

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)

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

27-2290659
(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 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 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 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.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

Customers Bancorp, Inc.

Table of Contents

Part I

Item 1.	<u>Customers Bancorp, Inc. Consolidated Financial Statements as of September 30, 2012 and for the three and nine month periods ended September 30, 2012 (unaudited)</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	60
Item 4.	<u>Controls and Procedures</u>	60

PART II

Item 1.	<u>Legal Proceedings</u>	61
Item 1A.	<u>Risk Factors</u>	61
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
Item 3.	<u>Defaults Upon Senior Securities</u>	61
Item 4.	<u>Mine Safety Disclosures</u>	61
Item 5.	<u>Other Information</u>	61
Item 6.	<u>Exhibits</u>	62
	<u>SIGNATURES</u>	63

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**

	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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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.

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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.

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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.		

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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

Table of Contents

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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,	
	2012	2011	2012	2011
	(Dollars in thousands, except per share data)			
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
Nine**

	Three Months Ended September 30,		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:

	Amortized Cost	September 30, 2012 Gross Unrealized		Fair Value
		Gains	Losses	
		(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.

	Amortized Cost	December 31, 2011 Gross Unrealized		Fair Value
		Gains	Losses	
		(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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

- (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 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 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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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.

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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.

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.

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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)		
<u>Three months ended September 30, 2012</u>			
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
<u>Nine months ended September 30, 2012</u>			
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
<u>Three months ended September 30, 2011</u>			
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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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 (Dollars in thousands)	Number of Loans	Recorded Investment
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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

	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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Nine Months Ended September 30, 2012 (continued)	Manufactured	Consumer	Mortgage	Unallocated	Total
	Housing		Warehouse		
	(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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Nine Months Ended September 30, 2011 (continued)	Manufactured		Mortgage		Total
	Housing	Consumer	Warehouse	Unallocated	
	(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

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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:

For the Three Months Ended September 30,	2012	2011
	(Dollars in thousands)	
Balance, beginning of period	\$ 43,230	\$ 5,717
Additions resulting from acquisition	0	644
Accretion to interest income	(7,384)	(515)
Reclassification from nonaccretable difference and disposals, net	(147)	0
Balance, end of period	\$ 35,699	\$ 5,846

For the Nine Months Ended September 30,	2012	2011
	(Dollars in thousands)	
Balance, beginning of period	\$ 45,358	\$ 7,176
Additions resulting from acquisition	0	644
Accretion to interest income	(9,443)	(1,545)
Reclassification from nonaccretable difference and disposals, net	(216)	(429)
Balance, end of period	\$ 35,699	\$ 5,846

FDIC Loss Sharing Receivable

Prospective losses incurred on covered loans are eligible for partial reimbursement by the FDIC. Subsequent decreases in the amount expected to be collected result in a provision for loan losses, an increase in the allowance for loan losses, and a proportional adjustment to the FDIC loss sharing receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected result in the reversal of any previously recorded provision for loan losses and related allowance for loan losses and adjustments to the FDIC loss sharing receivable, or accretion of certain fair value amounts into interest income in future periods if no provision for loan losses had been recorded.

The following table summarizes the activity related to the FDIC loss sharing receivable for the three and nine months ended September 30, 2012 and 2011:

Three Months Ended September 30,	2012	2011
	(Dollars in thousands)	
Balance, beginning of period	\$ 12,376	\$ 12,634
Change in FDIC loss sharing receivable	3,796	0
Reimbursement from the FDIC	(3,866)	(774)
Balance, end of period	\$ 12,306	\$ 11,860

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Nine Months Ended September 30,	2012	2011
	(Dollars in thousands)	
Balance, beginning of period	\$ 13,077	\$ 16,702
Change in FDIC loss sharing receivable	4,537	1,709
Reimbursement from the FDIC	(5,308)	(6,551)
Balance, end of period	\$ 12,306	\$ 11,860

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 7 GOODWILL***Berkshire Bancorp Acquisition: Measurement Period Adjustments*

On September 17, 2011, the Bancorp completed its acquisition of Berkshire Bancorp, Inc. The acquisition was accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed, and consideration transferred were recorded at estimated fair value on the acquisition date. Subsequent to the September 17, 2011 acquisition date of Berkshire Bank, we received new information about the facts and circumstances surrounding other real estate owned (OREO) properties and a specific customer's loans acquired from Berkshire Bank. The acquisition method of accounting for business combinations under FASB Accounting Standards Codification (ASC) 805, *Business Combinations* (formerly FASB Statements No. 141(R)) requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period. During the third quarter of 2012, we adjusted our acquisition date information by recognizing increases to goodwill and deferred tax assets of \$1.1 million and \$1.6 million, respectively, offset by decreases to Other Real Estate Owned of \$1.3 million, and Loans receivable not covered by loss sharing agreements with the FDIC of \$1.4 million. The adjustment to deferred tax assets included a \$0.6 million write off of acquired NOL that would expire before being used. These measurement-period adjustments have been retrospectively applied to comparative financial information for prior periods.

The following table presents goodwill, as originally estimated at September 17, 2011, and measurement period adjustments to the fair values of certain assets acquired as information about facts and circumstances that existed as of the acquisition date became available as permitted by ASC 350.

Goodwill Resulting from the Berkshire Acquisition

(Dollars in thousands)

Goodwill resulting from the Berkshire acquisition, as originally estimated at September 17, 2011:	\$ 2,465
Subsequent adjustments:	
Loans receivable	1,373
Premises and equipment	(42)
Other real estate owned	1,404
Deferred income taxes	(1,571)
Final goodwill resulting from the Berkshire acquisition	\$ 3,629

The goodwill acquired in the Berkshire acquisition is not deductible for income tax purposes.

NOTE 8 SHAREHOLDERS EQUITY

During the third quarter of 2012, the Bancorp sold 7,111,819 shares of common stock in private offerings. The proceeds, net of offering costs, were \$94.8 million.

On May 8, 2012, the Bancorp announced that, due to market conditions, it had postponed its initial public offering of voting common stock. Costs related to this postponed offering in the amount of \$1.4 million have been expensed.

On September 30, 2011, the Bancorp sold 419,000 shares of common stock and 565,848 shares of Class B Non-Voting Common Stock at \$13.20 per share with total proceeds of \$13.0 million.

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

During the first quarter of 2011, the Bank sold shares of its common stock and Class B Non-Voting Common Stock to certain investors. Giving effect to the Reorganization, the Bancorp (as successor to the Bank) issued, in connection with this transaction, 668,527 shares of common stock and 363,140 shares of Class B Non-Voting Common Stock at \$12.00 per share and 210,916 shares of common stock and 146,310 shares of Class B Non-Voting Common Stock to the Bancorp's investors at \$10.50 per share. The proceeds, net of offering costs, were \$15.5 million.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 9 STOCK BASED COMPENSATION***Restricted Stock Units*

Due to the Bancorp's significant growth and evolution as a bank since 2009, which included raising more than \$100.0 million in equity, increasing assets to over \$2.0 billion and significantly increasing our equity base, in February 2012, the Compensation Committee recommended and the board of directors approved a restricted stock reward program that provided for the grant of restricted stock units to certain directors and senior executives of Customers Bancorp and Customers Bank. Pursuant to the program, restricted stock units for 185,189 shares of Voting Common Stock and 211,640 shares of Class B Non-Voting Common Stock were granted on February 16, 2012 pursuant to the 2004 Plan. Of this amount, certain officers received restricted stock units for 169,313 shares of Voting Common Stock and 211,640 shares of Class B Non-Voting Common Stock in the aggregate and non-employee directors received 15,876 shares of Voting Common Stock in the aggregate. One requirement for vesting is that the recipient of the restricted stock units remains an employee or director through December 31, 2016. The restricted stock units held by an employee or director are forfeited if he or she ceases to be an employee or director prior to that date. The second vesting requirement for each award (both must be met to vest) is that the Bancorp's Voting Common Stock trades at a price greater than \$18.90 per share (adjusted for any stock splits or stock dividends) for at least 5 consecutive trading days during the five year period ending December 31, 2016. If the restricted stock units vest, the recipient will receive shares of the Bancorp's common stock on December 31, 2016. However, upon a change in control resulting in any one shareholder owning more than 24.9% of the outstanding stock of Customers Bancorp prior to December 31, 2016, all restricted stock units held by employees and directors automatically vest, and shares of our common stock will be issued at that time.

In addition, in February 2012, there was an aggregate award of 57,031 restricted stock units to officers and employees of the Bank which vest 3 years from the date of issuance or upon a change in control.

Participants under the Bonus Recognition and Retention Program (BRRP) were eligible to make elections under the BRRP with respect to their bonuses for 2011, which were payable in the first quarter of 2012. As a result, in February 2012, an aggregate of 63,326 restricted stock units were allocated to the annual deferral account.

A participant becomes 100% vested in an Annual Deferral Account on the fifth anniversary date of the initial funding of the account, provided he or she remains continuously employed by the Bancorp 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 the Company.

The table below presents the status of the restricted stock/units at September 30, 2012 and changes during 2012.

	Restricted Stock Units	Weighted- average Price
Outstanding at January 1, 2012	35,289	\$ 12.00
Granted	517,186	12.60
Vested	0	0.00
Canceled	(463)	12.60
Outstanding at September 30, 2012	552,012	\$ 12.56

Unrecognized compensation expense related to the unvested restricted stock units was \$5.8 million at September 30, 2012 and is expected to be recognized through December 31, 2016.

Stock Option Plans

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

During 2010, the shareholders of Customers Bank approved the 2010 Stock Option Plan (2010 Plan) which was subsequently amended to reflect the September 17, 2011 Plan of Merger and Reorganization approved by the shareholders of Customers Bank and during 2012, the shareholders of the Bancorp approved and ratified the Amendment and Restatement of the Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan (2004 Plan). The purpose of these plans is to promote the success and enhance the value of the Bancorp by linking the personal interests of the members of the Board of Directors and Customers Bank s employees, officers, and executives to those of the Bancorp s shareholders, providing such individuals with an incentive for outstanding performance in order to generate superior returns to shareholders of the Bancorp. The 2010 and 2004 Plans are intended to

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 9 STOCK BASED COMPENSATION (continued)**

provide flexibility to the Bancorp in its ability to motivate, attract and retain the services of members of the Board of Directors, employees, officers and executives of Customers Bank. Stock options granted normally vest on the third or fifth anniversary of the grant date if the fully diluted tangible book value increased by 50% for the 2010 Plan and three years for the 2004 Plan if the fully diluted tangible book value has increased by 50%.

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 employees, officers, executives and directors. The maximum number of shares of common stock and Class B Non-Voting common stock which may be issued under the 2010 Plan is the lesser of (a) 15% of the number of shares of common stock and Class B Non-Voting common stock issued in consideration of cash or other property after December 31, 2009, or (b) 3,333,334 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 employees, stock appreciation rights (SARS), restricted stock and unrestricted stock to employees, officers, executives and members of the Board of Directors. The maximum number of shares of common stock and Class B Non-Voting common stock which may be issued under the 2004 Plan is 2,500,000 shares.

During the nine months ended September 30, 2012, the Bancorp granted to employees options to purchase 31,668 shares of common stock at a weighted-average exercise price of \$12.60 per share. The stock options vest on the fifth anniversary after the date of grant if the fully diluted tangible book value has increased by 50%.

During the nine months ended September 30, 2012, the Bancorp estimated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	September 30, 2012
Risk-free interest rates	0.87%
Expected dividend yield	0.00%
Expected volatility	20.00%
Expected lives (years)	7
Weighted-average fair value of options granted	\$ 2.94

The following summarizes stock option activity under the Bancorp's stock option plans at September 30, 2012:

	Number of shares	Weighted- average exercise price	Weighted- average remaining contractual term in years	Aggregate intrinsic value
	(Dollars in thousands, except Weighted-average exercise price)			
Outstanding, January 1, 2012	1,127,653	\$ 11.00		
Issued	31,668	12.60		
Adjustments (1)	67,091			
Forfeited	(7,000)	12.36		
Outstanding, September 30, 2012	1,219,412	\$ 11.16	5.04	\$ 3,287

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Options exercisable at September 30, 2012	6,272	\$ 31.76	3.24	\$ 0
---	-------	----------	------	------

- (1) The adjustment above represents error corrections, the cancellation of the directors' options and the conversion of the voting stock options to non-voting stock options.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 9 STOCK BASED COMPENSATION (continued)**

Unrecognized compensation expense related to the unvested stock options was \$2.3 million at September 30, 2012 and is expected to be recognized through February 28, 2017.

The September 17, 2011 and the September 30, 2011 options awards to Mr. Sidhu totaling 160,884 shares were cancelled on March 6, 2012, and new options to purchase the same number of shares of Class B Non-Voting common stock upon the same terms (including the same exercise price and expiration date) were issued. The cancellation and grant were done to correct an inadvertent mistake of originally awarding these as options to purchase shares of voting common stock. There was no impact to the total number of stock option shares from this adjustment.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Bancorp's latest sale price of \$14.00 and the exercise price) multiplied by the number of in-the-money options.

NOTE 10 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 initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bancorp's consolidated financial statements. At September 30, 2012, the Bank and the Bancorp met all capital adequacy requirements to which they are subject.

The Bancorp's and the Bank's capital amounts and ratios at September 30, 2012 and December 31, 2011 are presented below:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2012:						
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	\$ 280,393	13.46%	\$ 166,707	8.0%	N/A	N/A
Customers Bank	\$ 235,562	11.28%	\$ 167,005	8.0%	\$ 208,756	10.0%
Tier 1 capital (to risk weighted assets)						
Customers Bancorp, Inc.	\$ 254,540	12.21%	\$ 83,354	4.0%	N/A	N/A
Customers Bank	\$ 209,709	10.05%	\$ 83,502	4.0%	\$ 125,254	6.0%
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	\$ 254,540	10.29%	\$ 98,933	4.0%	N/A	N/A
Customers Bank	\$ 209,709	8.48%	\$ 98,910	4.0%	\$ 123,637	5.0%
As of December 31, 2011:						
Total capital (to risk weighted assets)						
Customers Bancorp, Inc.	\$ 157,702	11.13%	\$ 113,346	8.0%	N/A	N/A
Customers Bank	\$ 152,755	10.78%	\$ 113,346	8.0%	\$ 141,683	10.0%
Tier 1 capital (to risk weighted assets)						

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Customers Bancorp, Inc.	\$ 141,869	10.01% ³	\$ 56,673 ³	4.0% ³	N/A	N/A
Customers Bank	\$ 136,870	9.66% ³	\$ 56,673 ³	4.0% ³	\$ 85,010 ³	6.0%
Tier 1 capital (to average assets)						
Customers Bancorp, Inc.	\$ 141,869	7.37% ³	\$ 76,985 ³	4.0% ³	N/A	N/A
Customers Bank	\$ 136,870	7.11% ³	\$ 76,985 ³	4.0% ³	\$ 96,231 ³	5.0%

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bancorp uses fair value measurements to record fair value adjustments to certain assets and to disclose the fair value of its financial instruments. FASB ASC 825, *Financial Instruments*, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Bancorp, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. For fair value disclosure purposes, the Bancorp utilized certain fair value measurement criteria under the FASB ASC 820, *Fair Value Measurement*, as explained below.

During the third quarter of 2012, the Bancorp elected the fair value option for warehouse lending transactions documented under a Master Repurchase Agreement originated after July 1, 2012. The election was made because fair value more accurately represents the short term nature of the transaction and the inherent credit risk. At September 30, 2012, the Bancorp had \$1.1 billion of mortgage warehouse loans carried at fair value.

Mortgage warehouse loans are carried at the amount of cash initially advanced, plus accrued interest and fees, as specified in the respective agreements. The loan is used by the mortgage company as short-term bridge financing between the funding of mortgage loans and the sale of the loans to an investor. Related interest income was reported as *Interest income: Loans receivable, taxable, including fees* for the third quarter of 2012. Interest income is measured using a LIBOR or prime rate-based variable rate, plus a spread that represents 1) our assessment of the counterparty risk, and 2) the specific product type being funded. We do not expect any changes in fair value to be recognized since at inception of the transaction the underlying loans have already been sold to an approved investor, and the interest rate is variable. There was no difference between the aggregate fair value and the aggregate unpaid principal balance of the mortgage warehouse loans for which the fair value option has been elected as of July 1, 2012, and no gains or losses from changes in fair value were recorded in income at September 30, 2012. No loans were past due at September 30, 2012.

Cash and cash equivalents:

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Investment Securities:

The fair value of investment securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized 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).

The carrying amount of restricted stock approximates fair value, and considers the limited marketability of such securities.

Interest-Only Strips:

To obtain fair values, quoted market prices are used if available. Quotes are generally not available for interests that continue to be held by the transferor, so the Bancorp generally estimates fair value based on the future expected cash flows estimated using management's best estimates of the key assumptions' credit losses and discount rates commensurate with the risks involved.

Loans receivable held for sale:

The fair value of loans receivable held for sale is based on commitments on hand from investors within the secondary market for loans with similar characteristics.

Loans receivable:

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Table of Contents

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Impaired loans:

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

FDIC loss sharing receivable:

The FDIC loss sharing receivable is measured separately from the related covered assets, as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. Fair value is estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment. These cash flows are discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC.

Bank-owned life insurance:

The carrying value of bank-owned life insurance represents the cash surrender value of the policies and approximates fair value.

Other Real Estate Owned:

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

Accrued interest receivable and payable:

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit liabilities:

The fair values disclosed for deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal funds purchased:

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Borrowings:

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Borrowings consist of FHLB advances and securities sold under agreements to repurchase. The carrying amount of short-term FHLB borrowings approximates its fair value. Fair values of long-term FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. The fair value of securities sold under agreements to repurchase is estimated by discounting the projected future cash flows using current market rates on similar securities.

Subordinated debt:

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Off-balance sheet financial instruments:**

Fair values for the Bancorp's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

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

The estimated fair values of the Bancorp's financial instruments were as follows at September 30, 2012 and December 31, 2011.

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at September 30, 2012		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)					
Assets:					
Cash and cash equivalents	\$ 157,510	\$ 157,510	\$ 157,510	\$ 0	\$ 0
Investment securities, available for sale	130,705	130,705	6	106,027	24,672
Loans held for sale	1,187,885	1,187,885	0	1,187,885	0
Loans receivable, net	1,062,125	1,103,100	0	0	1,103,100
FDIC loss sharing receivable	12,306	12,306	0	12,306	0
Bank-owned life insurance	40,303	40,303	0	40,303	0
Restricted stock	22,581	22,581	0	22,581	0
Accrued interest receivable	4,988	4,988	4,988	0	0
Liabilities:					
Deposits	\$ 2,348,184	\$ 2,381,196	\$ 0	\$ 2,381,196	\$ 0
Other borrowings	36,000	36,438	0	36,438	0
Subordinated debt	2,000	2,000	0	2,000	0
Accrued interest payable	1,402	1,402	1,402	0	0

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	December 31, 2011	
	Carrying Amount	Fair Value
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	\$ 73,570	\$ 73,570
Investment securities, available for sale (1)	79,137	79,137
Investment securities, held to maturity	319,547	330,809
Loans held for sale	174,999	174,999
Loans receivable, net	1,326,361	1,338,485
FDIC loss sharing receivable	13,077	13,077
Bank-owned life insurance	29,268	29,268
Restricted stock	21,818	21,818
Accrued interest receivable	5,011	5,011
Liabilities:		
Deposits	\$ 1,583,189	\$ 1,610,977
Federal funds purchased	5,000	5,000
Subordinated debt	2,000	2,000
Borrowings	331,000	332,847
Accrued interest payable	1,478	1,478

(1) Includes an interest only strip security of \$2,894.

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

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

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

For financial assets measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012			
	Fair Value Measurements at the End of the Reporting			
	Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Dollars in thousands)			
Recurring fair value measurements				
Available-for-sale debt securities:				
Mortgage-backed securities	\$ 0	\$ 103,398	\$ 0	\$ 103,398
Asset-backed securities	0	563	0	563
Corporate notes	0	0	24,672	24,672
Municipal securities	0	2,066	0	2,066
Equities	6	0	0	6
Mortgage warehouse loans held for sale	0	1,063,666	0	1,063,666
Total recurring fair value measurements	\$ 6	\$ 1,169,693	\$ 24,672	\$ 1,194,371
Nonrecurring fair value measurements				
Impaired loans, net of specific reserves of \$5,839	\$ 0	\$ 0	\$ 11,629	\$ 11,629
Other real estate owned	0	0	4,258	4,258
Total nonrecurring fair value measurements	\$ 0	\$ 0	\$ 15,887	\$ 15,887

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	December 31, 2011			
	Fair Value Measurements at the End of the Reporting			
	Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Dollars in thousands)			
Recurring fair value measurements				
Available-for-sale debt securities:				
U.S. Treasury and government agency	\$ 0	\$ 1,001	\$ 0	\$ 1,001
Mortgage-backed securities (1)	0	53,398	2,894	56,292
Asset-backed securities	0	627	0	627
Corporate notes	0	0	19,217	19,217
Municipal securities	0	2,000	0	2,000
Total recurring fair value measurements	\$ 0	\$ 57,026	\$ 22,111	\$ 79,137
Nonrecurring fair value measurements				
Impaired loans, net of specific reserves of \$5,676	\$ 0	\$ 0	\$ 15,579	\$ 15,579
Other real estate owned	0	0	2,648	2,648
Total nonrecurring fair value measurements	\$ 0	\$ 0	\$ 18,227	\$ 18,227

(1) Includes an interest only strip security of \$2,894.

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2012 are summarized as follows:

	Mortgage- backed Securities	Corporate Notes	Total
	(Dollars in thousands)		
Balance at July 1, 2012	\$ 2,632	\$ 24,203	\$ 26,835
Total gains included in other comprehensive income (before taxes)	0	469	469
Amortization included in interest income	(29)	0	(29)
Settlements	(2,603)	0	(2,603)
Balance at September 30, 2012	\$ 0	\$ 24,672	\$ 24,672

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS****NOTE 11 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

The changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2012 are summarized as follows:

	Mortgage- backed Securities	Corporate Notes	Total
	(Dollars in thousands)		
Balance at January 1, 2012	\$ 2,894	\$ 19,217	\$ 22,111
Total gains included in other comprehensive income (before taxes)	0	455	455
Amortization included in interest income	(291)	0	(291)
Settlements	(2,603)	0	(2,603)
Purchases	0	5,000	5,000
Balance at September 30, 2012	\$ 0	\$ 24,672	\$ 24,672

The Bancorp's policy is to recognize transfers between levels when events or circumstances warrant transfers. For the nine months ended September 30, 2012, there were no transfers among levels.

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2012 for which the Bancorp utilized Level 3 inputs to measure fair value:

	Fair Value Estimate	Quantitative Information about Level 3 Fair Value Measurements (1)		
		Valuation Technique	Unobservable Input	Range (Weighted Average) (4)
September 30, 2012		(Dollars in thousands)		
Impaired loans	\$ 11,629	Collateral appraisal (2)	Liquidation expenses (3)	-3% to -8% (-5.5%)
Other real estate owned	\$ 4,258	Collateral appraisal (2)	Liquidation expenses (3)	-3% to -8% (-5.5%)

- (1) Level 3 fair value measurements relating to the corporate bonds are not included in this table because the measurements are obtained from an independent third-party pricing source and no adjustments are made. While the Bancorp reviews the measurements, it has not developed the significant inputs used to measure those securities. The inputs are not reasonably available to Customers Bancorp.
- (2) Obtained from independent third-parties approved appraisers. Appraisals are current and in compliance with credit policy. The Bancorp does not discount appraisals.
- (3) Fair value is adjusted for costs to sell.
- (4) Presented as a percentage of the value determined by appraisal.

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

This report and all attachments hereto as well as other written or oral communications made from time to time by Customers Bancorp may contain certain forward-looking information within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These statements relate to future events or future predictions, including events or predictions relating to future financial performance, and are generally identifiable by the use of forward-looking terminology such as believes, expects, may, will, should, plan, anticipates, strategies or the negative thereof or comparable terminology, or by discussion of strategy that involve risks and uncertainties. These forward-looking statements are only predictions and estimates regarding future events and circumstances and involve known and unknown risks, uncertainties and other factors, including the risks described under Risk Factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. This information is based on various assumptions that may not prove to be correct. These forward-looking statements are subject to significant uncertainties and contingencies, many of which are beyond the control of the Bancorp and the Bank. Although the expectations reflected in the forward-looking statements are currently believed to be reasonable, future results, levels of activity, performance or achievements cannot be guaranteed. Accordingly, there can be no assurance that actual results will meet expectations or will not be materially lower than the results contemplated in this report and attachments hereto. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or, in the case of documents referred to, the dates of those documents. Neither the Bancorp nor the Bank undertakes any obligation to release publicly or otherwise provide any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

The long-term goals stated below should not be regarded as an indication that Customers Bancorp considered, or now considers, them to be necessarily predictive of actual future results, and these goals should not be relied upon as such. These goals were based necessarily on the information prepared by Customers Bancorp using a variety of assumptions and estimates including, without limitation, those relating to the rate of organic growth by the Bank, interest rates, industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as other matters specific to Customers Bancorp's business. The assumptions and estimates underlying these goals may not be realized and are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies, all of which are difficult to predict and many of which are beyond Customers Bancorp's control. The assumptions and estimates used to create these goals are subjective in many respects and involve judgments made with respect to, among other things, market size and growth rates, market share, future pricing and interest rates, levels of operating expenses, and probability of success, all of which are difficult to predict. These goals constitute forward-looking information, and there can be no assurance that the assumptions and estimates used to prepare these goals will prove to be accurate, and actual results may materially differ. These and other forward-looking statements are expressly qualified in their entirety by the risks and uncertainties described above, the risks described under Risk Factors, and the risk factors contained in the 2011

Form 10-K.

Management's discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, a financial holding company, and its wholly owned subsidiaries, including Customers Bank. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers Bancorp's financial condition and results of operations as of and for the three and nine months ended September 30, 2012. All quarterly and nine month information in this Management's Discussion and Analysis is unaudited. You should read this section in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation for the year ended December 31, 2011 included in Customers Bancorp's filing on Form 10-K for the fiscal year ended December 31, 2011 (2011 Form 10-K).

Any interim financial information for periods prior to September 17, 2011 contained herein reflects that of the Bank as the predecessor entity to Customers Bancorp.

Table of Contents

Critical Accounting Policies

Customers Bancorp has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America (US GAAP) and that are consistent with general practices within the banking industry in the preparation of its financial statements. The Bancorp's significant accounting policies are described in Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION to its audited financial statements for the year ended December 31, 2011 included in Customers Bancorp's 2011 Form 10-K.

Certain accounting policies involve significant judgments and assumptions by Customers Bancorp that have a material impact on the carrying value of certain assets and liabilities. Customers Bancorp considers these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of its assets and liabilities and its results of operations. Actual results could differ from these estimates. There have been no material changes in Customers Bancorp's critical accounting policies, judgments and estimates, including assumptions or estimation techniques utilized, as compared to those disclosed in Customers Bancorp's 2011 Form 10-K, except as listed below in the following section entitled **Accounting Changes**.

Accounting Changes

Berkshire Bank Acquisition: Measurement Period Adjustments

Subsequent to the September 17, 2011 acquisition date of Berkshire Bank, we received new information about the facts and circumstances surrounding other real estate owned (OREO) properties and a specific customer's loans acquired from Berkshire Bank. The acquisition method of accounting for business combinations under FASB Accounting Standards Codification (ASC) 805, *Business Combinations* (formerly FASB Statements No. 141(R)) requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period. During the third quarter of 2012, we adjusted our acquisition date information by recognizing increases to goodwill and deferred tax assets of \$1.1 million and \$1.6 million, respectively, offset by decreases to Other Real Estate Owned of \$1.3 million, and Loans receivable not covered by loss sharing agreements with the FDIC of \$1.4 million. The adjustment to deferred tax assets included a \$0.6 million write off of acquired NOL that would expire before being used. We recognized these measurement period adjustments retrospectively to comparative information in our financial statements.

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 ASC 825-10-25, *Financial Instruments-Overall-Recognition: The Fair Value Option* (formerly FASB Statement No. 159). As a result of this election, the 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 as Interest Income Loans receivable, taxable, including fees 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.

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* (formerly SOP 03-3), 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

Table of Contents

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 \$5.7 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 \$.08 per share.

Recent Transactions and Events

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.

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

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 second quarter of 2013.

Results of Operations

Third Quarter 2012 Compared to Third Quarter 2011

We had net income of \$6.6 million for the three months ended September 30, 2012 and net income of \$2.3 million for the three months ended September 30, 2011. Diluted earnings per share were \$0.51 and \$0.23 for the three months ended September 30, 2012 and September 30, 2011, respectively, a comparative increase of \$0.28 per share.

Table of Contents*Net Interest Income*

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with other banks, and interest paid on deposits and borrowings) is the primary source of our earnings. The following table summarizes net interest income and the related spread and margin for the periods indicated:

	Three Months Ended September 30,					
	Average balance	2012 Interest income or expense	Average yield or cost (Dollars in thousands)	Average balance	2011 Interest income or expense	Average yield or cost
Assets						
Interest earning deposits	\$ 144,892	\$ 91	0.25%	\$ 106,538	\$ 67	0.25%
Federal funds sold			%	710		0.07%
Investment securities, taxable (A)	129,848	805	2.48%	551,018	3,973	2.88%
Investment securities, non taxable (A)	2,061	21	4.15%	2,078	22	4.15%
Loans, taxable (B)	2,090,057	26,990	5.14%	904,479	11,280	4.95%
Loans, non-taxable (B)	9,936	55	2.23%	1,504	17	4.44%
Less: Allowance for loan losses	(14,574)			(14,201)		
Total interest earning assets	2,362,220	27,962	4.71%	1,552,126	15,359	3.94%
Non-interest earning assets	117,195			99,193		
Total assets	\$ 2,479,415			\$ 1,651,319		
Liabilities						
Interest checking	\$ 36,253	47	0.51%	\$ 18,398	23	0.50%
Money market	930,935	1,720	0.74%	504,117	1,573	1.24%
Other savings	20,049	27	0.53%	13,038	22	0.67%
Certificates of deposit	947,607	3,397	1.43%	827,560	3,946	1.89%
Total interest bearing deposits	1,934,844	5,191	1.07%	1,363,113	5,564	1.62%
Other borrowings	164,163	216	0.52%	39,924	132	1.31%
Total interest-bearing liabilities	2,099,007	5,407	1.02%	1,403,037	5,696	1.61%
Non-interest-bearing deposits	190,977			95,179		
Total deposits & borrowings	2,289,984		0.94%	1,498,216		1.51%
Other non-interest bearing liabilities	11,098			7,987		
Total liabilities	2,301,082			1,506,203		
Shareholders Equity	178,333			145,116		
Total liabilities and shareholders equity	\$ 2,479,415			\$ 1,651,319		
Net interest earnings		22,555			9,663	
Tax equivalent adjustment (C)		41			21	
Net interest earnings		\$ 22,596			\$ 9,684	

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Interest spread	3.77%	2.43%
Net interest margin (D)	3.80%	2.48%
Net interest margin tax equivalent (C)(D)	3.81%	2.48%

- (A) For presentation in this table, balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.
- (B) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.
- (C) Full tax equivalent basis, using a 35% statutory tax rate to approximate interest income as a taxable asset.
- (D) Excluding the adjustment to interest income for the change in accounting estimate on PCI loans of \$4.5 million, net interest margin is 3.04%, and net interest margin tax equivalent is 3.05% for the three months ended September 30, 2012.

Table of Contents

Net interest income increased by \$12.9 million, or 132.9% for the three months ended September 30, 2012 to \$22.6 million, from \$9.7 million for the three months ended September 30, 2011. During the third quarter of 2012, we recorded interest income of \$4.5 million attributable to the change in estimates of cash flows for the PCI loans. This adjustment was largely allocated to the following loan types: commercial real estate of \$3.0 million, commercial and industrial loans of \$1.0 million, and mortgages of \$0.5 million. Additionally, interest income from mortgage warehouse loans, and commercial real estate loans increased by \$6.8 million and \$1.3 million, respectively offset by a decrease from investment securities of \$3.2 million. Driving the rise in interest income was higher average loan volume for mortgage warehouse loans of \$720.0 million, and commercial real estate loan volume of \$169.0 million. The higher loan volume was a result of our strategy to grow our mortgage warehouse lending and commercial real estate businesses, in addition to our acquisition of Berkshire Bancorp in September 2011. Sales of investment securities in the second quarter of 2012 lead to their lower average volume of \$423.0 million in the third quarter of 2012 compared to the same quarter of 2011. Interest expense for deposits decreased by \$373,000 due to the end of higher promotional pricing for certificate of deposits and money market accounts. For additional information about this change in estimate refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *Change in Accounting Estimates* in this Form 10-Q.

Provision for Loan Losses

Customers Bancorp has established an allowance for loan losses through a provision for loan losses charged as an expense on the statement of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. At September 30, 2012, approximately 5.0% of the loan portfolio was covered under loss sharing agreements with the FDIC. Charge-offs incurred above the original estimated value are taken as additional provisions, and a corresponding receivable due from the FDIC is recorded through non-interest income for the portion anticipated to be recovered under the loss sharing agreements.

The provision for loan losses increased by \$9.2 million to \$10.1 million for the three months ended September 30, 2012, compared to \$900,000 for the same period in 2011. Approximately \$7.5 million of the increase in the 2012 provision is attributable to the cash flow re-estimation process for the PCI loans.

For additional information about this change in estimate refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *Change in Accounting Estimates* in this Form 10-Q. For more information about Customers Bancorp's provision and allowance for loan losses and Customers Bancorp's loss experience see Credit Risk and Asset Quality herein.

Non-Interest Income

The chart below shows Customers Bancorp's results in the various components of non-interest income for the three months ended September 30, 2012 and 2011.

	Three Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Deposit fees	\$ 124	\$ 114
Mortgage warehouse transactional fees	3,346	1,366
Bank-owned life insurance	359	264
Gain on sale of investment securities, net	0	1,413
Accretion of FDIC loss sharing receivable	1,296	0
Gain (loss) on sale of loans	(71)	0
Other	4,712	85
Total non-interest income	\$ 9,766	\$ 3,242

Non-interest income was \$9.7 million for the three months ended September 30, 2012, an increase of \$6.5 million from \$3.2 million for the three months ended September 30, 2011. This increase was due to growth in warehouse lending volume which generated \$2.0 million in additional fee income, and accretion relating to our FDIC loss sharing receivable which increased by \$1.3 million. Additionally, fees of \$4.4 million were recognized related to the change in accounting estimate for the PCI loans. These increases were offset by a \$1.4 million gain realized on the sale of available-for-sale securities in the third quarter of 2011, which was executed to provide funding for loan growth. For additional information about this change in estimate refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *Change in Accounting*

Estimates in this Form 10-Q.

Table of Contents*Non-Interest Expense*

The below chart shows the Customers Bancorp's results in the various components of non-interest expense for the three months ended September 30, 2012 and 2011.

	Three Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Salaries and employee benefits	\$ 5,978	\$ 3,752
Occupancy	1,709	1,022
Technology, communication and bank operations	699	485
Advertising and promotion	270	206
Professional services	819	1,234
FDIC assessments, taxes and regulatory fees	669	373
Other real estate owned	(287)	102
Loan workout	617	370
Stock offering expenses	97	0
Merger related expenses	0	530
Other	1,424	656
 Total non-interest expenses	 \$ 11,995	 \$ 8,730

Non-interest expense was \$12.0 million for the three months ended September 30, 2012, an increase of approximately \$3.3 million as compared to non-interest expense of \$8.7 million for the same period in 2011.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased 57.9% or \$2.2 million to \$6.0 million in the third quarter of 2012 versus \$3.8 million in the same period in 2011. The primary reason for this increase was the addition of 66 full-time equivalent employees since September 30, 2011. This was directly related to the Berkshire acquisition in the third quarter of 2011 as well as the need for additional employees to support our organic growth.

Occupancy expense increased by 67.2% or \$687,000 from \$1.0 million in 2011 to \$1.7 million in 2012. The increase was related to building the infrastructure to support our growth and the Berkshire acquisition in the third quarter of 2011.

Professional services expense decreased to \$819,000 in the third quarter of 2012 from \$1.2 million for the same period of 2011. This decrease was primarily attributable to lower legal and consulting expenses in 2012 compared to legal and consulting expenses incurred in 2011 related to regulatory filings and the Berkshire acquisition.

Other expenses increased \$768,000 to \$1.4 million in the third quarter of 2012 from \$656,000 the third quarter of 2011. In general, there was an overall increase in most categories within other expense as a result of the Berkshire acquisition in the third quarter of 2011.

Income Taxes

The income tax expense was \$3.6 million and \$930,000 for the three months ended September 30, 2012 and 2011, respectively. The increase in the income tax provision was primarily due to the increase in net income before taxes of approximately \$6.9 million.

The effective tax rate for the three months ended September 30, 2012 and 2011 was approximately 35 percent and 28.4 percent, respectively. The effective tax rate for the third quarter of 2012 was higher than the same period in 2011 due to non-taxable income having a smaller impact on the effective tax rate due to the higher level of income before income taxes.

Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011

We had net income and net income available to common shareholders of \$16.3 million for the nine months ended September 30, 2012, compared to net income of \$811,000 and net income available to common shareholders of \$806,000 for the nine months ended September 30,

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

3011. Diluted earnings per share were \$1.35 for the nine months ended September 30, 2012 and \$.08 per share for the nine months ended September 30, 2011, an increase of \$1.27 per share.

Table of Contents*Net-Interest Income*

Net interest income (the difference between the interest earned on loans, investments and interest-earning deposits with other banks, and interest paid on deposits and borrowings) is the primary source of our earnings. The following table summarizes net interest income and the related spread and margin for the periods indicated:

	For the Nine Months Ended September 30,					
	Average balance	2012 Interest income or expense	Average yield or cost (Dollars in thousands)	Average balance	2011 Interest income or expense	Average yield or cost
Assets						
Interest earning deposits	\$ 117,326	\$ 225	0.26%	\$ 201,053	\$ 377	0.25%
Federal funds sold			%	3,014	3	0.15%
Investment securities, taxable (A)	255,804	5,936	3.09%	480,754	10,341	2.87%
Investment securities, non taxable (A)	2,065	64	4.15%	2,083	65	4.15%
Loans, taxable (B)	1,674,497	59,963	4.78%	813,654	30,958	5.09%
Loans, non-taxable (B)	6,581	110	2.24%	1,635	62	5.03%
Less: Allowance for loan losses	(15,262)			(15,700)		
Total interest earning assets	2,041,011	66,298	4.34%	1,486,493	41,806	3.76%
Non-interest earning assets	115,109			76,842		
Total assets	\$ 2,156,120			\$ 1,563,335		
Liabilities						
Interest checking	\$ 35,162	146	0.55%	\$ 16,537	61	0.50%
Money market	814,935	5,717	0.94%	449,518	4,680	1.39%
Other savings	19,561	86	0.59%	12,920	65	0.68%
Certificates of deposit	859,036	9,738	1.51%	827,938	11,854	1.91%
Total interest bearing deposits	1,728,694	15,687	1.21%	1,306,913	16,660	1.70%
Other borrowings	98,699	494	0.67%	31,247	381	1.63%
Total interest-bearing liabilities	1,827,393	16,181	1.18%	1,338,160	17,041	1.70%
Non-interest-bearing deposits	158,839			86,290		
Total deposits & borrowings	1,986,232		1.09%	1,424,450		1.60%
Other non-interest bearing liabilities	8,506			13,285		
Total liabilities	1,994,738			1,437,735		
Shareholders Equity	161,382			125,600		
Total liabilities and shareholders equity	\$ 2,156,120			\$ 1,563,335		
Net interest earnings		50,117			24,765	
Tax equivalent adjustment (C)		94			68	
Net interest earnings		\$ 50,211			\$ 24,833	

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

Interest spread	3.25%	2.16%
Net interest margin (D)	3.28%	2.22%
Net interest margin tax equivalent (C)(D)	3.29%	2.23%

- (A) For presentation in this table, balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.
- (B) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.
- (C) Full tax equivalent basis, using a 35% statutory tax rate to approximate interest income as a taxable asset.
- (D) Excluding the adjustment to interest income for the change in accounting estimate on PCI loans of \$4.5 million, net interest margin is 2.98%, and net interest margin tax equivalent is 2.99% for the nine months ended September 30, 2012.

Net interest income was \$50.1 million for the nine months ended September 30, 2012, compared to \$24.8 million for the nine months ended September 30, 2011, an increase of \$25.3 million, or 102.02%. Increases in interest income from mortgage warehouse loans of \$15.0 million, commercial real estate loans of \$3.9 million, and multi-family loans of \$3.5 million contributed to the higher 2012 balance. Growth in loan volume for these areas was responsible for these results. The sale of investment securities in the second quarter of 2012 was the primary cause of a \$4.4 million decrease in interest income from investment securities for the nine months ended September 30, 2012 compared to the same period of 2011. During the third quarter of 2012, we recorded a \$4.5 million adjustment to interest income due to the change in estimates of cash flows for the PCI loans that was allocated to the following loan types: commercial real estate of \$3.0 million, commercial and industrial loans of \$1.0 million, and mortgages of \$0.5 million. The close of promotional pricing for certificate of deposits and money market accounts led to a decline in interest expense for deposits of \$973,000 to the nine month period ended September 30, 2012 from the same period in 2012. For additional information about this change in estimate refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *Change in Accounting Estimates* in this Form 10-Q.

Table of Contents*Provision for Loan Losses*

Customers Bancorp has established an allowance for loan losses through a provision for loan losses charged as an expense on the statement of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. At September 30, 2012, approximately 5.0% of the loan portfolio was covered under loss sharing agreements with the FDIC. Charge-offs incurred above the original estimated value are taken as additional provisions and a corresponding receivable due from the FDIC is recorded through non-interest income for the portion anticipated to be recovered under the loss sharing agreements.

The provision for loan losses was \$14.7 million for the nine months ended September 30, 2012, a increase of \$8.1 million from \$6.6 million for the same period in 2011. Approximately \$7.5 million of the 2012 provision is attributable to the re-estimation process for the PCI loans.

For additional information about the change in estimate, refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION - *Change in Accounting Estimates* in this Form 10-Q. For additional information about Customers Bancorp's provision and allowance for loan losses and Customers Bancorp's loss experience see Credit Risk and Asset Quality herein.

Non-Interest Income

The chart below shows Customers Bancorp's results in the various components of non-interest income for the nine months ended September 30, 2012 and 2011.

	Nine Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Deposit fees	\$ 357	\$ 313
Mortgage warehouse transactional fees	8,829	3,754
Bank-owned life insurance	948	1,128
Gain on sale of investment securities, net	9,006	1,413
Accretion of FDIC loss sharing receivable	1,951	1,709
Gain on sale of loans	268	377
Other	5,436	388
Total non-interest income	\$ 26,795	\$ 9,082

Non-interest income was \$26.8 million for the nine months ended September 30, 2012, an increase of \$17.7 million when compared to non-interest income of \$9.1 million for the nine months ended September 30, 2011. The increase was primarily the result of the \$8.8 million gain realized on the sale of available-for-sale securities in the second quarter of 2012, which was executed to provide funding for loan growth. Growth in warehouse lending volume, which is part of our strategic plan, contributed \$5.1 million of fee income to the increase in non-interest income. Due to conversion to a new loan valuation system for PCI loans, estimates of cash flows from these loans were revised and non-interest income of \$4.4 million was recorded in September of 2012. For additional information about this change in estimate refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION - *Change in Accounting Estimates* in this Form 10-Q.

Table of Contents*Non-Interest Expense*

The below chart shows the Customers Bancorp's results in the various components of non-interest expense for the nine months ended September 30, 2012 and 2011.

	Nine Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Salaries and employee benefits	\$ 17,073	\$ 11,840
Occupancy	4,937	3,012
Technology, communication and bank operations	2,037	1,312
Advertising and promotion	846	639
Professional services	2,474	3,963
FDIC assessments, taxes and regulatory fees	2,205	1,626
Other real estate owned	587	390
Loan workout	1,519	1,014
Merger related expenses	28	530
Stock offering expenses	1,437	0
Other	4,112	1,861
Total non-interest expenses	\$ 37,255	\$ 26,187

Non-interest expense was \$37.3 million for the nine months ended September 30, 2012, an increase of \$11.1 million when compared to \$26.2 million for the same period in 2011. Salaries and employee benefits, which represent the largest component of non-interest expense, increased by 44.9% or \$5.3 million to \$17.1 million for the nine months ended September 30, 2012. The primary reason for this increase was the addition of 66 full-time equivalent employees since September 30, 2011. This was directly related to the Berkshire acquisition in the third quarter of 2011 as well as the need for additional employees to support our organic growth. In addition, stock-based compensation expense was \$1.6 million for the nine months ended September 30, 2012 and \$515,000 for the nine months ended September 30, 2011 due to increased issuances of stock-based awards. For additional information about stock-based compensation refer to NOTE 9 STOCK-BASED COMPENSATION in this Form 10-Q.

Occupancy expense increased 63.3% or \$1.9 million, to \$4.9 million for the nine months ended September 30, 2012 from \$3.0 million for the same period in 2011. The increase was related to building the infrastructure to support the growth of the Bank and the Berkshire acquisition in the third quarter of 2011.

Technology, communications, and bank operations expense was \$2.0 million for the nine months ended September 30, 2012, an increase of 54.0% or \$725,000, over \$1.3 million in the same period of 2011. This increase was primarily due to an increase in technology requirements to account for loans acquired with deteriorated credit and general increases as a result of the Berkshire acquisition in the third quarter of 2011.

Professional services expense decreased to \$2.5 million for the nine months ended September 30, 2012 when compared to \$4.0 million for the same period of 2011. This decrease was primarily attributable to legal and consulting expenses incurred in 2011 related to regulatory filings and the Berkshire acquisition.

As a result of the postponement in May 2012 of our public offering of voting common stock, we recorded stock offering expenses of \$1.4 million.

Other expenses increased by \$2.2 million to \$4.1 million for the nine months ended September 30, 2012 from \$1.9 million during the same period in 2011. Loan origination expenses of \$523,300, insurance expense of \$503,000, combined with higher general expenses as a result of the Berkshire acquisition in the third quarter of 2011 contributed to the increase in other expenses.

Income Taxes

The income tax expense was \$8.8 million and \$299,000, respectively, for the nine months ended September 30, 2012 and 2011. The increase in the income tax provision was primarily due to the increase in net income before taxes of \$23.9 million.

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

The effective tax rate for the nine months ended September 30, 2012 and 2011 was approximately 35 percent and 27 percent, respectively. The effective tax rate for the nine months ended September 30, 2012 was higher than the same period in 2011 due to non-taxable income having a smaller impact on the effective tax rate due to the higher level of income before income taxes.

Table of Contents**Financial Condition***General*

We had total assets of \$2.7 billion at September 30, 2012, a \$576.6 million, or 27.8%, increase from total assets of \$2.1 billion at December 31, 2011. Total liabilities were \$2.4 billion at September 30, 2012, an increase of \$462.8 million, or 24.0%, from total liabilities of \$1.9 billion at December 31, 2011.

The major changes within our financial position occurred as the result of our expansion of mortgage warehouse loans, which increased by 71.7% or \$444.3 million to \$1.1 billion at September 30, 2012, from \$619.3 million at December 31, 2011. During the third quarter of 2012, we elected the fair value option for certain warehouse lending transactions originated after July 1, 2012. As a result of this election, the new warehouse lending transactions were classified as Loans held for sale on the balance sheet. All of the qualified warehouse lending transactions on our balance sheet at September 30, 2012, were accounted for by the fair value option. Additionally, in the second quarter of 2012, we transferred all held-to-maturity securities to the available-for-sale category, leading to the subsequent sale of \$257.6 million securities to fund loan growth. Net deposits grew by \$765.0 million, and \$295.0 million of short-term borrowed funds were repaid during the nine months ending September 30, 2012. 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.

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

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Cash and cash equivalents	\$ 157,510	\$ 73,570
Loans held for sale (including \$1,063,666 of mortgage warehouse loans at fair value in 2012)	1,187,885	174,999
Investment securities, available for sale	130,705	79,137
Investment securities, held-to-maturity	0	319,547
Loans receivable not covered under FDIC Loss Sharing Agreements	976,134	1,215,117
Total loans receivable covered under FDIC Loss Sharing Agreements	110,965	126,276
Total loans receivable, net of the allowance for loan losses	1,062,125	1,326,361
Total assets	2,654,091	2,077,532
Total deposits	2,348,184	1,583,189
Federal funds purchased	0	5,000
Total other borrowings	36,000	331,000
Subordinated debt	2,000	2,000
Total liabilities	2,392,589	1,929,784
Total shareholders' equity	261,502	147,748
Total liabilities and shareholders' equity	2,654,091	2,077,532

Cash and Cash Equivalents

Cash and cash equivalents increased \$83.9 million, or 114.1%, to \$157.5 million at September 30, 2012 when compared to \$73.6 million at December 31, 2011. Cash and cash equivalents consisted mainly of interest bearing balances at the Federal Reserve Bank and vault cash and cash items in the process of collection. Short-term funds on deposit with the Federal Reserve Bank increased \$83.6 million from December 31, 2011 to September 30, 2012.

Investment Securities

In May 2012, we reclassified our \$269 million held-to-maturity investment portfolio to available for sale. Due to the strong outlook for loan growth, falling interest rates and our recent decision to postpone our initial public offering of stock, we decided to proceed with this reclassification to provide liquidity and free up capital to deploy into loan growth. Subsequently, we 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*Loans*

Existing lending relationships are primarily with small businesses and individual consumers primarily in Bucks, Berks, Chester, Montgomery and Delaware Counties, Pennsylvania; Camden and Mercer Counties, New Jersey; and Westchester County, New York; and to a lesser extent in the surrounding markets. The loan portfolio is primarily comprised of commercial real estate, construction, and commercial and industrial loans. In addition, we have a mortgage warehouse product line that provides financing to mortgage companies nationwide from the time of the home purchase or refinancing of a mortgage loan through the sale of the loan by the mortgage originator into the secondary market either through a repurchase facility or the purchase of the underlying mortgages. For certain mortgage warehouse loans originated after July 1, 2012, we elected the fair value option. As a result of this election, the warehouse lending transactions were classified to *Loans held for sale* on the balance sheet.

Loans receivable, net, decreased by \$264.2 million to \$1.1 billion at September 30, 2012 from \$1.3 billion at December 31, 2011. In the third quarter of 2012, qualified mortgage warehouse loans were not included in Loans receivable, net, due to our election of the fair value option for these loans; at December 31, 2011, mortgage warehouse loans were \$619.3 million. Offsetting the decline in Loans receivable, net, were higher balances for commercial real estate, manufactured housing, and residential real estate of \$254.4 million, \$53.9 million, and \$54.4 million, respectively. 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.

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	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 two FDIC assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as covered loans throughout this Management's Discussion and Analysis.

The commercial and construction credit loan relationships are monitored on a periodic basis to evaluate the cash flows available for the repayment of loans. Management emphasizes loan quality and close monitoring of potential problem credits. Credit risk identification and

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

review processes are utilized to assess and monitor the degree of risk in the loan portfolio. The lending and credit administration groups are charged with reviewing the loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect (i) the borrower's ability to repay the loan, or (ii) the underlying value of the pledged collateral.

As a mortgage warehouse lender, we provide a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short term basis under a master repurchase agreement. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the mortgage banker or of the underlying residential borrower, any of which could result in credit losses. The mortgage warehouse lending division monitors these mortgage originator by obtaining financial and other relevant information to reduce these risks during the lending period.

Table of Contents

Covered loans are monitored and evaluated in the same manner to address the provision of the loss sharing arrangements with the FDIC.

It is in the legacy and acquired construction and commercial real estate secured portion of the loan portfolio in which we are experiencing the most difficulty with delinquent and non-accrual loans. In September 2009, we tightened the underwriting policies for commercial real estate lending and construction lending. Although we believe that we have identified and appropriately allocated reserves against the riskiest of the loans in construction and commercial real estate, the possibility of further deterioration before the real estate market turns around may result in increased allocations of the Allowance for Loan Losses in that area in the future.

Other than the concentrations already addressed in warehouse lending, construction and commercial real estate, and manufactured housing, at September 30, 2012, Customers Bancorp has no large exposures in other risky industries such as restaurants, home heating oil businesses or other industries that are typically viewed as high risk.

Credit Risk

Customers Bancorp manages credit risk by maintaining diversification in its loan portfolio, by establishing and enforcing rigorous underwriting standards, by intensive collection efforts and by establishing and performing periodic loan classification reviews. Management also attempts to anticipate and allow for credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged when they are identified and to which provisions are added when it is appropriate. The allowance for loan losses is evaluated periodically as management deems appropriate. The provision for loan losses was \$14.7 million and \$6.6 million for the nine months ended September 30, 2012 and 2011, respectively. The allowance for loan losses was \$25.0 million or 2.6% of total non-covered loans at September 30, 2012 and \$15.0 million, or 1.2% of total non-covered loans, at December 31, 2011.

Table of Contents

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

Analysis of the Allowance for Loan Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Balance at the beginning of the period	\$ 16,118	\$ 13,946	\$ 15,032	\$ 15,129
Loan charge-offs				
Construction	475	0	2,666	1,069
Commercial real estate	283	182	1,426	4,389
Commercial and industrial	266	717	300	2,178
Residential real estate	365	4	565	109
Consumer and other	27	1	37	7
Total Charge-offs	1,416	904	4,994	7,752
Loan recoveries				
Construction	3	0	3	2
Commercial real estate	33	72	83	78
Commercial and industrial	98	9	164	15
Residential real estate	0	0	5	0
Consumer and other	22	2	27	3
Total Recoveries	156	83	282	98
Total net charge-offs	1,260	821	4,712	7,654
Provision for loan losses	10,116	900	14,654	6,550
Balance at the end of the period	\$ 24,974	\$ 14,025	\$ 24,974	\$ 14,025
Net-charge-offs as a percentage of average non-covered loans	0.09%	0.10%	0.35%	1.07%

Asset Quality

We had impaired loans totaling \$59.8 million at September 30, 2012, compared to \$57.8 million at December 31, 2011. Non-accrual non-covered loans totaled \$32.8 million at September 30, 2012, down from \$37.7 million at December 31, 2011. We had net charge-offs of \$1.3 million for the third quarter of 2012. Net charge-offs were \$821,000 for the third quarter of 2011. For the nine months ended September 30, we had net charge-offs of \$4.7 million for 2012 versus net charge-offs of \$7.7 million for 2011. There was \$3.6 million and \$7.3 million of non-covered other real estate owned as a result of foreclosure or voluntary transfer to us at September 30, 2012 and December 31, 2011, respectively.

To better understand our asset quality and related reserve adequacy, we break our loan portfolio into two categories; loans that were originated and loans that were acquired. Management believes that this additional information will allow investors to better understand the risk in our portfolio and the various types of credit reserves that are available to support loan losses in the future. Originated loans are supported with allowance for loan loss reserves. Acquired loans are supported with allowance for loan losses, non-accretable difference fair value marks, and cash reserves as described below.

Originated Loans

Loans that the Bank has originated totaled \$1.9 billion at September 30, 2012, or about 84.6% of total loans. Of these, \$114.1 million represents loans that were originated prior to September 2009 (Legacy Loans), when the new management team lead by Jay Sidhu introduced new underwriting standards that management believes are more conservative. At September 30, 2012, the loans originated prior to September 2009

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

include \$21.6 million of non-performing assets (NPAs) or 96.0% of total NPAs for originated loans. Loans originated after September 2009, which total approximately \$1.8 billion, include only \$890,000 of NPAs.

The high level of non-performing loans (NPLs) in the Legacy Loan portfolio (17.5% NPL / Loans) are supported with \$4.4 million of reserves, or about 3.8% of total Legacy Loans. The held for sale category in our newly originated portfolio includes \$1.1 billion of warehouse loans and \$124.2 million of mortgages. Held-for-sale loans are carried on our balance sheet at fair value or lower of cost or market, so an allowance for loan losses is not needed. Commercial loans and multifamily loans totaled \$535.6 million and are supported with \$4.2 million of allowance for loan losses. Consumer and mortgage loans totaled \$73.6 million and are supported by \$515,000 of allowance for loan losses.

Table of Contents

Loan Type	Total Loans	Current	30-90 (a)	90 days+ and still accruing	Non Accrual (b)	Restructured (2)	OREO (c)	NPA (1) (b)+(c)	NPL(1) / Loans	NPA(1) / (Loans + OREO)
Originated Loans										
Legacy	\$ 114,120	\$ 92,202	\$ 1,294	\$	\$ 20,016	\$ 608	\$ 1,624	\$ 21,640	17.5%	18.7%
Warehouse										
Construction loans	9,321	9,321							0.0%	0.0%
Loans held for sale	1,187,885	1,187,885							0.0%	0.0%
Multifamily	206,281	206,281							0.0%	0.0%
Manufactured Originated	2,872	2,860	12						0.0%	0.0%
Originated Loans Post 9/2009										
Commercial Originated	329,678	328,656	132		890			890	0.3%	0.3%
Consumer/ Mortgage Originated	73,611	73,611							0.0%	0.0%
Total Originated Loans	1,923,768	1,900,816	1,438		20,906	608	1,624	22,530	1.1%	1.2%
Acquired Loans										
Berkshire	80,571	69,328	1,721		9,522		1,601	11,123	11.8%	13.5%
Total FDIC										
Covered	115,512	63,693	587		51,232		7,107	58,339	44.4%	47.6%
Total FDIC Non Covered	19	19							0.0%	0.0%
Manufactured Housing 2010	86,772	81,992	3,642		273	865		273	0.3%	0.3%
Manufactured Housing 2011	13,154	5,952	1,115		6,031	56	367	6,398	45.9%	47.3%
Manufactured Housing 2012	61,233	57,022	2,738	1,473					0.0%	0.0%
Total Acquired Loans	357,261	278,006	9,803	1,473	67,058	921	9,075	76,133	18.8%	20.8%
Unallocated										
Total Portfolio	2,281,029	2,178,822	11,241	1,473	87,964	1,529	10,699	98,663	3.9%	4.3%
Accounting Fair Value / Credit Marks / Costs Fees (3)										
	(6,045)	1,724	(244)		(7,525)					
Quarter End Actual	\$ 2,274,984	\$ 2,180,546	\$ 10,997	\$ 1,473	\$ 80,439	\$ 1,529				

(1) Amount is gross of credit mark.

(2) These represent restructured loans performing under their modified terms.

Edgar Filing: Customers Bancorp, Inc. - Form 10-Q

(3) Numbers above the Total Portfolio line are contractual principal paymount amounts.

Table of Contents*Acquired Loans*

At September 30, 2012, we carried \$357.3 million of acquired loans which was 15.7% of total loans. 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. At September 30, 2012, (i) 22.6% of acquired loans were from the Berkshire Bancorp acquisition, (ii) 33.3% of acquired loans were from FDIC assisted acquisitions, which have loss share protection of 80% of credit losses being covered by the FDIC, and (iii) 45.1% of acquired loans represented manufactured housing loans which were purchased from Tammac Holding Corporation, a consumer finance company. Of the loans purchased from Tammac prior to 2012, 86.8% were supported by a \$4.1 million cash reserve which is maintained in a demand deposit account at the Bank. All current losses and delinquent interest are covered with this reserve. We estimate that this cash reserve will be adequate to cover future losses and delinquent interest over the life of the portfolio. For the manufactured housing loans purchased in 2012, Tammac has an obligation to pay us the full payoff amount of a defaulted loan once the borrower vacates the property, which includes any principal, unpaid interest, or advances on the loans.

Most of the acquired loans were purchased at a discount. The price paid factored into management's judgment on the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the fair value to incorporate changes in the credit outlook. Total NPAs in the acquired portfolio were \$76.1 million, or 77.2% of total NPAs. Of this total, 76.6% have FDIC loss share protection (80% FDIC coverage of losses). At September 30, 2012, the FDIC-covered loans had \$10.6 million of allowance for loan losses and \$4.5 million of non-accretable difference fair value marks to support future credit losses. 11.3% of total NPAs were from loans related to the Berkshire acquisition, while 6.8% were from loans acquired from Tammac.

Acquired loans have a significantly higher percentage of non-performing assets than loans originated after September 2009. Management acquired these loans with the expectation that losses would be elevated, and therefore incorporated that expectation into the price paid. Management also created a Special Assets group that has a major focus on workouts for these acquired non-performing assets.

The following table summarizes our acquired and originated loan at September 30, 2012:

Loan Type	Total Loan	ALL	Credit Marks	Cash Reserve	Total Credit Reserves	Reserves / Loans	Reserves / NPL
(Dollars in thousands)							
Originated Loans							
Legacy	\$ 114,120	\$ 4,380	\$	\$	\$ 4,383	3.8%	21.9%
Warehouse Construction loans	9,321	70			70	0.8%	0.0%
Loans held for sale	1,187,885					0.0%	0.0%
Multifamily	206,281	1,031			1,031	0.5%	0.0%
Manufactured Originated	2,872	57			57	2.0%	0.0%
Originated Loans Post September 2009							
Commercial Originated	329,678	3,193			3,193	1.0%	358.6%
Consumer/ Mortgage Originated	73,611	515			515	0.7%	0.0%
Total Originated Loans	1,923,768	9,246			9,246	0.5%	44.2%
Acquired Loans							
Berkshire	80,571	4,268	(1,006)		3,261	4.0%	34.3%
Total FDIC Covered	115,512	10,619	4,546		15,166	13.1%	29.6%
Total FDIC Non Covered	19					0.0%	0.0%
Manufactured Housing 2010	86,772	700		4,092	4,792	5.5%	1758.5%
Manufactured Housing 2011	13,154	141	5,533		5,674	43.1%	94.1%
Manufactured Housing 2012	61,233					0.0%	0.0%
Total Acquired Loans	357,261	15,728	\$ 9,073	4,092	28,893	8.1%	43.1%
Total Portfolio	\$ 2,281,029	\$ 24,971	\$ 9,073	\$ 4,092	\$ 38,142	1.7%	43.4%

Table of Contents

Nonperforming loans and assets not covered under FDIC loss sharing agreements

The tables below set forth non-performing loans and non-performing assets not covered under FDIC loss sharing agreements and the corresponding asset quality ratios at September 30, 2012 and December 31, 2011. Non-accruals loans decreased \$4.9 million through September 30, 2012 when compared to December 31, 2011.

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Non-accrual loans (1)	\$ 32,793	\$ 37,719
TDRs (2)	4,685	6,269
Non-performing non-covered loans	37,478	43,988
Other real estate owned	3,592	7,316
Non-performing non-covered assets	\$ 41,070	\$ 51,304

(1) Net of credit marks.

(2) Excludes TDRs performing in accordance with their modified terms totaling \$1.5 million.

	September 30, 2012	December 31, 2011
Non-accrual non-covered loans to total non-covered loans	3.36%	3.10%
Non-performing, non-covered loans to total non-covered loans	3.84%	3.62%
Non-performing, non-covered assets to total non-covered assets	4.19%	4.20%
Non-accrual loans and 90+ days delinquent to total non-covered assets	3.35%	3.09%
Allowance for loan losses to:		
Total non-covered loans	2.56%	1.24%
Non-performing, non-covered loans	66.64%	34.17%
Non-performing, non-covered assets	60.81%	29.30%

Customers Bancorp seeks to manage 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.

The tables below set forth non-accrual loans and non-performing assets covered under FDIC loss sharing agreements at September 30, 2012 and December 31, 2011.

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Non-accrual covered loans (1)	\$ 47,646	\$ 45,213
Covered other real estate owned	7,107	6,166
Non-performing, covered assets	\$ 54,753	\$ 51,379

(1) Net of credit marks.

Table of Contents*Goodwill and other intangibles*

During the third quarter of 2012, we retrospectively recognized an increase in goodwill of \$1.1 million. The adjustment was recorded to the acquisition date of Berkshire Bank, September 2011. This measurement period adjustment is the result of new information about the facts and circumstances surrounding other real estate owned (OREO) properties and a specific customer's loans acquired from Berkshire Bank. The acquisition method of accounting for business combinations under FASB Accounting Standards Codification (ASC) 805, *Business Combinations* (formerly FASB Statements No. 141(R)) requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period. We will recognize these measurement period adjustments retrospectively to comparative information in our financial statements. For additional information refer to Note 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION *Berkshire Bancorp Acquisition: Measurement Period Adjustments* in this Form 10-Q.

Deposits

We offer a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from within our service area and through wholesale and broker networks. These networks provide low cost funding alternatives to retail deposits and provide diversity to our sources of funds. Total deposits grew by 43.7% to \$2.3 billion at September 30, 2012 from \$1.6 billion at December 31, 2011. The increase in demand deposits of \$370.4 million can be attributed to marketing and pricing promotions that we instituted in 2012 and the acquisition of Berkshire Bank in September 2011. Included in Time deposits \$100,000 and over, are jumbo and wholesale certificates of deposits that increased by \$356.0 million to \$764.9 million at September 30, 2012.

The components of deposits were as follows:

	September 30, 2012	December 31, 2011
	(Dollars in thousands)	
Demand, non-interest bearing	\$ 213,229	\$ 114,044
Demand, interest bearing	1,010,654	739,463
Savings	21,790	16,922
Time, \$100,000 and over	764,873	408,853
Time, other	337,638	303,907
Total deposits	\$ 2,348,184	\$ 1,583,189

Capital Adequacy

Shareholders' equity increased by \$113.8 million to \$261.5 million at September 30, 2012, from \$147.7 million at December 31, 2011. The increase in equity was primarily the result of two common stock private offerings in the third quarter of 2012 that raised net proceeds of \$94.8 million. Net income, unrealized gains on securities, and recognition of stock-based compensation increased equity by \$16.3 million, \$1.1 million and \$1.6 million, respectively, for the nine months ended September 30, 2012.

Customers Bancorp and the Bank are subject to various regulatory capital requirements that are monitored by federal banking agencies. Failure to meet minimum capital requirements can lead to supervisory actions by regulators; any supervisory action could have a direct material effect on our financial statements. At September 30, 2012, Customers Bancorp and the Bank met all capital adequacy requirements to which they were subject.

Table of Contents

The capital ratios for the Bank and Customers Bancorp at September 30, 2012 and December 31, 2011 were as follows:

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2012:								
Total capital (to risk weighted assets)								
Customers Bancorp, Inc.	\$ 280,393	13.46%	\$ 166,707	8.0%	N/A	N/A		
Customers Bank	\$ 235,562	11.28%	\$ 167,005	8.0%	\$ 208,756	10.0%		
Tier 1 capital (to risk weighted assets)								
Customers Bancorp, Inc.	\$ 254,540	12.21%	\$ 83,354	4.0%	N/A	N/A		
Customers Bank	\$ 209,709	10.05%	\$ 83,502	4.0%	\$ 125,254	6.0%		
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	\$ 254,540	10.29%	\$ 98,933	4.0%	N/A	N/A		
Customers Bank	\$ 209,709	8.48%	\$ 98,910	4.0%	\$ 123,637	5.0%		
As of December 31, 2011:								
Total capital (to risk weighted assets)								
Customers Bancorp, Inc.	\$ 157,702	11.13%	\$ 113,346	8.0%	N/A	N/A		
Customers Bank	\$ 152,755	10.78%	\$ 113,346	8.0%	\$ 141,683	10.0%		
Tier 1 capital (to risk weighted assets)								
Customers Bancorp, Inc.	\$ 141,869	10.01%	\$ 56,673	4.0%	N/A	N/A		
Customers Bank	\$ 136,870	9.66%	\$ 56,673	4.0%	\$ 85,010	6.0%		
Tier 1 capital (to average assets)								
Customers Bancorp, Inc.	\$ 141,869	7.37%	\$ 76,985	4.0%	N/A	N/A		
Customers Bank	\$ 136,870	7.11%	\$ 76,985	4.0%	\$ 96,231	5.0%		

Liquidity and Capital Resources

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

Our investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. Our principal sources of funds are proceeds from stock issuances, deposits, principal and interest payments on loans, and other funds from operations. We also maintain borrowing arrangements with the Federal Home Loan Bank and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. At September 30, 2012, our borrowing capacity with the Federal Home Loan Bank was \$556.7 million of which \$36.0 million was currently utilized in long-term borrowings. Furthermore, at September 30, 2012, our available borrowing capacity with the Federal Reserve Bank of Philadelphia was \$112.9 million.

Table of Contents

Net cash flows used in operating activities were \$994.1 million were for the nine months ended September 30, 2012. Origination of loans held for sale in excess of the proceeds from the sales of loans contributed \$1.0 million to cash flows used in operating activities. Investing activities provided net cash flows of \$518.1 million for the nine months ended September 30, 2012, as proceeds less purchases from sales of investment securities contributed \$198.4 million, and the net decrease in loans contributed \$302.3 million. A \$765.1 million net increase in deposits provided sufficient cash flows to repay \$300.0 million in short-term borrowings, support operating and investing activities, and increase cash and cash equivalents by \$83.9 million.

In May 2012, Customers Bancorp reclassified its \$269 million held-to-maturity investment portfolio to available for sale. Due to the strong outlook for loan growth, falling interest rates and our recent decision to postpone our initial public offering of stock, we decided to proceed with this reclassification to provide liquidity and free up capital to deploy into loan growth. Subsequently, we 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.

In addition, in the third quarter of 2012, as part of an ongoing private offering of securities to accredited investors which is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder, the Bancorp sold 7,111,819 shares of common stock which resulted in net proceeds of \$94.8 million.

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

Other Information

Regulatory Matters and Pending Legislation

In 2008, the U.S. financial system and broader economy faced the most severe financial crisis since the Great Depression. The crisis threatened the stability of the financial system and contributed to the failure of numerous financial institutions, including some large, complex financial institutions. In response to the crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which became law on July 21, 2010. The act includes numerous reforms to strengthen oversight of financial services firms and consolidate certain consumer protection responsibilities within the Bureau of Consumer Financial Protection, commonly known as the Consumer Financial Protection Bureau (CFPB). Although the Dodd-Frank Act exempts small institutions, such as community banks and credit unions, from several of its provisions, and authorizes federal regulators to provide small institutions with relief from certain regulations, it also contains provisions that will impose additional restrictions and compliance costs on these institutions. Determining which provisions will affect the Bancorp is difficult, because the impact may depend on how agencies implement certain provisions through their rules, and many of the rules needed to implement the act have not been finalized.

New Proposed Capital Rules

On June 7, 2012, the Federal Reserve approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Bancorp and the Bank. The FDIC and the OCC subsequently approved these proposed rules on June 12, 2012. The proposed rules 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 proposed rules are subject to a comment period running through September 7, 2012.

The Basel III Proposal is generally consistent with the final Basel III capital rules, as described in our Annual Report on Form 10-K under Item 1. Business Supervision and Regulation. The proposed rules include new risk-based capital and leverage ratios, which would be phased in from 2013 to 2019, and would refine the definition of what constitutes capital for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Bancorp and the Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

Table of Contents

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 proposed rules permit the countercyclical buffer to be applied only to advanced approach banks (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes the Bancorp and the Bank. The proposed 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 would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as well capitalized: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The proposed rules set forth certain changes for the calculation of risk-weighted assets, which we would be required to utilize beginning January 1, 2015. The standardized approach proposed rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) a proposed 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.

Effects of Inflation

Inflation has some impact on Customers Bancorp's operating costs. Unlike many industrial companies, however, substantially all of Customers Bancorp's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on Customers Bancorp's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.

Effect of Government Monetary Policies

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2012, there have been no material changes in the information disclosed under Quantitative and Qualitative Disclosures About Market Risk included within Customers Bancorp's 2011 Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp's management, including Customers Bancorp's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp's disclosure controls and procedures as defined and in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp's disclosure controls and procedures were effective at September 30, 2012.

During the quarter ended September 30, 2012, there have been no changes in the Bancorp's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bancorp's internal control over financial reporting.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Although from time to time, Customers Bancorp is involved in various legal proceedings in the normal course of business there are no material legal proceedings to which it is a party or to which it is subject.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Risk Factors included within the 2011 Form 10-K. The risks described in the 2011 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes in our risk factors from those disclosed in the 2011 Form 10-K referred to above.

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

During the nine months ended September 30, 2012, the Bancorp granted to certain officers, directors and employees options to purchase an aggregate of 31,668 shares of the Bancorp's common stock under the 2010 Stock Option Plan and restricted stock units to acquire 517,186 shares of its common stock under the Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan and the Bonus Recognition and Retention Program. The Bancorp received no consideration for these awards. The Bancorp believes that these awards were not subject to the registration requirements of Section 5 of the Securities Act, as amended (the Securities Act), as the issuance without payment of any consideration therefore does not constitute a sale under Section 2(3) of the Securities Act. The Bancorp also believes these issuances would be exempt under Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering with no advertising or general solicitation being employed.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits****Exhibit**

No.	Description
2.1	Agreement and Plan of Merger, dated as of August 10, 2012, by and between Customers Bancorp, Inc. and CMS Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp Form 8-K filed with the SEC on August 10, 2012
3.1	Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012
3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
10.1	Form of Voting Agreement entered into with the various directors and executive officers of CMS Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp Form 8-K filed with the SEC on August 10, 2012
10.2	Form of Stock Purchase Agreement used in Customers Bancorp's July and August 2012 private placement of voting common stock, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on October 22, 2012
10.3	Stock Purchase Agreement, dated as of August 17, 2012, by and between Customers Bancorp, Inc. and S.J. Finance Investment Fund, L.P., incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on October 22, 2012
10.4	Securities Purchase Agreement, dated as of September 14, 2012, by and among the Corporation and the purchasers party thereto, incorporated by reference to Exhibit 10.1 to Customers Bancorp's Form 8-K filed with the SEC on September 17, 2012
10.5	Registration Rights Agreement, dated as of September 14, 2012, by and among the Corporation and the purchasers party thereto, incorporated by reference to Exhibit 10.2 to Customers Bancorp's Form 8-K filed with the SEC on September 17, 2012
31.1.	Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)
31.2.	Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)
32.1.	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2.	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101	The Exhibits furnished* as part of this report are as follows:
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

* These interactive data files are being filed as part of this Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned, thereunto duly caused this authorized.

Customers Bancorp, Inc.

November 14, 2012

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

(Principal Executive Officer)

Customers Bancorp, Inc.

November 14, 2012

By: /s/ James D. Hogan
Name: James D. Hogan
Title: Chief Financial Officer

(Principal Financial Officer)

Table of Contents

Exhibit Index

2.1	Agreement and Plan of Merger, dated as of August 10, 2012, by and between Customers Bancorp, Inc. and CMS Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp Form 8-K filed with the SEC on August 10, 2012
3.1	Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp s Form 8-K filed with the SEC on April 30, 2012
3.2	Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp s Form 8-K filed with the SEC on April 30, 2012
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012
10.1	Form of Voting Agreement entered into with the various directors and executive officers of CMS Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp Form 8-K filed with the SEC on August 10, 2012
10.2	Form of Stock Purchase Agreement used in Customers Bancorp s July and August 2012 private placement of voting common stock, incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on October 22, 2012
10.3	Stock Purchase Agreement, dated as of August 17, 2012, by and between Customers Bancorp, Inc. and S.J. Finance Investment Fund, L.P., incorporated by reference to Exhibit 4.3 to the Customers Bancorp Form 8-K filed with the SEC on October 22, 2012
10.4	Securities Purchase Agreement, dated as of September 14, 2012, by and among the Corporation and the purchasers party thereto, incorporated by reference to Exhibit 10.1 to Customers Bancorp s Form 8-K filed with the SEC on September 17, 2012
10.5	Registration Rights Agreement, dated as of September 14, 2012, by and among the Corporation and the purchasers party thereto, incorporated by reference to Exhibit 10.2 to Customers Bancorp s Form 8-K filed with the SEC on September 17, 2012
31.1.	<u>Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</u>
31.2.	<u>Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a)</u>
32.1.	<u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002</u>
32.2.	<u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002</u>
101	The Exhibits furnished* as part of this report are as follows:
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

* These interactive data files are being filed as part of this Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.