 2,171	$ 619,318	$ 104,565
Nonperforming (1)	40	0	0
Total	$ 2,211	$ 619,318	$ 104,565

(1) Includes loans that are on nonaccrual status or past due ninety days or more at December 31, 2011.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following presents the credit quality tables as of September 30, 2012 and December 31, 2011 for the covered loan portfolio.

	September 30, 2012			
	Commercial and Industrial	**Commercial Real Estate**	**Construction**	**Residential Real Estate**
	(Dollars in thousands)			
Pass/Satisfactory	$ 9,609	$ 26,755	$ 2,438	$ 14,336
Special Mention	1,710	235	4,039	3,202
Substandard	845	18,734	22,455	2,740
Doubtful	0	0	0	0
Total	$ 12,164	$ 45,724	$ 28,932	$ 20,278

	Manufactured Housing
	(Dollars in thousands)
Performing	$ 3,701
Nonperforming (1)	166
Total	$ 3,867

(1) Includes loans that are on nonaccrual status or past due ninety days or more at September 30, 2012.

	December 31, 2011			
	Commercial and Industrial	**Commercial Real Estate**	**Construction**	**Residential Real Estate**
	(Dollars in thousands)			
Pass/Satisfactory	$ 10,928	$ 29,892	$ 5,539	$ 16,476
Special Mention	1,778	1,633	7,641	455
Substandard	378	17,264	24,746	5,534
Doubtful	0	0	0	0
Total	$ 13,084	$ 48,789	$ 37,926	$ 22,465

	Manufactured Housing	
	(Dollars in thousands)	
Performing	$	3,857
Nonperforming (1)		155
Total	$	4,012

(1) Includes loans that are on nonaccrual status or past due ninety days or more at December 31, 2011.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Allowance for loan losses

The changes in the allowance for loan losses for the three and nine months ended September 30, 2012 by loan segment based on impairment method:

Three Months Ended September 30, 2012	**Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Residential Real Estate**
		(Dollars in thousands)		
Beginning Balance, July 1, 2012	$ 1,503	$ 8,266	$ 4,352	$ 1,080
Charge-offs	(266)	(283)	(475)	(365)
Recoveries	98	33	3	0
Provision for loan losses	387	5,923	1,139	2,262
Ending Balance, September 30, 2012	$ 1,722	$ 13,939	$ 5,019	$ 2,977

Three Months Ended September 30, 2012 (continued)	**Manufactured Housing**	**Consumer**	**Mortgage Warehouse**	**Unallocated**	**Total**
			(Dollars in thousands)		
Beginning Balance, July 1, 2012	$ 40	$ 75	$ 802	$ 0	$ 16,118
Charge-offs	0	(27)	0	0	(1,416)
Recoveries	0	22	0	0	156
Provision for loan losses	858	279	(732)	0	10,116
Ending Balance, September 30, 2012	$ 898	$ 349	$ 70	$ 0	$ 24,974

Nine Months Ended September 30, 2012	**Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Residential Real Estate**
		(Dollars in thousands)		
Beginning Balance, January 1, 2012	$ 1,441	$ 7,030	$ 4,656	$ 843
Charge-offs	(300)	(1,426)	(2,666)	(565)
Recoveries	164	83	3	5
Provision for loan losses	417	8,253	3,026	2,693
Ending Balance, September 30, 2012	$ 1,722	$ 13,940	$ 5,019	$ 2,976

Nine Months Ended September 30, 2012 (continued)	Manufactured Housing	Consumer	Mortgage Warehouse	Unallocated	Total
			(Dollars in thousands)		
Beginning Balance, January 1, 2012	$ 18	$ 61	$ 929	$ 54	$ 15,032
Charge-offs	0	(37)	0	0	(4,994)
Recoveries	0	27	0	0	282
Provision for loan losses	880	298	(859)	(54)	14,654
Ending Balance, September 30, 2012	$ 898	$ 349	$ 70	$ 0	$ 24,974

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The changes in the allowance for loan losses for the three and nine months ended September 30, 2011 by loan segment based on impairment method:

Three Months Ended September 30, 2011	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
		(Dollars in thousands)		
Beginning Balance, July 1, 2011	$ 1,945	$ 7,177	$ 2,479	$ 1,607
Charge-offs	(717)	(182)	0	(4)
Recoveries	9	72	0	0
Provision for loan losses	359	(264)	1,191	(436)
Ending Balance, September 30, 2011	$ 1,596	$ 6,803	$ 3,670	$ 1,167

Three Months Ended September 30, 2011 (continued)	Manufactured Housing	Consumer	Mortgage Warehouse	Unallocated	Total
			(Dollars in thousands)		
Beginning Balance, July 1, 2011	$ 39	$ 20	$ 589	$ 90	$ 13,946
Charge-offs	0	(1)	0	0	(904)
Recoveries	0	2	0	0	83
Provision for loan losses	(39)	35	36	18	900
Ending Balance, September 30, 2011	$ 0	$ 56	$ 625	$ 108	$ 14,025

Nine Months Ended September 30, 2011	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
		(Dollars in thousands)		
Beginning Balance, January 1, 2011	$ 1,662	$ 9,152	$ 2,127	$ 1,116
Charge-offs	(2,178)	(4,389)	(1,069)	(109)
Recoveries	15	78	2	0
Provision for loan losses	2,097	1,962	2,610	160
Ending Balance, September 30, 2011	$ 1,596	$ 6,803	$ 3,670	$ 1,167

Nine Months Ended September 30, 2011 (continued)	Manufactured Housing	Consumer	Mortgage Warehouse	Unallocated	Total
			(Dollars in thousands)		
Beginning Balance, January 1, 2011	$ 0	$ 11	$ 465	$ 596	$ 15,129
Charge-offs	0	(7)	0	0	(7,752)
Recoveries	0	3	0	0	98
Provision for loan losses	0	49	160	(488)	6,550
Ending Balance, September 30, 2011	$ 0	$ 56	$ 625	$ 108	$ 14,025

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following tables summarize the loans and allowance for loan losses by loan segment based on the impairment method at September 30, 2012:

September 30, 2012	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
	(Dollars in thousands)			
Loans:				
Individually evaluated for impairment	$ 4,558	$ 37,250	$ 13,169	$ 4,540
Collectively evaluated for impairment	79,448	543,772	11,056	100,751
Loans acquired with credit deterioration	5,774	70,915	18,904	15,819
Total	$ 89,780	$ 651,937	$ 43,129	$ 121,110
Allowance for loan losses:				
Individually evaluated for impairment	$ 349	$ 2,787	$ 2,450	$ 250
Collectively evaluated for impairment	877	5,379	262	878
Loans acquired with credit deterioration	496	5,773	2,307	1,849
Total	$ 1,722	$ 13,939	$ 5,019	$ 2,977

September 30, 2012 (continued)	Manufactured Housing	Consumer	Mortgage Warehouse	Total
	(Dollars in thousands)			
Loans:				
Individually evaluated for impairment	$ 0	$ 273	$ 0	$ 59,790
Collectively evaluated for impairment	150,876	11,356	9,321	906,580
Loans acquired with credit deterioration	13,113	2,125	0	126,650
Market discounts/premiums/valuation adjustments	0	0	0	(5,921)
Total	$ 163,989	$ 13,754	$ 9,321	$ 1,087,099
Allowance for loan losses:				
Individually evaluated for impairment	$ 0	$ 3	$ 0	$ 5,839
Collectively evaluated for impairment	757	93	70	8,316
Loans acquired with credit deterioration	141	253	0	10,819
Total	$ 898	$ 349	$ 70	$ 24,974

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table summarizes the loans and allowance for loan losses by loan segment based on the impairment method at December 31, 2011:

December 31, 2011	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
		(Dollars in thousands)		
Loans:				
Individually evaluated for impairment	$ 7,775	$ 32,626	$ 16,142	$ 1,212
Collectively evaluated for impairment	59,745	287,839	11,863	52,856
Loans acquired with credit deterioration	15,017	86,536	30,590	23,352
Total	$ 82,537	$ 407,001	$ 58,595	$ 77,420
Allowance for loan losses:				
Individually evaluated for impairment	$ 426	$ 2,047	$ 2,986	$ 195
Collectively evaluated for impairment	911	4,063	209	554
Loans acquired with credit deterioration	104	920	1,461	94
Total	$ 1,441	$ 7,030	$ 4,656	$ 843

December 31, 2011 (continued)	Manufactured Housing	Consumer	Mortgage Warehouse	Unallocated	Total
			(Dollars in thousands)		
Loans:					
Individually evaluated for impairment	$ 0	$ 22	$ 0	$ 0	$ 57,777
Collectively evaluated for impairment	102,876	6,213	619,318	0	1,140,710
Loans acquired with credit deterioration	10,592	333	0	0	166,420
Market discounts/premiums/valuation adjustments				(23,514)	(23,514)
Total	$ 113,468	$ 6,568	$ 619,318	$ (23,514)	$ 1,341,393
Allowance for loan losses:					
Individually evaluated for impairment	$ 0	$ 22	$ 0	$ 0	$ 5,676
Collectively evaluated for impairment	1	39	929	54	6,760
Loans acquired with credit deterioration	17	0	0	0	2,596
Total	$ 18	$ 61	$ 929	$ 54	$ 15,032

The non-covered manufactured housing portfolio was purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the Purchase Agreement for defaults of the underlying borrower and other specified items. Each quarter, these funds are evaluated to determine if they would be sufficient to absorb probable losses within the manufactured housing portfolio. At September 30, 2012, funds available for reimbursement, if necessary, were $4.1 million; and the Bancorp has determined that these funds were sufficient to absorb probable losses.

On July 24, 2012, the Bancorp paid $63,246 to acquire manufactured housing loans from Vanderbilt Mortgage and Finance Inc. at par. These loans were originated by Tammac Holding Corporation (Tammac), and will be serviced by Tammac on the Bancorp s behalf. Approximately 85% of the loans are chattel, with the other 15% representing real estate. The loans carry an 11.3% coupon rate, where Tammac earns a 2.0% servicing fee and also retains the rights to a 2.0% IO Strip in relation to this pool of loans. The full recourse for losses on these loans resides with Tammac.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The changes in the accretable yield for prior loan acquisitions for the three and nine months ended September 30, 2012 and 2011 were as follows: