

Customers Bancorp, Inc.  
Form S-1/A  
April 18, 2011

Registration No. 333-166225

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Amendment No. 5 to  
FORM S-1  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

Customers Bancorp, Inc.  
(Exact name of registrant as specified in its Charter)

Pennsylvania  
(State of Incorporation)

27-2290659  
(I.R.S. Employer I.D. No.)

6022  
(Primary Standard Industrial  
Classification Code No.)

1015 Penn Avenue  
Suite 103  
Wyomissing PA 19610  
(610) 933-2000  
(Address and telephone number of principal executive offices)

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Suite 103  
Wyomissing PA 19610  
(610) 933-2000  
(Name, address, telephone no. of agent for service)

With a Copy to:

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effectiveness of this Registration Statement and the completion of the transactions described herein.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this Joint Proxy Statement-Prospectus is not complete and may be changed. CBI may not sell these securities until the Securities and Exchange Commission declares the registration statement effective. This Joint Proxy Statement-Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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Subject to completion, dated April 15, 2011

Preliminary Joint Proxy Statement-Prospectus

Prospectus of Customers Bancorp, Inc.  
\_\_\_\_\_ Shares of Voting Common Stock and  
\_\_\_\_\_ Shares of Class B Non-Voting Common Stock

Proxy Statement of Customers Bank and Berkshire Bancorp, Inc.

PROPOSED REORGANIZATION AND MERGER – YOUR VOTE IS VERY IMPORTANT

Special Meeting of Shareholders

For each of:

Customers Bank  
99 Bridge Street  
Phoenixville, Pennsylvania 19460  
(610) 933-2000

Berkshire Bancorp, Inc.  
1101 Woodland Road  
Wyomissing, Pennsylvania 19610  
(610) 376-7200

The Boards of Directors of Customers Bank and Berkshire Bancorp, Inc. have each scheduled a special meeting of shareholders for the respective entities. The Customers Bank shareholder meeting is for the purpose of approving the reorganization, pursuant to a Plan of Merger and Reorganization, of Customers Bank into a holding company structure (which is referred to as the “reorganization” in this Joint Proxy Statement-Prospectus), and approving a merger transaction in accordance with that certain Agreement and Plan of Merger, dated as of August 23, 2010, by and among Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc., pursuant to which Berkshire Bancorp, Inc. will be merged with and into Customers Bancorp, Inc., and Berkshire Bank will thereafter be merged with and into Customers Bank (in this Joint Proxy Statement-Prospectus, the agreement is referred to as the “Merger Agreement,” and the transactions contemplated by the Merger Agreement as the “merger”).

The special meeting of shareholders for Berkshire Bancorp, Inc. is for the purpose of approving and adopting the Merger Agreement and the merger. Both the reorganization and the merger are contingent upon receipt of approval from various bank regulatory agencies, and the merger is contingent upon the earlier effectuation of the reorganization. Therefore, if the shareholders of Customers Bank do not approve the reorganization or if the required bank regulatory approvals are not received, the merger will not occur.

This Joint Proxy Statement-Prospectus registers shares of Customers Bancorp, Inc. Voting Common Stock and Class B Non-Voting Common Stock to be issued in connection with both the reorganization and the merger.

With respect to the reorganization, shares of Customers Bancorp, Inc. Voting Common Stock will be issued to shareholders of record of Customers Bank as of \_\_\_\_\_, 2011 on the basis of one share of Customers Bancorp, Inc. Voting Common Stock for every three shares of Customers Bank Voting Common Stock outstanding at the effective time of the reorganization, and one share of Customers Bancorp, Inc. Class B Non-Voting Common Stock for every three shares of Customers Bank Class B Non-Voting Common Stock outstanding at the effective time of the reorganization. The reorganization will only occur if the holders of two-thirds of the outstanding shares of Customers Bank Voting Common Stock vote in favor of the reorganization.

With respect to the merger, if and after the reorganization is completed, each share of Berkshire Bancorp, Inc. common stock will be converted into the right to receive a certain fraction of a share of Customers Bancorp, Inc. Voting Common Stock, based upon the exchange ratio, calculated as the Berkshire Bancorp, Inc. valuation divided by three times Customers Bank valuation, each as established in the Merger Agreement, plus cash in lieu of fractional shares, as discussed in the attached Joint Proxy Statement-Prospectus. The merger will only occur if the holders of two-thirds of the outstanding shares of Customers Bank Voting Common Stock and Berkshire Bancorp, Inc. common stock vote in favor of the Merger Agreement and the merger.

If the reorganization and merger are approved, and Customers Bancorp, Inc. receives all required bank regulatory approvals, a holding company structure will be formed through a reorganization pursuant to which Customers Bank will become a wholly owned subsidiary of Customers Bancorp, Inc., and the shareholders of Customers Bank will become the shareholders of Customers Bancorp, Inc. Immediately following the completion of the reorganization, the merger will be consummated so that Berkshire Bancorp, Inc. will be merged with and into Customers Bancorp, Inc., and immediately thereafter, Berkshire Bank will be merged with and into Customers Bank, and all of the issued shares of Berkshire Bancorp, Inc. common stock outstanding immediately before the consummation of the merger will be exchanged for shares of Customers Bancorp, Inc. Voting Common

Stock in accordance with the Merger Agreement. Accordingly, the effective time of the reorganization will precede the effective time of the merger. The effective time of the merger of Berkshire Bancorp, Inc. with and into Customers Bancorp, Inc. will precede the effective time of the merger of Berkshire Bank with and into Customers Bank. The reorganization and the merger are described in detail in the attached Joint Proxy Statement-Prospectus.

If the reorganization and merger are completed, former shareholders of Berkshire Bancorp, Inc. and former shareholders of Customers Bank will own \_\_\_\_\_% and \_\_\_\_\_%, respectively, of Customers Bancorp, Inc. outstanding Voting Common Stock following completion of the transactions.

Customers Bancorp, Inc.'s Common Stock may not be listed on any securities exchange following the completion of the reorganization and merger transactions.

The board of directors of Customers Bank has approved the reorganization, the Merger Agreement and the merger, and recommends that you vote "FOR" the reorganization, Merger Agreement and merger. The board of directors of Berkshire Bancorp, Inc. has approved the Merger Agreement and the merger and recommends that you vote "FOR" the Merger Agreement and merger.

None of Customers Bancorp, Inc.'s Voting Common Stock or the Class B Non-Voting Common Stock, nor Berkshire Bancorp, Inc.'s common stock is listed on any national securities exchange.

**YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 20 OF THIS JOINT PROXY STATEMENT-PROSPECTUS BEFORE DECIDING HOW TO VOTE ON THE PROPOSED REORGANIZATION.**

The following are important disclosures. Please read them carefully:

You should rely only on information contained in this document or that has been referred to in this document. Neither Customers Bancorp, Inc., Customers Bank, Berkshire Bancorp, Inc. nor Berkshire Bank have authorized anyone to provide you with information that is different. This Joint Proxy Statement-Prospectus is only accurate as of the date printed on the bottom of this page. If there is any material change affecting the formation of the holding company structure or the merger, you will be advised.

The shares of Customers Bancorp, Inc. to be issued in the proposed reorganization and merger will not be savings accounts or deposits, and will not be insured by the Federal Deposit Insurance Corporation or any other government agency. Investment in the shares involves investment risk, including possible loss of principal.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued in the proposed reorganization and the merger, passed upon the accuracy of this Joint Proxy Statement-Prospectus or determined if this Joint Proxy Statement-Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Joint Proxy Statement-Prospectus is \_\_\_\_\_, 2011.



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

As a result of an investment or acquisition transaction, Customers may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on Customers' financial condition and results of operations, which could cause you to lose some or all of your investment.

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Customers Bank and/or CBI may in the future hire consultants or advisors on a contingent basis, who would only receive payment in the event an investment or acquisition transaction occurred and, therefore, they might be viewed as having an interest in such investment or acquisition transaction occurring.	39
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You should rely only on the information contained in this document. None of Customers Bancorp, Inc., Customers Bank, Berkshire Bancorp, Inc. nor Berkshire Bank has authorized anyone to provide you with any other information. This document may only be used where it is legal to sell these securities.

The information contained in this Joint Proxy Statement-Prospectus is accurate only as of the date of this Joint Proxy Statement-Prospectus, regardless of the time of delivery of this Joint Proxy Statement-Prospectus or of any sale of securities.

#### EXPLANATORY NOTE

Customers Bancorp, Inc. has filed with the Securities and Exchange Commission a registration statement under the Securities Act for the registration of its Voting Common Stock and Class B Non-Voting Common Stock, and shares underlying warrants and options to acquire such stock, to be issued and exchanged pursuant to a plan of reorganization and a merger agreement. This Joint Proxy Statement-Prospectus and the accompanying notice of shareholder meeting constitute the prospectus of the Customers Bancorp, Inc. filed as part of such registration statement. Upon completion of the reorganization, Customers Bancorp, Inc. will be required to comply with the periodic reporting requirements under the Securities Exchange Act of 1934 (“Exchange Act”). Customers Bank is not presently subject to reporting requirements under the Exchange Act.

Customers Bank  
99 Bridge Street  
Phoenixville, Pennsylvania 19460  
(610) 933-2000

\_\_\_\_\_, 2011

I am pleased to advise you that the Board of Directors of Customers Bank, has approved the reorganization, pursuant to a Plan of Merger and Reorganization, into a bank holding company structure (which is referred to as the “reorganization), with a bank holding company that has already been formed, called Customers Bancorp, Inc., and the acquisition by merger of Berkshire Bancorp, Inc. (which is referred to as the “merger”) pursuant to that certain Agreement and Plan of Merger, dated as of August 23, 2010, by and among Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc. (which is referred to as the “Merger Agreement”). The reorganization will provide Customers Bank with additional flexibility for structuring acquisitions and also for taking advantage of opportunities under the continually evolving laws governing financial institutions. The acquisition by merger of Berkshire Bancorp, Inc. will allow Customers Bank to accelerate its growth plans in Berks County and increase its assets to over \$1 billion with 16 banking offices in Pennsylvania, New York and New Jersey.

Both the reorganization and the merger are contingent upon receipt of approval from various bank regulatory agencies, and the merger transaction is contingent upon the earlier effectuation of the reorganization. Therefore, if the shareholders of Customers Bank do not approve the reorganization, the merger will not occur.

On completion of the reorganization, as a shareholder of Customers Bank, you will receive one share of Customers Bancorp, Inc. Voting Common Stock for every three of your shares of Customers Bank’s Voting Common Stock and one share of Customers Bancorp, Inc. Class B Non-Voting Common Stock for every three shares of Customers Bank’s Class B Non-Voting Common Stock. The conversion of Customers Bank shares into shares of the holding company generally will be tax-free for U.S. federal income tax purposes.

Upon completion of the merger, each share of Berkshire Bancorp, Inc. common stock will be converted into the right to receive a certain fraction of shares of Customers Bancorp, Inc. Voting Common Stock, based upon the exchange ratio, calculated as the Berkshire Bancorp, Inc. valuation divided by three times the Customers Bank valuation, each as established in the Merger Agreement, plus cash in lieu of fractional shares, as discussed in the attached Joint Proxy Statement-Prospectus. The merger will only occur if the holders of two-thirds of the outstanding shares of Customers Bank Voting Common Stock and Berkshire Bancorp, Inc. common stock vote in favor of the Merger Agreement and the merger.

Customers Bank is requesting that its shareholders approve the Plan of Merger and Reorganization, the reorganization that will result in the holding company structure, the merger and the Merger Agreement, and if necessary, an adjournment of the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies. Because both the reorganization into a holding company structure and the merger require the that two-thirds of the outstanding shares of Customers Bank Voting Common Stock be voted in favor of each respective transaction, your vote is very important. Customers Bank has scheduled a meeting of shareholders to consider the holding company formation at the following date, time and place:

[TIME DATE LOCATION]

The enclosed proxy statement gives you detailed information about the meeting, the proposed holding company formation, the Merger Agreement and the merger.

Your Board of Directors enthusiastically supports the reorganization into a holding company structure and the merger, and recommend that you vote to approve both. Please sign and return the enclosed proxy card. You are also welcome to attend the meeting in person.

Jay S. Sidhu  
Chairman and Chief Executive Officer

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Berkshire Bancorp, Inc.  
1101 Woodland Road  
Wyomissing, Pennsylvania 19610

[DATE]

I am pleased to advise you that the Board of Directors of Berkshire Bancorp, Inc. has approved the merger with and into Customers Bancorp, Inc. (which is referred to as the “merger”) pursuant to that certain Agreement and Plan of Merger, dated as of August 23, 2010, by and among Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc. (which is referred to as the “Merger Agreement”). The merger is contingent upon receipt of approval from various bank regulatory agencies and the earlier effectuation of the reorganization of Customers Bank into a holding company structure under Customers Bancorp, Inc. Therefore, if the shareholders of Customers Bank do not approve the reorganization or if the required bank regulatory approvals are not received, the merger will not occur.

Upon completion of the merger, each share of Berkshire Bancorp, Inc. common stock will be converted into the right to receive a certain fraction of shares of Customers Bancorp, Inc. Voting Common Stock, based upon the exchange ratio, calculated as the Berkshire Bancorp, Inc. valuation divided by three times the Customers Bank valuation, each as established in the Merger Agreement, plus cash in lieu of fractional shares, as discussed in the attached Joint Proxy Statement-Prospectus. The merger will only occur if the reorganization of Customers Bank into a holding company structure is completed, and the holders of two-thirds of the outstanding shares of Customers Bank Voting Common Stock and Berkshire Bancorp, Inc. common stock vote in favor of the Merger Agreement and the merger. The conversion of Berkshire Bancorp, Inc. common stock into Customers Bancorp, Inc. Voting Common Stock generally will be tax-free for U.S. federal income tax purposes.

Berkshire is requesting that shareholders of Berkshire Bancorp, Inc. approve and adopt the merger and the Merger Agreement, and if necessary, an adjournment of the meeting to a date to be proposed at the meeting, to solicit or receive additional proxies. Your vote is very important. There is a scheduled a special meeting of shareholders to consider the merger and Merger Agreement at the following date, time and place:

[TIME DATE LOCATION]

The enclosed proxy statement gives you detailed information about the meeting, the Merger Agreement and the merger.

Your Board of Directors enthusiastically supports the merger, and recommends that you vote to approve it. Please sign and return the enclosed proxy card. You are also welcome to attend the meeting in person.

CUSTOMERS BANK  
99 Bridge Street  
Phoenixville, Pennsylvania 19460  
(610) 933-2000

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

A Special Meeting of the shareholders of Customers Bank will be held on \_\_\_\_\_, \_\_\_\_ 2011, at the main office of Customers Bank, 99 Bridge Street, Phoenixville Pennsylvania, at \_\_\_\_\_ a.m. to vote on the following proposals:

- C1. To approve and adopt a Plan of Merger and Reorganization pursuant to which Customers Bank will reorganize to a bank holding company structure (which is referred to as the “reorganization”);
- C2. To approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank (which is referred to as the “Merger Agreement”) and to approve all transactions contemplated by the Merger Agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with an into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and
- C3. To adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

The board of directors has set the Record Date for the Special Meeting as \_\_\_\_\_, 2011. Only holders of record of Customers Bank’s Voting Common Stock at the close of business on that date can vote at the meeting. As long as a quorum is present or represented at the Special Meeting, the affirmative vote of two-thirds of Customers Bank’s outstanding Voting Common Stock is required to pass Proposals C1 and C2, and the affirmative vote of a majority of Customers Bank’s Voting Common Stock present, in person or by proxy is required to pass Proposal C3. As of the Record Date, there were \_\_\_\_\_ shares of Customers Bank’s Voting Common Stock outstanding.

Shareholders may be entitled to assert dissenters’ rights in connection with the reorganization. See “THE REORGANIZATION – Dissenters’ Rights” beginning on page 50 of this Joint Proxy Statement-Prospectus for a summary of the rights to which you may be entitled. Additionally, a copy of the law pertaining to dissenters’ rights, Sections 1607 and 1222 of the Pennsylvania Banking Code and Subchapter D of Chapter 15 and Section 1930 of the Pennsylvania Business Corporation Law, is attached as Annex C to the Joint Proxy Statement-Prospectus.

The directors of Customers Bank unanimously believe that Proposals C1 through C3 are in the best interests of Customers Bank and its shareholders, and urge shareholders to vote “FOR” each of Proposals C1 through C3.

By Order of the Board of Directors

Gertrude M. Hackney, Secretary

Dated: \_\_\_\_ \_\_, 2011





BERKSHIRE BANCORP, INC.  
1101 Woodland Road  
Wyomissing, Pennsylvania 19610  
(610) 376-7200

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

A Special Meeting of the shareholders of Berkshire Bancorp, Inc. will be held on \_\_\_\_\_, \_\_\_\_\_ 2011, at [LOCATION], at \_\_\_\_\_ a.m. to vote on the following proposals:

- B1. To approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank (which is referred to as the “Merger Agreement”) and to approve all transactions contemplated by the Merger Agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with and into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and
- B2. To adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

The board of directors has set the Record Date for the Special Meeting as \_\_\_\_\_, 2011. Only holders of record of Berkshire Bancorp, Inc.’s common stock at the close of business on that date can vote at the meeting. As long as a quorum is present or represented at the Special Meeting, the affirmative vote, in person or by proxy, of two-thirds of Berkshire Bancorp, Inc.’s outstanding common stock is required to pass Proposal B1, and the affirmative vote, in person or by proxy, of a majority of Berkshire Bancorp, Inc.’s common stock present is required to pass Proposal B2. As of the Record Date, there were \_\_\_\_\_ shares of Berkshire Bancorp, Inc.’s common stock outstanding.

Your vote is important regardless of the number of shares you own. If you abstain from voting or do not vote (either in person or proxy), it will have the practical effect of a vote against the Merger Agreement.

Even if you plan to attend the special meeting, the board of directors urges you to complete, sign, date and return the enclosed proxy card promptly in the envelope provided. This will not prevent you from attending the special meeting but will assure that your vote will be counted should you be unable to attend.

Shareholders may be entitled to assert dissenters’ rights in connection with the merger. See “THE MERGER – Rights of Dissenting Shareholders” beginning on page 76 of this Joint Proxy Statement-Prospectus for a summary of the rights to which you may be entitled. Additionally, a copy of the law pertaining to dissenters’ rights, Subchapter D of Chapter 15 and Section 1930 of the Pennsylvania Business Corporation Law, is attached as Annex F to the Joint Proxy Statement-Prospectus.

The directors of Berkshire Bancorp, Inc. unanimously believe that Proposals B1 and B2 are in the best interests of Berkshire Bancorp, Inc. and its shareholders, and urge shareholders to vote “FOR” each of Proposals B1 and B2.

By Order of the Board of Directors

Norman E. Heilenman, Chairman of the Board

Dated: \_\_\_\_ \_\_, 2011

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## FORWARD-LOOKING STATEMENTS

This Joint Proxy Statement-Prospectus and all attachments hereto, including the annual report and audited and unaudited financial statements of Customers Bank and Berkshire Bancorp, Inc., as well as other written or oral communications made from time to time by Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc. 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,” “intend,” or “anticipate” or 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.

In addition to the risks described in the “Risk Factors” section of this Joint Proxy Statement-Prospectus, important factors to consider and evaluate in such forward-looking statements include:

- Changes in the external competitive market factors that might impact results of operations;
- Changes in laws and regulations, including without limitation changes in capital requirements under the federal prompt corrective action regulations;
- Changes in business strategy or an inability to execute strategy due to the occurrence of unanticipated events;
- Ability to identify potential candidates for, and consummate, acquisition or investment transactions;
- Constraints on ability to consummate an attractive acquisition or investment transaction because of significant competition for these opportunities;
- Failure to complete any or all of the transactions described herein on the terms currently contemplated;
- Local, regional and national economic conditions and events and the impact they may have on Customers Bank, Berkshire Bank and their customers;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of Customers Bank’s or Berkshire Bank’s borrowers;
- Changes in the level of non-performing and classified assets and charge-offs;
- Changes in estimates of future loan loss reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- Changes in Customers Bank’s or Berkshire Bancorp’s capital structure resulting from future capital offerings or acquisitions;
- Changes in the timing or substance of Customers Bank’s strategic and operating plans resulting from future acquisitions or acquisition proposals;
- The integration of Customers Bank’s recent FDIC-assisted acquisition may present unforeseen challenges;
- Inflation, interest rate, securities market and monetary fluctuations;
- The timely development and acceptance of new banking products and services and perceived overall value of these products and services by users;
- Changes in consumer spending, borrowing and saving habits;
- Technological changes;

- The ability to increase market share and control expenses;
- Continued volatility in the credit and equity markets and its effect on the general economy;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- The businesses of the Customers Bancorp, Inc. and Berkshire Bancorp, Inc., and subsidiaries, not integrating successfully or such integration being more difficult, time-consuming or costly than expected;
- Material differences in the actual financial results of merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame, including as to the merger;
- Revenues following the merger being lower than expected; and
- Deposit attrition, operating costs, customer loss and business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees, being greater than expected.

These forward-looking statements are subject to significant uncertainties and contingencies, many of which are beyond the control of Customers Bancorp, Inc., Customers Bank, Berkshire Bancorp, Inc. and Berkshire 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 Joint Proxy Statement-Prospectus and the attachments hereto. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or, in the case of documents referred to, the dates of those documents. None of Customers Bancorp, Inc., Customers Bank, Berkshire Bancorp, Inc. nor Berkshire Bank undertakes any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as may be required under applicable law.

## SUMMARY

### PRINCIPAL PARTIES TO THE REORGANIZATION AND MERGER

#### Customers Bank

Customers Bank is a Pennsylvania state chartered bank and member of the Federal Reserve System. It provides a full range of banking services to small and medium-sized businesses, professionals, individuals and families through its 11 branch locations: nine in Bucks, Berks, Chester and Delaware Counties, Pennsylvania; one in Camden County, New Jersey; and one in Westchester County, New York. Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its Mortgage Warehouse Business.

As of December 31, 2010, Customers Bank had total assets of approximately \$1.37 billion, total loans (including loans held for sale) of approximately \$879.0 million, total deposits of approximately \$1.25 billion and stockholders' equity of approximately \$105.1 million.

Customers Bank's corporate headquarters are located at 99 Bridge Street, Phoenixville, Chester County, PA 19460. The main telephone number is (610) 933-2000.

#### Customers Bancorp, Inc.

Customers Bancorp, Inc., or CBI, is a Pennsylvania corporation which is anticipated to become a Pennsylvania bank holding company, contingent upon receipt of all necessary bank regulatory approvals as well as the reorganization being approved by Customers Bank's shareholders at the Customers Special Meeting.

CBI's corporate headquarters are located at 1015 Penn Avenue, Wyomissing, Pennsylvania 19610. The main telephone number is (610) 933-2000.

#### Berkshire Bancorp, Inc.

Berkshire Bancorp, Inc., or BBI, is a Pennsylvania bank holding company, and its primary activity consists of owning and supervising its subsidiary, Berkshire Bank. Berkshire Bank, has five branch locations in Berks County, Pennsylvania, and is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Southeastern Pennsylvania market area. Berkshire Bank's commercial banking activities include accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans.

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As of December 31, 2010, BBI had total consolidated assets of approximately \$135 million, total consolidated loans of approximately \$106 million, total consolidated deposits of approximately \$123 million and consolidated shareholders' equity of approximately \$10.5 million.

BBI's corporate headquarters are located at 1101 Woodland Road, Wyomissing, Pennsylvania 19610. The main telephone number is (610) 376-7200.

## COMMONLY USED TERMS

For purposes of this Joint Proxy Statement-Prospectus, any references to “CBI” refer to Customers Bancorp, Inc., any references to “Customers” refer to Customers Bank and CBI collectively, any references to “BBI” refer to Berkshire Bancorp, Inc. and any references to “Berkshire” refer to Berkshire Bank and BBI collectively.

## QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND VOTING

Why am I receiving these proxy materials?

Customers Bank and BBI are sending you this Joint Proxy Statement-Prospectus and the accompanying proxy card because your proxy to vote at a Special Meeting is being solicited. If you were a holder of Customers Bank Voting Common Stock on \_\_\_\_\_, 2011 (which is referred to as the “Record Date”), you are entitled to notice of and to vote at the Special Meeting of Shareholders of Customers Bank to be held at \_\_\_\_\_ on \_\_\_\_\_, 2011 at \_\_\_\_\_ (which is referred to as the “Customers Special Meeting”).

If you were a holder of BBI common stock on the Record Date, you are entitled to notice of and to vote at the Special Meeting of Shareholders of BBI to be held at TIME on \_\_\_\_\_, 2011 at [LOCATION] (which is referred to as the “Berkshire Special Meeting”). Shareholders of record on the Record Date are invited to attend the meeting for their respective entities to vote on the proposals described in this Joint Proxy Statement-Prospectus. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign, and return the accompanying proxy card.

Customers Bank has mailed this Joint Proxy Statement-Prospectus and the accompanying proxy card to all shareholders of record entitled to vote at the Customers Special Meeting, and BBI has mailed this Joint Proxy Statement-Prospectus and the accompanying proxy card to all shareholders of record entitled to vote at the Berkshire Special Meeting.

Who is entitled to vote at the meeting?

Customers Bank. To be able to vote, you must have been a beneficial owner or record holder of Customers Bank’s Voting Common Stock on \_\_\_\_\_, 2011, the Record Date.

If, at the close of business on the Record Date, your Customers Bank shares were registered directly in your name, then you are a shareholder of record. As a shareholder of record you may vote in person at the Customers Special Meeting or by proxy. Whether or not you plan to attend the meeting, Customers Bank urges you to complete and return the accompanying proxy card to ensure your vote is counted.

If, at the close of business on the Record Date, your Customers Bank shares were not issued directly in your name, but rather were held in an account at a brokerage firm, bank, or by another agent, you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by your broker, bank, or other agent. The broker, bank, or other agent holding your shares in that account is considered to be the shareholder of record for purposes of voting at the Customers Special Meeting. As a beneficial owner, you have the right to direct your broker, bank, or other agent on how to vote the shares of Voting Common Stock in your account. You are also invited to attend the Customers Special Meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy issued in your name from your broker, bank or other agent.



BBI. To be able to vote, you must have been a beneficial owner or record holder of BBI common stock on \_\_\_\_\_, 2011, the Record Date.

If, at the close of business on the Record Date, your BBI shares were registered directly in your name, then you are a shareholder of record. As a shareholder of record you may vote in person at the Berkshire Special Meeting or by proxy. Whether or not you plan to attend the meeting, BBI urges you to complete and return the accompanying proxy card to ensure your vote is counted.

If, at the close of business on the Record Date, your BBI shares were not issued directly in your name, but rather were held in an account at a brokerage firm, bank, or by another agent, you are the beneficial owner of shares held in “street name” and these proxy materials are being forwarded to you by your broker, bank, or other agent. The broker, bank, or other agent holding your shares in that account is considered to be the shareholder of record for purposes of voting at the Berkshire Special Meeting. As a beneficial owner, you have the right to direct your broker, bank, or other agent on how to vote the shares of BBI common stock in your account. You are also invited to attend the Berkshire Special Meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy issued in your name from your broker, bank or other agent.

What am I being asked to vote on?

Customers Bank. There are three matters scheduled for a vote at the Customers Special Meeting:

- C1. To approve and adopt a Plan of Merger and Reorganization pursuant to which Customers Bank will reorganize to a bank holding company structure;
- C2. To approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank, and to approve all transactions contemplated by such agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with and into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and
- C3. To adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

BBI. There are two matters scheduled for a vote at the Berkshire Special Meeting:

- B1. To approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank, and to approve all transactions contemplated by such agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with and into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and
- B2. To adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

Customers Bank’s board of directors recommends a vote “FOR” Proposals C1 through C3 above.

For additional information about the proposed reorganization of Customers Bank, see “QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION AND THE MERGER” beginning on page 9 of this Joint Proxy Statement-Prospectus, and the sections of this Joint Proxy Statement-Prospectus referred to therein. For additional

information about the proposed merger of BBI with and into CBI, see “QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION AND THE MERGER” beginning on page 9 of this Joint Proxy Statement-Prospectus, and the sections of this Joint Proxy Statement-Prospectus referred to therein.

BBI’s board of directors recommends a vote “FOR” Proposals B1 and B2 above.

For additional information about the proposed merger of BBI with and into CBI, see “QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION AND THE MERGER” beginning on page 9 of this Joint Proxy Statement-Prospectus, and the sections of this Joint Proxy Statement-Prospectus referred to therein.

How many votes do I have?

Each holder of Customers Bank’s Voting Common Stock is entitled to one vote per share held, and each holder of BBI common stock is entitled to one vote per share held.

#### What is a quorum?

For a proposal to be considered at either the Customers Special Meeting or the Berkshire Special Meeting, a quorum must be present. The presence, in person or by proxy, of a majority of the issued and outstanding shares entitled to vote will constitute a quorum. The shareholders present, in person or by proxy, at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Abstentions and “broker non-votes” (that is, shares held by a broker or nominee that are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary voting power) will not be counted for the purpose of determining whether a quorum is present at either the Customers Special Meeting or the Berkshire Special Meeting.

Your shares will be counted toward the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank, or other agent) or if you are present at the meeting. If there is no quorum, the chairperson of the meeting, or a majority of the votes present at the meeting, may adjourn the meeting to another date.

At any adjourned meeting at which a quorum is present in person or by proxy, any business may be transacted which might have been transacted at the original meeting if a quorum had been present.

#### What vote is required?

Customers Bank. For Proposals C1 and C2, to approve and adopt a Plan of Merger and Reorganization pursuant to which Customers Bank will be reorganized into a bank holding company structure, and to approve and adopt the Merger Agreement and the transactions contemplated thereby, if a quorum is present, the affirmative vote of holders of two-thirds of all shares of Customers Bank’s outstanding Voting Common Stock is required to approve each of Proposals C1 and C2. Abstentions and broker non-votes are not deemed to constitute “votes cast” and, therefore, will have the same effect as a vote against the proposals.

For Proposal C3, if a quorum is present, the affirmative vote of a majority of the stock having voting powers, present, in person or by proxy, is required to approve such proposal. Abstentions and broker non-votes are not deemed to constitute “votes cast” and, therefore, do not count either for or against approval of a given proposal.

BBI. For Proposal B1, to approve and adopt the Merger Agreement and the transactions contemplated thereby, if a quorum is present, the affirmative vote, in person or by proxy, of holders of two-thirds of all shares of BBI’s outstanding common stock is required to approve such proposal. Abstentions and broker non-votes are not deemed to constitute “votes cast” and, therefore, will have the same effect as a vote against the Merger Agreement and the transactions contemplated thereby.

For Proposal B2, if a quorum is present, the affirmative vote, in person or by proxy, of a majority of the common stock present, is required to approve such proposal. Abstentions and broker non-votes are not deemed to constitute “votes cast” and, therefore, do not count either for or against approval of a given proposal.

#### How do I vote?

Customers Bank. For any matter to be voted on at the Customers Special Meeting, you may vote “For” or “Against” or abstain from voting.

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Shareholder of Record: Shares Registered in Your Name. If you were a shareholder of record of Customers Bank on the Record Date, you may vote in person at the Customers Special Meeting. Alternatively, you may vote by proxy by using the accompanying proxy card. Whether or not you plan to attend the meeting, Customers Bank urges you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy. In such case, notify the Corporate Secretary before the meeting begins of your presence at the meeting and your intention to revoke your previously voted proxy.

To vote in person, come to the Customers Special Meeting and the ballot will be given to you when you arrive.

To vote by proxy, simply complete, sign, and date the accompanying proxy card and return it promptly in the envelope provided. If you return your signed proxy card before the Customers Special Meeting, your shares will be voted as you direct unless you revoke your proxy.

**Beneficial Owner: Shares Registered in the Name of Broker, Bank, or Other Agent.** If your shares of Customers Bank's Voting Common Stock are held in "street name," that is, your shares are held in the name of a brokerage firm, bank, or other nominee, in lieu of a proxy card you should receive a voting instruction form from that institution by mail. Complete and mail the voting instruction card as instructed to ensure that your vote is counted.

If your shares are held in street name and you wish to vote in person at the Customers Special Meeting, you must obtain a proxy issued in your name from the record holder (that is, your brokerage firm, bank or other nominee) and bring it with you to the meeting. Customers recommends that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the meeting.

BBI. For any matter to be voted on at the Berkshire Special Meeting, you may vote "For" or "Against" or abstain from voting.

**Shareholder of Record: Shares Registered in Your Name.** If you were a shareholder of record of BBI on the Record Date, you may vote in person at the Berkshire Special Meeting. Alternatively, you may vote by proxy by using the accompanying proxy card. Whether or not you plan to attend the meeting, BBI urges you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy. In such case, notify the Corporate Secretary before the meeting begins of your presence at the meeting and your intention to revoke your previously voted proxy.

To vote in person, come to the Berkshire Special Meeting and the ballot will be given to you when you arrive.

To vote by proxy, simply complete, sign, and date the accompanying proxy card and return it promptly in the envelope provided. If you return your signed proxy card before the Berkshire Special Meeting, your shares will be voted as you direct unless you revoke your proxy.

**Beneficial Owner: Shares Registered in the Name of Broker, Bank, or Other Agent.** If your shares of BBI's common stock are held in "street name," that is, your shares are held in the name of a brokerage firm, bank, or other nominee, in lieu of a proxy card you should receive a voting instruction form from that institution by mail. Complete and mail the voting instruction card as instructed to ensure that your vote is counted.

If your shares are held in street name and you wish to vote in person at the Berkshire Special Meeting, you must obtain a proxy issued in your name from the record holder (that is, your brokerage firm, bank or other nominee) and bring it with you to the meeting. Berkshire recommends that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the meeting.

What if I return a proxy card but do not make specific choices?

If you return a signed proxy card without marking any voting selections, your shares will be voted "FOR" each proposal listed on the proxy card. If any other matter is properly presented at the meeting for which the proxy card is submitted, then one of the proxies named on the proxy card will vote your shares using his or her discretion.

What if I receive more than one proxy card or voting instruction form?

If you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, or because you hold shares of both Customers Bank and BBI, please be sure to complete, sign, date, and return each proxy card or voting instruction form to ensure that all of your shares will be voted. If you receive proxy cards and voting instruction forms from both Customers Bank and BBI, please be sure to return each completed, signed and dated proxy card and voting instruction form to the proper entity. So proxy

cards and voting instruction forms related to the Customers Special Meeting should be returned to Customers Bank in the return envelope provided with the Customers Bank proxy materials. Likewise, proxy cards and voting instruction forms related to the Berkshire Special Meeting should be returned to BBI in the return envelope provided with the BBI proxy materials.

Only shares relating to proxy cards and voting instruction forms that have been signed, dated, and timely returned will be counted in toward a quorum and voted.

Who will count the votes and how will my votes be counted?

Votes will be counted by the judge of elections appointed for each Special Meeting. For the Customers Special Meeting, the judge of election will be Carlyn D'Amico, or, in her absence, one or more other individuals to be appointed in accordance with Customers Bank's bylaws. For the Berkshire Special Meeting, the judge of election will be \_\_\_\_\_, or, in his/her absence, one or more other individuals to be appointed in accordance with BBI's bylaws. The judge of elections at each Special Meeting will count "FOR" and "AGAINST" votes for each proposal.

Can I change my vote after I have sent you my proxy?

Yes. You can revoke your proxy at any time before the applicable vote at the Special Meeting for the entity of which you are a shareholder. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy with a later date;
- You may send a written notice that you are revoking your proxy to the applicable Corporate Secretary:
  - If to Customers Bank, at 1015 Penn Ave. Suite 103, Wyomissing, Pennsylvania 19610, Attention: Corporate Secretary; or
  - If to BBI, at 1101 Woodland Road, Wyomissing, Pennsylvania 19610, Attention Corporate Secretary;
- You may attend the meeting and vote in person (however, simply attending the meeting will not, by itself, revoke your proxy; you must notify the Corporate Secretary before the meeting begins of your presence at the meeting and your intention to revoke your previously voted proxy).

If your shares are held by a broker, bank, or other agent, you should follow the instructions provided by them.

How may I communicate with the board of directors?

Customers Bank. Please address any communications to Customers Bank's board of directors, in writing to Customers Bank's Corporate Secretary at 1015 Penn Ave. Suite 103, Wyomissing, Pennsylvania 19610. The Corporate Secretary will relay shareholder communications to the board of directors or any individual director to whom communications are directed.

BBI. Please address any communications to BBI's board of directors, in writing to BBI's Corporate Secretary at 1101 Woodland Road, Wyomissing, Pennsylvania 19610. The Corporate Secretary will relay shareholder communications to the board of directors or any individual director to whom communications are directed.

Who will bear the cost of soliciting proxies?

Customers Bank will bear the cost of the solicitation of proxies for the Customers Special Meeting, including preparation, assembly, printing and distribution of the proxy card and any additional solicitation materials furnished to shareholders in connection with the Customers Special Meeting. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation materials to the beneficial owners. Customers Bank may reimburse such



persons for their reasonable expenses in forwarding solicitation materials to beneficial owners. The original solicitation of proxies may be supplemented by solicitation by personal contact, telephone, facsimile, email, or any other means by Customers Bank's directors, officers, or employees. No additional compensation will be paid to those individuals for any such services.

BBI will bear the cost of the solicitation of proxies for the Berkshire Special Meeting, including preparation, assembly, printing and distribution of the proxy card and any additional solicitation materials furnished to shareholders in connection with the Berkshire Special Meeting. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation materials to the beneficial owners. BBI may reimburse such persons for their reasonable expenses in forwarding solicitation materials to beneficial owners. The original solicitation of proxies may be supplemented by solicitation by personal contact, telephone, facsimile, email, or any other means by BBI's directors, officers, or employees. No additional compensation will be paid to those individuals for any such services.

The cost of preparation, assembly, printing, and distribution of this Joint Proxy Statement-Prospectus will be shared by Customers Bank and BBI.

How can I find out the results of the voting at the meeting?

The voting results for Customers Bank will be announced at the Customers Special Meeting. The voting results for BBI will be announced at the Berkshire Special Meeting.

What is the recommendation of the board of directors?

Customers Bank. Customers Bank's board of directors recommends a vote:

FOR Proposal C1, to approve and adopt a Plan of Merger and Reorganization pursuant to which Customers Bank will reorganize to form a bank holding company structure;

FOR Proposal C2, to approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank, and to approve all transactions contemplated by such agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with and into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and

FOR Proposal C3, to adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

With respect to any other matter that properly comes before the Customers Special Meeting, the proxies will vote in accordance with their best judgment.

Unless you give other instructions on your proxy card, the persons named as proxies on your signed proxy card will vote in accordance with the recommendations of Customers Bank's board of directors with respect to each of the proposals and the election of each director position, and in their discretion with respect to any other matter properly brought before the Customers Special Meeting.

BBI. BBI's board of directors recommends a vote:

FOR Proposal B1, to approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank, and to approve all transactions contemplated by such agreement. Pursuant to the Merger Agreement, Berkshire Bancorp, Inc. will merge with and into Customers Bancorp, Inc., and, immediately thereafter, Berkshire Bank will merge with and into Customers Bank; and

FOR Proposal B2, to adjourn the meeting to a date to be proposed at the meeting, if necessary to solicit or receive additional proxies.

With respect to any other matter that properly comes before the Berkshire Special Meeting, the proxies will vote in accordance with their best judgment.

Unless you give other instructions on your proxy card, the persons named as proxies on your signed proxy card will vote in accordance with the recommendations of BBI's board of directors with respect to each of the proposals and the election of each director position, and in their discretion with respect to any other matter properly brought before the

Berkshire Special Meeting.

Whom should I call if I have questions about the Special Meeting, the reorganization or the merger?

Customers Bank. If you are a Customers Bank shareholder, you should contact Trudy Hackney, Customers Bank's Corporate Secretary, at (484) 359-7135 (for questions about the Customers Special Meeting), and Thomas Brugger, Customers Bank's Chief Financial Officer, at (484) 359-7113 (for questions about the reorganization and the merger).

BBI. If you are a BBI shareholder, you should contact BBI's Corporate Secretary at (610) 376-7200.

## QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION AND THE MERGER

This question and answer summary highlights selected information contained in other sections of this Joint Proxy Statement-Prospectus. To understand the reorganization and the merger more fully, you should carefully read this entire Joint Proxy Statement-Prospectus, including all appendices and financial statements.

What is the proposed transaction for which I am being asked to vote?

**Reorganization.** Customers Bank shareholders are being asked to vote on a resolution to approve and adopt the Plan of Merger and Reorganization (which is referred to as the “Plan of Reorganization”) described in this Joint Proxy Statement-Prospectus in order to effect a reorganization (which is referred to as the “reorganization”) of Customers Bank into a bank holding company structure whereby all of the current shareholders of Customers Bank will become shareholders of CBI, and Customers Bank will become a wholly owned subsidiary of CBI. The reorganization, if approved by shareholders of Customers Bank at the Special Meeting, will involve several steps including, among others, an application to applicable bank regulators for permission to form interim bank as a merger subsidiary into which Customers Bank can merge in order to become a wholly owned subsidiary of CBI, applications to applicable bank regulators for permission for Customers Bank to merge into Customers Interim Bank in accordance with the Plan of Reorganization, the exchange at a ratio of three-to-one of outstanding shares of Customers Bank’s Voting Common Stock and Class B Non-Voting Common Stock for shares of CBI’s Voting Common Stock and Class B Non-Voting Common Stock, and the exchange of outstanding warrants and options to purchase shares of Customers Bank’s Voting Common Stock for warrants or options, respectively, to purchase shares of CBI’s Voting Common Stock.

For more information on the reorganization and the Plan of Reorganization, see “THE REORGANIZATION” beginning at page 45 of this Joint Proxy Statement-Prospectus and the Plan of Merger and Reorganization attached as Annex A to this Joint Proxy Statement-Prospectus.

**Merger.** Both Customers Bank and BBI shareholders are being asked to vote on a resolution to approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank (which is referred to as the “Merger Agreement”), and to approve all transactions contemplated by such agreement (which is referred to as the “merger”). The consummation of the merger is contingent upon the consummation of the reorganization, Customers Bank and BBI shareholder approval, and bank regulatory approval. Assuming consummation of the reorganization, if the merger is approved by both Customers Bank and BBI shareholders, the merger will involve several steps including, among others, an application to applicable bank regulators for permission to merge BBI into CBI (which is referred to as the “holding company merger”) and thereafter to merge Berkshire Bank into Customers Bank (which is referred to as the “bank merger”) in accordance with the Merger Agreement, and the exchange of BBI shares for CBI shares pursuant to the exchange ratio set forth in the Merger Agreement (more particularly described below under “What will I receive as consideration?”). Accordingly, the effective time of the holding company merger will precede the effective time of the bank merger.

Who is being asked to vote?

**Reorganization.** Only holders of Customers Bank Voting Common Stock as of the Record Date are being asked to vote on the reorganization. BBI shareholders, holders of Customers Bank Class B Non-Voting Common Stock, and holders of Customers Bank Voting Common Stock who were not holders of such stock on the Record Date are not entitled to vote on the reorganization.

**Merger.** Holders of Customers Bank Voting Common Stock and holders of BBI common stock as of the Record Date are being asked to vote on the merger. Holders of Customers Bank Class B Non-Voting Common Stock, and holders

of Customers Bank Voting Common Stock and BBI common stock who were not holders of such stock on the Record Date are not entitled to vote on the merger.

What will I receive as consideration?

Reorganization. In the reorganization, all Customers Bank shareholders will receive one CBI share of Voting Common Stock for every three shares of Customers Bank's Voting Common Stock held immediately prior to the closing of the reorganization, and one share of CBI's Class B Non-Voting Common Stock for every three shares of Customers Bank's Class B Non-Voting Common Stock held immediately prior to the closing of the reorganization. CBI will not issue any fractional shares in the reorganization. Holders who would otherwise be entitled to a fractional share of CBI Voting Common Stock or Class B Non-Voting Common Stock will instead receive an amount in cash, rounded to the nearest cent and without interest, equal to the product of (1) the fraction of such share to which the holder would otherwise have been entitled, and (2) the book value of one share of Voting Common Stock or Class B Non-Voting Common Stock, as applicable, of Customers Bank as of the final day of the quarter ended immediately prior to the closing of the reorganization. The book value per share of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock as of December 31, 2010 was \$4.17.

Merger. In the merger, all BBI shareholders will receive merger consideration as follows:

Each share of BBI common stock will be converted into the right to receive the number of shares of CBI Voting Common Stock equal to an exchange ratio to be calculated at the closing of the merger plus cash in lieu of fractional shares. The exchange ratio is the "Berkshire Valuation" divided by three (3) times the "NCB Valuation."

The Merger Agreement defines the "Berkshire Valuation" as the greater of (1) \$1.95, or (2) (A) (i) BBI's tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, minus (ii) the Book Value Adjustment (which is the dollar amount necessary, as of the most recent calendar month end prior to the effective time of the merger, to bring Berkshire Bank's total loan loss reserves up to an amount equal to 40% of its nonperforming loans), if any, minus the costs (whether capitalized or expensed) that have been accrued or otherwise incurred as of the effective time by either or both of BBI and Berkshire Bank related to the Merger Agreement and transactions contemplated thereby, divided by (B) the number of shares of BBI common stock outstanding at the effective time.

The Merger Agreement defines the "NCB Valuation" as Customers Bank's tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, divided by the then-current number of shares of Customers Bank Voting Common Stock and Class B Non-Voting Common Stock outstanding at the effective time.

For example, if the effective time of the merger was January 1, 2011, the merger consideration would have been 0.1559 shares of CBI Voting Common Stock (with a pro forma tangible book value of \$12.51 per share of CBI Voting Common Stock) in exchange for each share of BBI common stock outstanding immediately prior to the merger. This is calculated as the Berkshire Valuation of \$1.95 divided by three times the NCB Valuation of \$4.17. The Berkshire Valuation of \$1.95 is the minimum Berkshire Valuation based on the Merger Agreement. The NCB Valuation of \$4.17 is (1) \$105,140,355 (tangible common book value), divided by (2) 25,194,041 shares of Customers Bank's Common Stock outstanding as of January 1, 2011. Please keep in mind that numbers in this paragraph are provided as an example of what the merger consideration would be assuming the merger went into effect on January 1, 2011. Since this Joint Proxy Statement-Prospectus was declared effective and mailed after January 1, 2011, the numbers are not a true representation of what BBI shareholders will receive as consideration for the merger. As the tangible common book value of both BBI and Customers Bank fluctuates, the per share merger consideration will also change.

Shares of BBI common stock owned by Customers Bank, Berkshire Bank or BBI (other than BBI shares held in trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties and other than BBI shares held, directly or indirectly, by CBI, Customers Bank, BBI or Berkshire Bank in respect of a debt previously contracted) are excluded from the shares of BBI common stock that will be exchanged in the merger.

For a more complete description of the merger consideration, see "The Merger Agreement" beginning at page 77 of this Joint Proxy Statement-Prospectus.

What will happen, upon consummation of the reorganization, to options and warrants to purchase Customers Bank's Common Stock?

All warrants and options for the purchase of Customers Bank's Voting Common Stock or Class B Non-Voting Common Stock that have been granted will automatically become warrants or options, respectively, to purchase one-third the number of shares of CBI's Voting Common Stock or Class B Non-Voting Common Stock, as applicable. The number of CBI shares for which each outstanding option or warrant will be exercisable after the

reorganization will be rounded up to the nearest whole number of shares, subject to the holder's agreement to any necessary corresponding upward rounding adjustments of the per share exercise price to the nearest whole cent.

What will happen, upon the consummation of the merger, to outstanding warrants to purchase BBI common stock? All warrants to purchase BBI common stock that are outstanding and unexercised immediately prior to the effective time of the merger will be converted automatically into the right to receive warrants to purchase shares of CBI Voting Common Stock upon the same terms and conditions as the BBI warrants, except that the expiration date shall be extended five (5) years and the number of shares and exercise price of the warrants will be adjusted as follows:

- The number of shares of CBI Voting Common Stock to be subject to the converted BBI warrants will be equal to the product of the number of shares of BBI common stock subject to the BBI warrants multiplied by the exchange ratio (described above in "What will I receive as consideration? – The Merger"), provided that any fractional shares of CBI Voting Common Stock resulting from such multiplication will be rounded down to the nearest whole share; and

- The exercise price per share of CBI Voting Common Stock under the converted BBI warrants will be equal to the exercise price per share of BBI common stock under the BBI warrants divided by the exchange ratio, provided that such exercise price will be rounded up to the nearest cent.

At all times after the effective time of the merger, CBI will reserve for issuance such number of shares of CBI Voting Common Stock as necessary so as to permit the exercise of converted BBI warrants in the manner contemplated by the Merger Agreement and in the instruments pursuant to which such BBI warrants were granted.

Do I have to take any action to exchange my shares?

Reorganization. Upon completion of the reorganization, shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock will automatically be exchanged for shares of CBI's Voting Common Stock and Class B Non-Voting Common Stock without any action on the part of Customers Bank's shareholders.

After the reorganization, Customers Bank shareholders will be mailed a letter of transmittal and instructions related to the exchange of the certificates and other instruments representing ownership of Customers Bank's Voting Common Stock, Class B Non-Voting Common Stock, or options or warrants to purchase Customers Bank's Voting Common Stock, as applicable, for certificates or other instruments representing CBI's securities into which such securities have been converted as a result of the reorganization.

Customers Bank shareholders should not send in their certificates or other instruments representing their prior ownership of securities until they are notified to do so.

Merger. As of the effective time of the merger, shares of BBI's common stock will automatically be cancelled and converted into the right to receive the merger consideration pursuant to the Merger Agreement. Each BBI share certificate will thereafter represent only the right to receive the merger consideration into which the shares represented by such certificate have been converted, as well as any dividends to which holders of BBI common stock become entitled in accordance with the Merger Agreement.

Upon completion of the merger, BBI shareholders will be mailed a letter of transmittal and instructions related to the exchange of BBI share certificates and other instruments representing ownership of BBI's common stock for the merger consideration.

BBI shareholders should not send in their certificates or other instruments representing their prior ownership of securities until they are notified to do so.

Can I trade Customers Bank and/or BBI shares between the date of this Joint Proxy Statement-Prospectus and the closing of the reorganization?

Yes. To the extent you are currently allowed to trade such shares, Customers Bank's and BBI's shares will continue to be tradable during this period.

After the reorganization and the merger, where can I trade CBI's shares?

There is currently no established trading market for CBI's Voting Common Stock or Class B Non-Voting Common Stock and CBI does not expect there to be an established trading market for such shares after the reorganization and the merger. CBI's Voting Common Stock and Class B Non-Voting Common Stock may not be listed or quoted on any exchange. To date, trades of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock have not regularly been reported, so it is unlikely that trades of CBI's Voting Common Stock and Class B Non-Voting



Common Stock will be regularly reported in the foreseeable future.

In the event that any BBI shareholder would be entitled to receive as consideration for the merger a number of shares equaling greater than 4.9% of CBI's Voting Common Stock outstanding immediately after the merger, such BBI shareholder will receive as merger consideration only the number of shares equaling 4.9% of CBI's Voting Common Stock outstanding immediate after the merger until such BBI shareholder obtains applicable regulatory approval or accepts shares of CBI's Class B Non-Voting Common Stock for the rest of the merger consideration owed to such BBI shareholder.

Will the reorganization or the merger affect Customers Bank's current or future operations?

CBI currently believes that neither the reorganization nor the merger should have material impact on how Customers Bank conducts its day-to-day operations. A holding company structure may allow Customers Bank to conduct some activities that it could not conduct on its own, or it may allow it to make some acquisitions that it could not otherwise make. A merger between BBI and CBI would expand Customer Bank's footprint in Berks County, Pennsylvania. Please see "Risk Factors" beginning at page 20 of this Joint Proxy Statement-Prospectus for a discussion of various ways in which the reorganization and merger could have an adverse effect on CBI and Customers Bank.

Will the reorganization or merger dilute my economic interest?

**Reorganization.** The reorganization will not dilute Customers Bank's shareholders' economic interest. The number of shares of CBI outstanding immediately after the consummation of the reorganization will be one-third the number of shares of Customers Bank outstanding immediately before consummation of the transaction, but the relative economic interest associated with the shares will remain the same.

**Merger.** The merger will dilute Customers Bank's shareholders' economic interest in CBI compared to their economic interest immediately prior to the merger, and it will also dilute BBI's shareholders' economic interest in CBI compared to their former economic interest in BBI.

Will the reorganization or merger result in any changes to my rights as a shareholder?

**Reorganization.** Yes. Rights under the Pennsylvania Business Corporation Law as a CBI shareholder will differ in certain respects from rights of a Customers Bank shareholder under the Pennsylvania Banking Code. In addition, CBI's articles of incorporation and bylaws would differ from Customers Bank's articles of incorporation and bylaws. The material changes in rights resulting from the reorganization are summarized at "COMPARISON OF SHAREHOLDERS' RIGHTS" beginning at page 96 of this Joint Proxy Statement-Prospectus.

**Merger.** Yes. While the rights of a BBI shareholder may be the same as a CBI shareholder under the Pennsylvania Business Corporation Law, with the exception of certain provisions which BBI and CBI may have opted out of, CBI's articles of incorporation and bylaws would differ from BBI's articles and bylaws. The material changes in rights resulting from the reorganization are summarized at "COMPARISON OF SHAREHOLDERS' RIGHTS" beginning at page 96 of this Joint Proxy Statement-Prospectus.

What are the expected federal income tax consequences of the reorganization and merger?

**Reorganization.** The reorganization is intended to qualify as a tax-free reorganization for federal income tax purposes. Stradley Ronon Stevens & Young, LLP, Customers Bank's tax counsel, has opined, to the effect that, on the basis of certain representations as to matters of fact and assumptions, including that such representations are accurate and remain accurate through the effective date of the reorganization, (1) the shareholders of Customers Bank will not recognize any gain or loss for federal income tax purposes upon the exchange of their shares in Customers Bank solely for shares in CBI, except with respect to receipt of cash in lieu of any fractional shares of CBI, and (2) none of Customers Bank, CBI and Customers Interim Bank will recognize any gain or loss in connection with the reorganization. If a shareholder of Customers Bank dissents to the proposed reorganization and receives solely cash in exchange for shares of Customers Bank, such cash will be treated as received by such shareholder in a taxable exchange, subject to special rules. Thus, while there can be no guarantee that the U.S. Internal Revenue Service will adopt a similar position, it is expected that Customers Bank shareholders will have no federal income tax consequences as a result of the reorganization, except with respect to receipt of cash in lieu of any fractional shares of CBI or in the case of dissenting shareholders who elect dissenters' rights. Customers Bank shareholders should consult

with their tax adviser about state and local tax consequences of the reorganization, if any, because the information about tax consequences in this Joint Proxy Statement-Prospectus relates to the federal income tax consequences of the reorganization only. Please refer to “CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE REORGANIZATION” beginning on page 51 of joint prospectus–proxy statement for a description of the material U.S. federal income tax consequences of the reorganization to Customers Bank’s shareholders.

Merger. The transactions contemplated by the merger are intended to qualify as a tax-free reorganizations for federal income tax purposes. Each of CBI and BBI has received an opinion from its respective tax counsel, to the effect that, on the basis of certain representations as to matters of fact and assumptions, including that such representations are accurate and remain accurate through the effective date of the merger, (1) the shareholders of BBI will not recognize any gain or loss for federal income tax purposes upon the exchange of their shares of BBI common stock (or the BBI 6% Non-Cumulative Non-Voting Convertible Perpetual Preferred Stock, Series C (the “BBI Series C Stock”)), solely for shares in CBI Voting Common Stock except with respect to receipt of cash in lieu of any fractional shares of CBI and, with respect to the BBI Series C Stock, accrued dividends thereon, and (2) neither BBI nor Berkshire Bank will recognize any gain or loss in connection with the merger (except with respect to the amount of bad debt reserve of Berkshire Bank that must be recaptured for federal income tax purposes as a result of the merger of Berkshire Bank with and into Customers Bank). If a shareholder of BBI dissents to the proposed merger and receives solely cash in exchange for shares of BBI, such cash will be treated as received by such shareholder in a taxable exchange, subject to special rules. Thus, while there can be no guarantee that the U.S. Internal Revenue Service will adopt a similar position, it is expected that BBI shareholders will have no federal income tax consequences as a result of the reorganization, except with respect to receipt of cash in lieu of any fractional shares of BBI and, with respect to the BBI Series C Stock, accrued dividends thereon, or in the case of dissenting shareholders who elect dissenters’ rights. BBI shareholders should consult with their tax adviser about state and local tax consequences of the reorganization, if any, because the information about tax consequences in this Joint Proxy Statement-Prospectus relates to the federal income tax consequences of the reorganization only. Please refer to “CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONDISERATIONS OF THE MERGER” beginning on page 90 of joint prospectus-proxy statement for a description of the material U.S. federal income tax consequences of the merger to BBI’s shareholders.

The United States federal income tax consequences described above may not apply to all holders of Customers Bank shares or BBI shares, as the case may be. Your tax consequences will depend on your individual situation. Accordingly, you are urged to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

When do you expect the reorganization and the merger to be completed?

Customers and Berkshire intend to close both the reorganization and the merger as quickly as possible. Assuming the reorganization is approved by Customers Bank’s shareholders and the applicable banking regulators, and the merger is approved by both Customers Bank’s and BBI’s shareholders and applicable banking regulators, the reorganization and the merger are expected to close in early to mid 2011. However, completion of either transaction could be delayed if necessary regulatory approvals are not obtained, or if Customers Bank proposes to complete additional acquisitions or similar transactions. See “THE REORGANIZATION - Background and Reasons for the Reorganization- Acquisition Strategy” on page 45 for more information about potential acquisitions or similar transactions. The boards of directors of CBI and Customers Bank have the right to withdraw from or postpone the reorganization for any reason even if all necessary regulatory and shareholder approvals have been obtained. The boards of directors of all parties to the Merger Agreement have the right to withdraw from or postpone the merger under certain conditions. See “THE MERGER AGREEMENT – Termination of the Merger Agreement” beginning at page 88 of this Joint Proxy Statement-Prospectus for more information.

What vote is required to approve the reorganization and the merger?

Reorganization. The affirmative vote of the holders of two-thirds (2/3) of the shares of Voting Common Stock of Customers Bank that are outstanding on the Record Date is required to approve the reorganization.

Merger. The affirmative vote of holders of two-thirds (2/3) of the shares of Customers Bank's Voting Common Stock and BBI's common stock that are outstanding on the Record Date is required to approve the merger.

What vote do the boards of directors recommend?

Reorganization. Customers Bank's board of directors recommends that Customers Bank's shareholders vote "FOR" the proposal to approve and adopt the Plan of Reorganization pursuant to which Customers Bank will reorganize to form a bank holding company structure.

Merger. Each of Customers Bank's and BBI's boards of directors recommends that shareholders vote "FOR" the proposal to approve and adopt the Merger Agreement and approve the transactions contemplated thereby, and "FOR" the adjournment the applicable meeting to a date to be proposed at such meeting, if necessary to solicit or receive additional proxies.

Why do the boards of directors believe the merger is in the best interest of each respective company's shareholders?

Customers Bank/CBI:

Customers Bank's board of directors has determined that the merger is advisable and the best interest of both Customers Bank and its shareholders. In making the determination to approve the Merger Agreement and recommend that shareholders approve and adopt the Merger Agreement and the transactions contemplated thereby, Customers Bank's board of directors, in consultation with management, considered a number of factors, which are summarized below. For a more complete discussion of such factors, see "THE MERGER— Reasons for the Merger – Customers Bank" at page 64 of this Joint Proxy Statement-Prospectus.

- The merger with Berkshire is a step towards Customers Bank's goal in its acquisition strategy of achieving sufficient scale in certain key areas along the Eastern seaboard as it will produce a significant presence for Customers Bank in a concentrated area of Pennsylvania, namely Berks County;
- The merger will provide a cost effective way to create a bank with enough scale to effectively expand into the Berks County, Pennsylvania market, allowing Customers Bank to expand its branch office network to 6 banking offices immediately (from 1 currently) without incurring the start up costs associated with expanding organically;
- Customers Bank's board of directors believes that a business combination with Berkshire will enable Customers Bank shareholders to participate in a combined company with enhanced future prospects compared to those that Customers is likely to achieve on a stand-alone basis;
- Customers Bank anticipates that the combined entity could experience significant cost savings with respect to operating expenses;
- BBI's business model would increase Customers Bank's ability to serve the small and mid-sized business sector, and also expand Customers Bank's commercial lending opportunities;
- Customers Bank's board of directors believes that the structure of the merger and the financial and other terms of the Merger Agreement are in the best interest of Customers Bank;
- The experience of the Berkshire management team are well positioned to contribute to the execution of Customers' organic growth and acquisition strategies;
- Customers Bank's board of directors considered the potential net operating loss carryovers that could result from the merger, and the limitations thereof, as well as the expectation that the merger will constitute a reorganization under Section 368(a) of the Code; and
- Customers Bank's board of directors also considered BBI's balance sheet and capital levels, asset quality, and certain financial information projected for the combined entity.

In the course of its deliberations regarding the merger, Customers Bank's board of directors also considered the risks attendant to the merger, including without limitation, risks related to capital levels, allowance for loan and lease losses, the financial services industry generally and real estate in particular, the risk of termination of the merger and also risks associated with integration issues.

There is no certainty that the above benefits of the merger anticipated by Customers will occur, and actual results may vary materially from those anticipated. For more information on the factors that could affect actual results, see

“FORWARD-LOOKING STATEMENTS,” on page 1, “RISK FACTORS,” on page 20, and “THE MERGER– Reasons for the Merger – Customers Bank” on page 64 of this Joint Proxy Statement-Prospectus.

**BBI:**

BBI's board of directors has determined that the merger is advisable and in the company's best interest and the best interests of BBI's shareholders. In determining to approve the Merger Agreement and recommend that shareholders approve and adopt the merger, the board of directors, in consultation with BBI's senior management and financial and legal advisors, considered a number of factors, including the following summary of material factors:

- The understanding of the board of directors of the strategic options available to BBI and its assessment that none of those options were likely to create greater potential future value for BBI shareholders than the transaction with Customers;
- The board of directors of BBI also believed that the merger with CBI will help the resulting company be more competitive with the financial institutions remaining in the market place;
- BBI and Berkshire Bank are subject to various regulatory constraints issued by the bank regulatory agencies which have been manifested in various resolutions adopted by the board of directors. The board of directors believed that a merger with CBI will likely eliminate many if not all regulatory restrictions and any constraints on future business operations of CBI;
- The combined bank is expected to have greater capital resources to profitably grow within its current markets and in new more attractive markets, a diverse customer demographic from which to generate profits, and a more diverse product line from which to generate revenues;
- Customers Bank had completed a \$43 million capital raise in early 2010 granting it the ability to take advantage of faster, more profitable growth whereby Customers' management team would likely be able to manage such growth, based on past large financial institution experience;
- A merger with CBI on the terms agreed upon would be more likely to receive regulatory approval and be consummated (with a higher certainty of transaction closure, effectiveness and anticipated results) than a merger with the other potential acquirer due to Customers' superior capital position;
- Customers Bank illustrated and provided evidence that it was capable of executing its business plan, raising capital, developing management, and profitably growing CBI;
- The Merger posed prospects to increase long-term shareholder value by increasing the potential of share liquidity, enhanced consolidated earnings and earnings per share, immediate increase in franchise value and anticipated further increase of franchise value due to Customers' business plan;



- The combination could result in significant annual potential cost savings of \$800,000 or more, as well as the potential for incremental revenue opportunities potentially contributing to an increase in earnings, and improving long-term investor value;
- The prospect of exiting participation in the U.S. Department of Treasury’s Capital Purchase Program was attractive to the BBI board of directors as it may positively impact the resulting company’s long-term value;
- The ability to offer more diverse and progressive business services and products of CBI to BBI customers could result in opportunities to obtain synergies and compete with larger financial institutions as products are cross-marketed and distributed over a broader customer base;
- The board of directors did not anticipate significant branch closures by either BBI or CBI because the market areas are tangential and not overlapping which the board believed would result in more opportunities and less job loss for current BBI employees;
- The receipt of Commonwealth Advisors LLC’s written opinion that, as of August 23, 2010, the merger consideration was fair to the shareholders of BBI from a financial point of view;
- The likelihood of timely receipt of regulatory and shareholder approvals of the transaction with CBI because of its and CBI’s strong financial condition with over \$65 million in capital, experienced management and previous approval of an FDIC assisted transaction;
- The results of the due diligence review of CBI which indicated the significant progress that CBI had made over the last 10 months in developing and enhancing its capital position, management depth, regulatory status, business model, and future prospects;
- The fact that one current member of BBI’s board of directors will be appointed to the board of directors of CBI; and
- The probability that CBI would undertake accretive FDIC assisted transactions because of its capital position and management team would likely have a positive impact on the resulting company and its shareholders and would likely create short and long term value to the BBI shareholders and CBI shares.

For more information about the BBI’s reasons for the merger, see “THE MERGER– Reasons for the Merger – BBI” beginning on page 67.

Are the interests of Customers Bank's and BBI's boards of directors and executive officers in the reorganization and merger the same as mine?

In considering the information contained in this Joint Proxy Statement-Prospectus, you should be aware that Customers Bank's and BBI's directors and executive officers have interests in the reorganization and merger that may be different from, or in addition to, the interests of Customers Bank's and BBI's shareholders. These additional interests may create potential conflicts of interest and cause these individuals to view the proposed transaction differently than you may view it as a shareholder.

Among such interests for BBI's directors and executive officers are:

- Provision of indemnification and insurance after completion of the merger;
- Appointment of one director to the boards of CBI and Customers Bank;
- Assumption by CBI of existing employment agreements which currently provide for annual base salary payments of \$156,280 for Messrs. Heilenman and Gromis, and \$109,975 for Lori A. Maley, and supplemental executive retirement agreements which currently provide for, among other things, potential yearly payments of \$41,878, \$56,121 and \$72,565, respectively, for a period of fifteen (15) years to each of Norman E. Heilenman, Richard C. Gromis and Lori A. Maley, CPA in the event of termination of employment after the retirement age of 65; and
- Entry into voting agreement by BBI directors with CBI.

Customers Bank's and BBI's boards of directors were aware of these interests and took them into account in the decision to declare advisable, in the case of Customers Bank, the Plan of Reorganization and the reorganization contemplated thereby, and in the case of both Customers Bank and BBI, the Merger Agreement and transactions contemplated thereby. For information concerning these interests, please see the discussion under the caption "INTERESTS OF MANAGEMENT AND OTHERS IN THE REORGANIZATION" on page 54 and "THE MERGER – Financial Interests of Directors, Officers, and Others in the Merger" beginning at page 69 of this Joint Proxy Statement-Prospectus.

Do I have the right to dissent from the reorganization or merger?

Reorganization. Customers Bank's shareholders have the right under Pennsylvania law to dissent from the reorganization and to demand and receive cash for the fair value of Customers Bank's stock held by such person. In order to assert dissenters' rights, shareholders must precisely follow the process described in "THE REORGANIZATION – Dissenters' Rights" beginning on page 50 and in Annex C.

Generally, a Customers Bank shareholder who wishes to dissent must:

- File with Customers Bank a written notice of intention to demand that the shareholder be paid the fair value for his or her shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock rather than receive CBI shares as described in the Plan of Reorganization. The dissenting shareholder must file this notice with Customers Bank prior to the shareholder vote on the reorganization at the Customers Special Meeting;

- A dissenting shareholder may not change the beneficial ownership of his or her shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock from the date of the filing of the notice of intention to demand payment through the effective date of the reorganization; and
- A dissenting shareholder also may not vote his or her shares of Customers Bank's Voting Common Stock to approve the reorganization at the Customers Special Meeting.

You should consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of dissenters' rights and your ability to receive cash for the fair value of Customers Bank stock.

Merger. BBI's shareholders have the right under Pennsylvania law to dissent from the merger and to demand and receive cash for the fair value of BBI's stock held by such person. In order to assert dissenters' rights, shareholders must precisely follow the process described in "THE MERGER – Rights of Dissenting Shareholders" beginning on page 76 and in Annex F.

BBI Shareholders who wish to dissent must:

- Prior to the vote of shareholders on the merger at the BBI special meeting, file a written notice with BBI of intention to demand that they be paid the fair value for their shares of BBI common stock;
- Effect no change in the beneficial ownership of their BBI common stock from the date of the filing of the intention to demand payment through the effective date of the merger; and
- Refrain from voting their BBI common stock to approve and adopt the Merger Agreement and the merger.

You should consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of dissenters' rights and your ability to receive cash for the fair value of BBI stock.

What are the conditions that must be satisfied for the reorganization and merger to occur?

Reorganization. As more fully described in this Joint Proxy Statement-Prospectus, the completion of the reorganization depends on the satisfaction of a number of conditions. These conditions include, among others:

- Approval by the requisite vote of Customers Bank's shareholders;
- The receipt of all regulatory consents and approvals required in connection with (1) the establishment of CBI as a bank holding company, (2) the creation and organization of Customers Interim Bank, and (3) the merger of Customers Bank into Customers Interim Bank;
- The effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus is a part with respect to CBI Voting Common Stock and Class B Non-Voting Common Stock to be issued in the reorganization under the Securities Act of 1933, as amended, and the absence of any stop order or proceedings initiated or threatened by the Securities and Exchange Commission or any applicable state securities commissioner for that purpose.

It is not certain when, or if, the conditions to the reorganization will be satisfied, or that the reorganization will be completed.

The reorganization is not dependent upon the merger, and assuming all applicable conditions have been satisfied, the reorganization is intended to be consummated regardless of whether the merger is consummated.

Merger. As more fully described in this Joint Proxy Statement-Prospectus, the completion of the merger depends on the satisfaction of a number of conditions. These conditions include, among others:

- Consummation of the reorganization;
- Approval by the requisite vote of Customers Bank's and BBI's shareholders;
- The receipt of all regulatory consents and approvals required in connection with (1) the merger of BBI into CBI, and (2) the merger of Berkshire Bank into Customers Bank;
- The effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus is a part with respect to CBI Voting Common Stock to be issued in the merger under the Securities Act of 1933, as amended, and the absence of any stop order or proceedings initiated or threatened by the Securities and Exchange Commission or any applicable state securities commissioner for that purpose.

Customers and Berkshire cannot be certain when, or if, the conditions to the merger will be satisfied, or that the merger will be completed.

Can the proposed reorganization or the merger be deferred or abandoned altogether?

While both the reorganization and merger are currently expected to take place as soon as practicable after the necessary conditions have been achieved, the boards of directors of CBI and Customers Bank have the right to withdraw from or postpone the reorganization for any reason, and the boards of directors of all parties to the Merger Agreement have the right to withdraw from or postpone the merger under certain conditions including, without limitation, in certain instances where a breach of the Merger Agreement has occurred, if the merger has not been completed by May 15, 2011 (since Customers Bank's shareholders have not approved the reorganization by March 31, 2011, the Merger Agreement automatically extended for an additional 45 days), if either Customers Bank's or BBI's shareholders fail to approve the Merger Agreement and transactions contemplated thereby, if there is a final order permanently enjoining or prohibiting the consummation of the transactions contemplated by the Merger Agreement or the necessary regulatory approvals are not obtained, or if a material adverse effect has occurred and not been cured. Additionally, BBI may terminate the Merger Agreements under certain circumstances, including, without limitation, if it receives a superior proposal. See "THE MERGER AGREEMENT – Termination of the Merger Agreement" beginning at page 88 of this Joint Proxy Statement-Prospectus for more information.

Either the reorganization or the merger, or both, could be abandoned for any number of reasons including, without limitation, because of increased estimated costs of the transactions, a determination that either or both of the transactions are no longer in the best interests of Customers Bank and its shareholders and/or BBI and its shareholders, an inability to obtain necessary regulatory approvals, or a conclusion that the transactions may not result in the benefits currently expected.

What do I need to do now?

After you have carefully read this Joint Proxy Statement-Prospectus and have decided how you wish to vote your shares, please vote your shares promptly. If you hold your stock as a shareholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage paid return envelope as soon as possible. If you beneficially own your stock in "street name" through a brokerage firm, bank, or other nominee, you must direct such entity or person

to vote in accordance with the instructions you have received from your brokerage firm, bank, or other nominee. Submitting your proxy card or directing your brokerage firm, bank, or other nominee to vote your shares will ensure that your shares are represented and voted at the applicable Special Meeting.

What happens after the Special Meeting?

Although the necessary applications required to effect the reorganization and merger have been or will soon be filed with the applicable banking regulators, it is anticipated that some or all of the regulatory approvals will still be pending at the time of the Customers Special Meeting and Berkshire Special Meeting. The reorganization and merger are planned to be completed once all necessary approvals are obtained.

## RISK FACTORS

Before you decide how to vote on the reorganization, you should carefully consider the following risk factors. These risks could have a material adverse effect on Customers' business, results of operations, financial condition or liquidity and cause Customers' actual operating results to materially differ from those contained in forward-looking statements made in this Joint Proxy Statement-Prospectus, in the annual report and financial statements attached to this document and elsewhere by management. Before making a decision on how to vote on the reorganization, you should carefully consider these risks as well as other information contained or incorporated by reference in this Joint Proxy Statement-Prospectus.

### Risks Related to the Reorganization Transaction

The reorganization may not be consummated or Customers may not realize the anticipated benefits of the reorganization.

See "THE REORGANIZATION — Background and Reasons for the Reorganization" for a discussion of Customer Bank's reasons for the reorganization and what benefits are hoped to be obtained from it. If the benefits from the reorganization are not realized, Customers may not be as profitable as hoped.

Consummation of the reorganization could be delayed or prevented by a number of factors Customers might not be able to control. For example, Customers Bank's shareholders might not approve the reorganization. As another example, too many of Customers Bank's shareholders might dissent from the reorganization and demand payment of cash for their shares, in which event Customers Bank might decide that the reorganization requires too large a cash expenditure.

As another example, the banking regulators might refuse to approve the reorganization or might delay their approvals. In recent months, applications for bank mergers and acquisitions have been delayed in some cases for significant periods of time due to additional requests for information required by the banking regulators to help them evaluate the risks of the proposed reorganization, or due to the regulators' workloads. In this case, the Federal Reserve will be asked to approve the formation of a new holding company for Customers Bank and may want additional information that will help it evaluate the expected financial condition and circumstances of CBI and Customers Bank after the reorganization. It is unknown whether the banking regulators will make special requests for information, and, if they do, it is unknown how such requests might affect the receipt of approvals or how soon Customers can expect to receive approvals from the banking regulators. If approvals from bank regulators were delayed too long, Customers Bank could decide to defer or abandon the reorganization, either due to the expense of the reorganization or because of other transactions or events that occur after the applications are filed.

Your rights as a shareholder will change as a result of the reorganization.

Because of differences between the Pennsylvania Business Corporation Law and the Pennsylvania Banking Code, and differences between the governing documents of CBI and Customers Bank, your rights as a shareholder will change in certain respects if the reorganization is completed. See "COMPARISON OF SHAREHOLDERS' RIGHTS" beginning at page 96 of this Joint Proxy Statement-Prospectus.



Customers Bank may choose to defer or abandon the reorganization.

While Customers Bank currently expects the reorganization to take place as soon as practicable after obtaining shareholder approval of the reorganization at the Customers Special Meeting and approval from the applicable banking regulators, Customers Bank's board of directors could decide to defer or abandon the reorganization. While the board of directors could do this for any reason, some examples of reasons it might do so include an increase in Customers Bank's estimated cost of the reorganization, or a determination by the board of directors that the reorganization is no longer in the best interests of Customers Bank or its shareholders, or inability to get regulatory approval, or that the reorganization may not result in the currently expected benefits.

The reorganization could result in adverse effects on management's ability to effectively manage Customers Bank's business.

Customers Bank's management will need to devote substantial attention to the reorganization. It will also have to spend administrative time managing CBI. For example, CBI will have more reports to file with bank regulators, and CBI will be required to comply with federal and state securities laws that Customers Bank would not have to comply with because Customers Bank's securities are exempt from most securities regulation. This attention could distract management from other Bank business.

The reorganization may fail to qualify as a tax-free reorganization under the Internal Revenue Code.

The reorganization has been structured to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. The closing of the reorganization is conditioned in part, on the facts, representations and assumptions upon which the opinion of tax counsel to CBI is based being consistent with the state of facts existing as of the effective date of the reorganization. The tax opinion delivered in connection with the reorganization are not binding on the Internal Revenue Service or the courts, and CBI does not intend to request a ruling from the Internal Revenue Service with respect to the United States federal income tax consequences of the reorganization. If the reorganization fails to qualify as a tax-free reorganization, a Customers Bank shareholder would likely recognize gain or loss on each share of Customers Bank surrendered in the amount of the difference between the shareholder's basis in the Customers Bank shares and the fair market value of the CBI Voting Common Stock and cash for fractional shares received by the Customers Bank shareholder in exchange. In addition, the qualification of the reorganization as a tax-free reorganization for federal income tax purposes is based in part on the existence of certain facts, including facts relating to the composition of shareholders and assets with respect to such transactions. It is possible that, if future transactions engaged in by CBI were later determined by the Internal Revenue Service or a court to be considered a part of the same plan involving the reorganization and/or merger, such determination could affect the tax free nature of the reorganization. For a more detailed discussion of the federal income tax consequences of the transaction to you, see "CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE REORGANIZATION," on page 51.

CBI may become subject to additional Pennsylvania taxes as a result of the reorganization.

CBI may become subject to additional corporate taxes in Pennsylvania, although those taxes are not expected to materially affect Customers Bank's profitability.

#### Risks Related to the Merger Transaction

By approving and adopting the Merger Agreement and the transactions contemplated thereby, BBI shareholders will receive CBI Voting Common Stock or cash for fractional shares in exchange for their shares of BBI common stock. An investment in CBI's Voting Common Stock involves a degree of risk. In addition to the other information included

in this document, including the matters addressed in “Forward-Looking Statements,” on page 1, you should carefully consider the matters described below in determining whether to approve and adopt the Merger Agreement and approve the transactions contemplated thereby.

BBI shareholders cannot be sure of the value they will receive per share of BBI common stock.

The value of the merger consideration to be received by the BBI shareholders will be based on the valuation of tangible common book value of CBI and BBI as calculated in accordance with the Merger Agreement. Therefore, BBI Shareholders cannot be sure of the value they will receive per share of BBI common stock until the effective date of the merger.

BBI shareholders cannot be sure of the exact market value of the merger consideration they will receive.

Upon completion of the merger, each share of BBI common stock will be converted into the right to receive a certain fraction of a share of CBI Voting Common Stock, based upon the exchange ratio, calculated as the BBI valuation divided by three times the Customers Bank valuation (to take into account the exchange ratio of Customers Bank shares to CBI shares in the reorganization), each as established in the Merger Agreement, plus cash in lieu of fractional shares. If BBI's loan loss reserve falls below 40% of its nonperforming loans, the Merger Agreement requires an adjustment to the BBI valuation in order to bring its loan loss reserve up to an amount equal to 40% of its nonperforming loans. The BBI valuation would be negatively impacted by such an adjustment to its loan loss reserve. The value of the CBI Voting Common Stock included in the merger consideration may vary from the value of CBI Voting Common Stock on the date the parties announced the merger, on the date that this Joint Proxy Statement-Prospectus was mailed to BBI shareholders, on the date of the Berkshire Special Meeting of the BBI shareholders and on the date CBI and BBI complete the merger and thereafter. Any change in the value of CBI Voting Common Stock prior to completion of the merger will affect the value of the merger consideration that BBI shareholders will receive upon completion of the merger. Accordingly, at the time of the Berkshire Special Meeting, BBI shareholders will not know or be able to calculate the value of the CBI Voting Common Stock included in the merger consideration they would receive upon completion of the merger. There will be no adjustment to the merger consideration for changes in the value of either shares of CBI Voting Common Stock or shares of BBI common stock. Changes in value may result from a variety of factors, including general market and economic conditions, changes in Customers' or Berkshire's respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond Customers' and Berkshire's control.

BBI will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on BBI and consequently on CBI. These uncertainties may impair BBI's ability to attract, retain and motivate key personnel until the merger is consummated, and could cause customers and others that deal with BBI to seek to change existing business relationships with BBI. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles with CBI. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with CBI, CBI's business following the merger could be harmed. In addition, the Merger Agreement restricts BBI from making certain acquisitions and taking other specified actions until the merger occurs without the consent of CBI. These restrictions may prevent BBI from pursuing attractive business opportunities that may arise prior to the completion of the merger. Please see the section entitled "THE MERGER AGREEMENT" beginning on page 77 of this Joint Proxy Statement-Prospectus for a description of the restrictive covenants to which BBI is subject.

The opinion obtained by BBI from its financial advisor will not reflect changes in circumstances between signing the Merger Agreement and completion of the merger.

BBI has not obtained an updated opinion as of the date of this Joint Proxy Statement-Prospectus from its financial advisor. Changes in the operations and prospects of BBI or CBI, general market and economic conditions and other factors that may be beyond the control of BBI or CBI, and on which BBI's financial advisor's opinion was based, may significantly alter the value of BBI or the prices of shares of CBI Voting Common Stock or BBI common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. Because BBI does not currently anticipate asking its financial advisor to update its opinion, the opinion will not address the fairness of the merger consideration from a financial point of view at the time the merger is completed. BBI's board of directors' recommendation that BBI shareholders vote "FOR" approval of the Merger Agreement and the transactions contemplated thereby, including the merger, however, is as of the date of this Joint Proxy Statement-Prospectus. For a description of the opinion that BBI received from its financial

advisor, please refer to "THE MERGER," beginning on page 57. For a description of the other factors considered by BBI's board of directors in determining to declare the merger and the other transactions contemplated by the Merger Agreement to be advisable, please refer to "THE MERGER," beginning on page 57.

Both CBI's and BBI directors' and executive officers' interests in the merger may differ from your interests.

Both CBI's and BBI's directors and executive officers have interests in the reorganization and merger that may be different from, or in addition to, the interests of CBI's and BBI's shareholders. These additional interests may create potential conflicts of interest and cause these individuals to view the proposed merger differently than you may view it as a shareholder. These interests are described in more detail in the section of this Joint Proxy Statement-Prospectus entitled "THE MERGER - Financial Interests of Directors, Officers and Others in the Merger" beginning on page 69.

The merger may fail to qualify as a tax-free reorganization under the Internal Revenue Code.

The merger of BBI with and into CBI has been structured to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. The closing of the merger is conditioned in part on the facts, representations and assumptions upon which the opinions of tax counsel to CBI and BBI are based being consistent with the state of facts existing as of the effective date of the merger. The tax opinions delivered in connection with the merger are not binding on the Internal Revenue Service or the courts, and neither BBI nor CBI intends to request a ruling from the Internal Revenue Service with respect to the United States federal income tax consequences of the merger. If the merger fails to qualify as a tax-free reorganization, a BBI shareholder would likely recognize gain or loss on each share of BBI surrendered in the amount of the difference between the shareholder's basis in the BBI shares and the fair market value of the CBI Voting Common Stock and cash for fractional shares received by the BBI shareholder in exchange. In addition, the qualification of the merger as a tax-free reorganization for federal income tax purposes is based in part on the existence of certain facts, including facts relating to the composition of shareholders and assets with respect to such transactions. It is possible that, if future transactions engaged in by CBI were later determined by the Internal Revenue Service or a court to be considered a part of the same plan involving the reorganization and/or merger, such determination could affect the tax free nature of the merger. For a more detailed discussion of the federal income tax consequences of the transaction to you, see "CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE MERGER" on page 90.

Regulatory approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

Before the transactions contemplated by the Merger Agreement, including the merger and the bank merger, may be completed, various approvals or consents must be obtained from the Federal Reserve Board, the Pennsylvania Department of Banking, and various bank regulatory and other authorities. These governmental entities, including the Federal Reserve Board and the Pennsylvania Department of Banking, may impose conditions on the completion of the merger or the bank merger or require changes to the terms of the Merger Agreement. Although CBI and BBI do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the transactions contemplated by the Merger Agreement or imposing additional costs on or limiting the revenues of CBI, any of which might have a material adverse effect on CBI following the merger. There can be no assurance as to whether the regulatory approvals will be received, the timing of those approvals, whether any non-standard and/or non-customary conditions will be imposed.

The Merger Agreement limits BBI's ability to pursue alternatives to the merger.

The Merger Agreement contains provisions that limit BBI's ability to discuss competing third-party proposals to acquire all or a significant part of BBI. These provisions, which include a \$400,000 termination fee payable under certain circumstances, might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of BBI from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share value than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire BBI than it might otherwise have proposed to pay.

The shares of CBI Voting Common Stock to be received by BBI shareholders as a result of the merger will have different rights from the shares of BBI common stock currently held by them.

The rights associated with BBI common stock are different from the rights associated with CBI Voting Common Stock. See the section of this Joint Proxy Statement-Prospectus entitled "COMPARISON OF SHAREHOLDER RIGHTS" commencing on page 96.

The value of CBI Voting Common Stock after the merger may be affected by factors different from those affecting BBI common stock or CBI Voting Common Stock currently.

The businesses of CBI and BBI differ in some respects and, accordingly, the results of operations of the combined company of CBI and BBI and the value of CBI's shares of Voting Common Stock after the merger may be affected by factors different from those currently affecting the independent results of operations of each entity. For a discussion of the businesses of Customers Bank, CBI, BBI and Berkshire Bank and of certain factors to consider in connection with those businesses, see the information with respect to each such party located later in this Joint Proxy Statement-Prospectus as well as the financial statements of Customers Bank and BBI which form a part of this Joint Proxy Statement-Prospectus.

Both CBI and BBI shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Upon the completion of the merger, each BBI shareholder that receives shares of CBI Voting Common Stock will become a shareholder of CBI with a percentage ownership of the combined organization that is much smaller than the shareholder's percentage ownership of BBI. The former shareholders of BBI as a group will receive shares in the merger constituting less than \_\_\_% of the outstanding shares of CBI Voting Common Stock immediately after the merger. Because of this, BBI's shareholders may have less influence on the management and policies of CBI than they now have on the management and policies of BBI. Likewise, upon completion of the merger, each current Customers Bank shareholder will be diluted in their percentage ownership of CBI by \_\_\_%, and may therefore have less influence over the management and policies of CBI than they have now on the management and policies of Customers Bank.

If the merger has not occurred by May 15, 2011, either Customers or Berkshire may choose not to proceed with the merger.

Either Customers or Berkshire may terminate the Merger Agreement if the merger has not been completed and effective by March 31, 2011, unless the failure is due to the failure of the party seeking to terminate to perform or observe the covenants and agreements of such party set forth in the Merger Agreement, provided however, that if the reorganization has not been approved by the Customers Bank's shareholders by March 31, 2011, the Merger Agreement will be extended for a period of 45 additional days. Since Customers Bank's shareholders had not approved the reorganization by March 31, 2011, the Merger Agreement has been automatically extended an additional 45 days to May 15, 2011. See "THE MERGER AGREEMENT — Termination of the Merger Agreement," beginning at page 88 of this Joint Proxy Statement-Prospectus. Under certain circumstances, BBI could be required to pay a termination fee of \$400,000. See "THE MERGER AGREEMENT — Termination Fee," beginning at page 89 of this Joint Proxy Statement-Prospectus. There can be no assurance that all conditions to the merger will have been satisfied by March 31, 2011. See "THE MERGER AGREEMENT — Conditions to Complete the Merger," beginning at page 87 of this Joint Proxy Statement-Prospectus.

If the merger is terminated, BBI and Berkshire Bank will continue to be subject to certain regulatory actions, restrictions, and agreements that may materially affect their ability to do business and compete.

BBI and Berkshire Bank are subject to certain regulatory actions, restrictions, and agreements with the Federal Reserve Board, the FDIC, and the Pennsylvania Department of Banking that are more fully described elsewhere in this document. If the merger is terminated, BBI and Berkshire Bank will continue as an independent institution and will continue to be subject to such regulatory actions, restrictions, and agreements. These regulatory actions, restrictions and agreements may materially affect BBI's and Berkshire Bank's ability to do business and compete with other financial institutions that are not subject to such regulatory matters.

If the merger with CBI is not completed, BBI will continue to face certain risk factors related to its on-going operations.

In the event that the proposed merger with CBI is not completed, BBI will continue its operations as an independent entity and, as such, would continue to face certain risks in its on-going operations, as described below. Even if the merger is completed as expected, BBI will face these risks on an independent basis until the time of the merger.

If the merger is not completed, Customers and Berkshire will have incurred substantial expenses without realizing the expected benefits of the merger.

Customers and Berkshire have both incurred substantial expenses in connection with the merger. The completion of the merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals and the approval of CBI's and BBI's shareholders. Neither CBI nor BBI can guarantee that these conditions will be met. If the merger is not completed, these expenses could have a material adverse impact on either CBI's or BBI's, or both of their, financial condition and results of operations. In addition, the value of either entity's common stock could decline in the event that the merger is not consummated as the current value of their stock may reflect an assumption that the merger will be completed.

If the merger is not completed, BBI may have to revise its business strategy.

During the past several months, management of BBI has been focused on, and has devoted significant resources to, the merger. This focus is continuing and BBI has not pursued certain business opportunities which may have been beneficial to BBI on a stand-alone basis. If the merger is not completed, BBI will have to revisit and revise its business strategy in an effort to determine what changes may be required in order for BBI to operate on an independent, stand-alone basis. BBI may need to consider raising additional capital in order to continue as an independent entity if the merger is not completed. No assurance can be given whether BBI would be able to successfully raise capital in such circumstances or, if so, under what terms.



Both entities may fail to realize the cost savings expected to be achieved from the merger.

Both BBI and CBI expect to achieve cost savings from the merger when the two companies have been fully integrated. While both CBI and BBI continue to be comfortable with these expectations as of the date of this Joint Proxy Statement-Prospectus, it is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume CBI's and BBI's ability to combine the businesses of CBI and BBI, including Customers Bank and Berkshire Bank, in a manner that permits those cost savings to be realized. If the estimates are incorrect, integration is delayed, or the two entities are not able to be successfully combined, the anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected.

Combining CBI and BBI may be more difficult, costly or time-consuming than expected.

Customers and Berkshire have operated, and, until the completion of the merger, will continue to operate, independently. The integration process could result in the loss of key employees, the disruption of each company's ongoing business, inconsistencies in standards, controls, procedures and policies that adversely affect either company's ability to maintain relationships with clients and employees or achieve the anticipated benefits of the merger. As with any merger of financial institutions, there also may be disruptions that cause Customers Bank and Berkshire Bank to lose customers or cause customers to withdraw their deposits from Customers Bank, or other unintended consequences that could have a material adverse effect on CBI's results of operations or financial condition.

#### Risks Related to CBI's and Customers Bank's Securities

There is no established trading market for CBI's and Customers Bank's Voting Common Stock and share price may be volatile.

CBI cannot predict the extent to which investor interest will lead to a more active trading market in CBI Voting Common Stock or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of CBI Voting Common Stock at any given time, which presence will be dependent upon the individual decisions of investors, over which CBI has no control.

The market price of CBI Voting Common Stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors as well as the following:

- Actual or anticipated fluctuations in operating results;
- Changes in interest rates;
- Changes in the legal or regulatory environment in which CBI and/or Customers Bank operates;
- Press releases, announcements or publicity relating to Customers Bank or its competitors or relating to trends in its industry;
- Changes in expectations as to CBI's future financial performance, including financial estimates or recommendations by securities analysts and investors;
- Future sales or offerings of CBI Voting Common Stock;

- Changes in economic conditions in CBI and/or Customers Bank's marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and
  - Other developments affecting Customers Bank competitors or Customers Bank.

These factors may adversely affect the trading price of CBI Voting Common Stock, regardless of its actual operating performance, and could prevent you from selling your Voting Common Stock at or above its current price. In addition, the stock markets, from time to time, experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of CBI Voting Common Stock, regardless of its trading performance.

Either Customers Bank before the reorganization or CBI after the reorganization may issue additional shares of Voting Common Stock, preferred stock or equity, debt or derivative securities, which could adversely affect the value or voting power of your Voting Common Stock.

Each of Customers Bank and CBI has the ability to offer shares of Voting Common Stock, Class B Non-Voting Common Stock or preferred stock by action of their boards of directors without further shareholder approval. In addition, their boards of directors have authority to issue senior and subordinated debt without further shareholder approval.

As of March 31, 2011, Customers Bank had options outstanding to purchase 2,606,222 shares of its Voting Common Stock and 131,500 shares of its Class B Non-Voting Common Stock and restricted stock units outstanding to purchase 106,876 shares of Voting Common Stock. As of that date, holders of 26,248,259 shares of Voting Common Stock and Class B Non-Voting Common Stock were beneficiaries of anti-dilution agreements providing each of them price protection until March 31, 2011, such that if Customers Bank issues any shares of its Voting Common Stock at or prior to that date at a price less than \$3.50 per share for 21,178,831 shares, \$3.93 per share for 25,445 shares and \$4.00 per share for 5,043,983 shares, sufficient additional shares will be issued to such shareholders to maintain the values of their holdings of Voting Common Stock at the new, lower issuance price. As of March 31, 2011, Customers Bank had also outstanding warrants for the purchase of an aggregate of 1,377,141 shares of Voting Common Stock at an exercise price of \$3.50 per share and 33,591 shares of Voting Common Stock at an exercise price of \$5.50 per share. The warrants are exercisable until June 30, 2016. As of March 31, 2011, Customers Bank also had warrants to purchase 243,102 shares of Class B Non-Voting Common Stock at an exercise price of \$3.50 per share, outstanding.

Customers Bank has recently offered its shares at prices lower than the prices at which shares were sold in prior offerings. As a result, book value, potential market value and voting rights of shares held by shareholders who do not hold anti-dilution agreement rights have been diluted. Customers Bank or CBI may issue shares in future offerings, acquisitions or other transactions, or may engage in recapitalizations or similar transactions in the future, the result of which could cause shareholders without anti-dilution agreement rights to suffer further dilution in book value, market value or voting rights. The boards of directors have authority to engage in some of these transactions – particularly additional share offerings or issuances - without shareholder approval. If the boards of directors decide to approve transactions that result in dilution, the value and voting power of shares of Voting Common Stock or Class B Non-Voting Common Stock issued by Customers Bank or CBI could decrease.

Either Customers Bank before the reorganization or CBI after the reorganization may issue incentive stock options, warrants, stock or other equity securities convertible into Voting Common Stock to management, directors and employees.

The grant and exercise of equity awards such as Voting Common Stock, stock options, warrants or other equity securities convertible into Voting Common Stock, to Customers Bank's directors, employees or members of management pursuant to the Management Stock Purchase Plan, Stock Option Plan, and Bonus Retention Recognition Plan, as well as to Mr. Sidhu pursuant to his employment agreement, would dilute shareholders ownership interests and could give such individuals or groups significant influence over the outcome of certain actions that may or may not be in the best interests of shareholders.

Customers Bank Voting Common Stock is and CBI's Voting Common Stock will be subordinate to all of each such entity's existing and future indebtedness; and neither Customers Bank nor CBI is limited on the amount of indebtedness it may incur in the future.

The rights, interests and priorities of holders of Voting Common Stock rank junior to all indebtedness, including Customers Bank's \$2,000,000 aggregate principal amount Floating Rate Subordinated Debt Securities due 2014 (see

“MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - SUBORDINATED DEBT,” on page 170 of this Joint Proxy Statement-Prospectus), and other non-equity claims on CBI and/or Customers Bank with respect to assets available to satisfy claims, including in a liquidation of CBI or Customers Bank.

After the reorganization CBI’s right to participate in a distribution of assets upon a subsidiary’s, such as Customers Bank’s, liquidation or reorganization will be subject to the prior claims of the subsidiary’s creditors.

In addition, neither Customers Bank nor CBI is limited by Voting Common Stock in the amount of debt or other obligations of Customers Bank and CBI subsidiaries may incur in the future. Accordingly, Customers Bank and CBI subsidiaries may incur substantial amounts of additional debt and other obligations that will rank senior to the Voting Common Stock or to which the Voting Common Stock will be structurally subordinated.

Risk of disruption in deposit movement.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted July 21, 2010 (the “Dodd-Frank Act”), extended until December 31, 2012 the unlimited guarantee of non-interest bearing deposit transaction accounts originally adopted under the FDIC Temporary Liquidity Guaranty Program (“TLGP”). Before and after this temporary deposit guarantee expires, there could be banking system disruption and deposit movement. If banking system disruption occurs and deposit movement is significant, Customers Bank may lose deposits and be required to draw down on its unused borrowing capacity at the Federal Home Loan Bank of Pittsburgh (“FHLB-P”), Federal Reserve or correspondent bank fed funds lines. This may result in fewer funds being available to fund earning asset growth, along with the increased costs of any borrowings required as a result of transaction account loss, may cause Customers Bank’s net interest income and net income to be lower.

Customers Bank and CBI may not pay dividends on the shares in the foreseeable future, which may adversely affect the return and the price of their Voting Common Stock.

Customers Bank has not historically declared or paid dividends on Voting Common Stock and neither Customers Bank nor CBI expects to do so in the near future. Any future determination relating to dividend policy will be made at the discretion of Customers Bank’s and CBI’s boards of directors and will depend on a number of factors, including earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, ability to service any equity or debt obligations senior to the Voting Common Stock, and other factors deemed relevant by the boards of directors. In addition, there are significant regulatory restrictions on Customers Bank’s ability to pay dividends. See, “MARKET PRICE OF COMMON STOCK AND DIVIDENDS - CUSTOMERS BANK – Dividends on Voting Common Stock,” on page 142 of this Joint Proxy Statement-Prospectus, and “- Dividend Policy,” on page 142 of this Joint Proxy Statement-Prospectus.

#### Risks Related To Customers Bank’s Business

Customers Bank has engaged in two FDIC-assisted transactions and may engage in more such transactions in the future, which could present additional risks to its financial condition and earnings.

On July 9, 2010 and September 17, 2010, Customers Bank acquired two failed banks in FDIC-assisted transactions, USA Bank and ISN Bank in Port Chester, New York and Cherry Hill, New Jersey, respectively (collectively, the “Acquired Banks”). In the current economic environment, more opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions are, subject to regulatory approval, likely to be available. These acquisitions involve risks similar to acquiring existing banks, even though the FDIC might provide assistance to mitigate certain risks, such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, these acquisitions are structured in a manner that does not allow the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution. Therefore, Customers Bank may face additional risks, including, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. There is no assurance that Customers Bank will be successful in overcoming these risks or any other problems encountered in connection with FDIC-assisted transactions. The inability to overcome these risks could have an adverse effect on Customers Bank’s ability to achieve its business strategy and maintain its market value and profitability. Moreover, even though Customers Bank’s acquisition strategy includes possible participation in FDIC-assisted transactions, no assurance can be given that Customers Bank will be successful in acquiring the financial institutions or assets that are being sought.

Failure to comply with the terms of Loss Sharing Agreements with the FDIC may result in losses.

Customers Bank purchased substantially all of the assets and assumed all of the non-brokered deposits and substantially all other liabilities of the Acquired Banks in the above-described FDIC-assisted transactions, and presently a significant portion of Customers Bank's revenue is derived from such assets. The purchased loans, commitments and foreclosed assets are covered by the Loss Sharing Agreements with the FDIC (collectively, "Covered Assets"), which provide that a significant portion of the losses related to the Covered Assets to be borne by the FDIC. Under the Loss Sharing Agreements, Customers Bank is obligated to comply with certain loan servicing standards, including requirements to participate in government-sponsored loan modification programs. As these standards evolve, Customers Bank may experience difficulties in complying with the requirements of the Loss Sharing Agreements, which could result in Covered Assets losing some or all of their loss-sharing coverage. In accordance with the terms of the Loss Sharing Agreements, Customers Bank is subject to audits by the FDIC through its designated agent. The required terms of the Loss Sharing Agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets losing their loss sharing coverage. See "CUSTOMERS BANK—FDIC Assisted Transactions" beginning at page 114 of this Joint Proxy Statement-Prospectus.

Customers Bank's level of assets categorized as doubtful, substandard or special mention expose it to increased lending risk. If Customers Bank's allowance for loan losses is insufficient to absorb losses in its loan portfolio, its earnings could decrease.

At December 31, 2010, Customers Bank's delinquent loans greater than 90 days and non-accrual loans not covered under loss sharing agreements with the FDIC totaled \$22.2 million, which represented 4.33% of total loans not covered under loss sharing agreements, and its allowance for loan losses totaled \$15.1 million, which represented 2.94% of total loans not covered under loss sharing agreements with the FDIC. Customers Bank makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and loans covered under Loss Sharing Agreements that did not exhibit evidence of deterioration in credit quality on the acquisition date and their probability of making payment, as well as the value of real estate and other assets serving as collateral for the repayment of many of its loans. Loans covered under Loss Sharing Agreements totaled \$164.9 million at December 31, 2010. In determining the amount of the allowance for loan losses, significant factors considered include loss experience in particular segments of the portfolio, trends and absolute levels of classified and criticized loans, trends and absolute levels in delinquent loans, trends in risk ratings, trends in industry charge-offs by particular segments and changes in existing general economic and business conditions affecting its lending areas and the national economy. If Customers Bank's assumptions are incorrect, its allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions to the allowance. Material additions to Customers Bank's allowance could materially decrease net income.

Customers Bank's regulators, as an integral part of their examination process, periodically review its allowance for loan losses and may require it to increase its allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease its allowance for loan losses by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on Customers Bank's financial condition and results of operations.

Customers Bank's emphasis on commercial and mortgage warehouse lending may expose it to increased lending risks.

Customers Bank intends to emphasize the origination of commercial lending and specialty lending, including mortgage warehouse financing. Commercial loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. In addition, since such loans generally entail greater credit risk than one- to four-family residential mortgage loans, Customers Bank may need to increase its allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with the growth of such loans. Also, Customers Bank expects that many of its commercial borrowers will have more than one loan outstanding with it. Consequently, an adverse development with respect to one loan or one credit relationship can expose to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

As a mortgage warehouse lender, Customers Bank provides a form of financing to mortgage bankers by purchasing the underlying residential mortgages on a short-term basis under a master repurchase agreement. Customers Bank is subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the underlying residential borrower, any of which could result in credit losses. The risk of fraud associated with this type of lending includes, but is not limited to, the risk of financing nonexistent loans or fictitious mortgage loan transactions, or that the collateral delivered is fraudulent creating exposure that could result in the loss of the full amount financed on the underlying residential mortgage loan.

Decreased residential mortgage origination, volume and pricing decisions of competitors.

Customers Bank does not currently operate in the residential mortgage origination business, however it may originate, sell and service residential mortgage loans in the future. If it does, changes in interest rates and pricing decisions by Customers Bank's loan competitors may adversely affect demand for its residential mortgage loan products, the revenue realized on the sale of loans and revenues received from servicing such loans for others, and ultimately reduce its net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which Customers Bank would utilize to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.



Customers Bank's performance and financial condition may be adversely affected by regional economic conditions and real estate values.

Customers Bank's loan and deposit activities are largely based in eastern Pennsylvania, southern New Jersey and southeastern New York. As a result, Customers Bank's financial performance depends largely upon economic conditions in this eastern Pennsylvania and Southern New York regions. These regions has recently experienced deteriorating local economic conditions and a continued downturn in the regional real estate market could harm Customers Bank's financial condition and results of operations because of the geographic concentration of loans within these regional area and because a large percentage of the loans are secured by real property. If there is further decline in real estate values, the collateral for Customer Bank's loans will provide less security. As a result, the ability to recover on defaulted loans by selling the underlying real estate will be diminished, and Customers Bank will be more likely to suffer losses on defaulted loans.

Additionally, a significant portion of Customers Bank's loan portfolio is invested in commercial real estate loans. Often in a commercial real estate transaction, repayment of the loan is dependent on rental income. Economic conditions may affect the tenant's ability to make rental payments on a timely basis, and may cause some tenants not to renew their leases, each of which may impact the debtor's ability to make loan payments. Further, if expenses associated with commercial properties increase dramatically, the tenant's ability to repay, and therefore the debtor's ability to make timely loan payments, could be adversely affected.

All of these factors could increase the amount of non-performing loans, increase its provision for loan and lease losses and reduce Customers Bank's net income.

Federal Home Loan Bank of Pittsburgh continues not to pay dividends nor repurchase capital stock.

On December 23, 2008, the FHLB-P announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB-P announced that it expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, other than temporary impairment charges, and constrained access to debt markets at attractive rates. Capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB-P, but FHLB-P announced that no repurchases will take place until further notice. As of December 31, 2010, Customers Bank held \$2.15 million of FHLB-P capital stock.

Financial turmoil may increase other-than-temporary-impairment ("OTTI") charges.

Due to the ongoing economic crisis, there has been a rise in OTTI charges taken by institutions, as the fair market values of many investment securities have fallen below their amortized cost basis. The increasing duration of unrealized losses on these securities brought about heightened scrutiny by banks, auditors, and outside examiners on whether write-downs were necessary. If Customers Bank's OTTI charges result in it falling below the "well capitalized" regulatory requirement, it may need to raise capital.

Customers Bank may need to raise additional capital in the future and such capital may not be available when needed or at all.

Customers Bank is required by federal and state regulatory authorities to maintain adequate levels of capital to support operations and may need to raise additional capital in the future to provide Customers Bank with sufficient capital resources and liquidity to meet the commitments and business needs. In the absence of wholesale funding sources, Customers Bank may turn to additional subordinated debt and/or other transactions that might be available, including the TLGP. Customers Bank cannot assure you that such capital will be available to it on acceptable terms or at all. If

Customers Bank is unable to generate sufficient additional capital through its earnings, or other sources, it would be necessary to slow earning asset growth and or pass up possible acquisition opportunities, which may result in a reduction of future net income growth. Further, an inability to raise additional capital on acceptable terms when needed could have a material adverse effect on Customers Bank's business, financial condition and results of operations.

Sufficient funding to support earning asset growth.

Customers Bank needs adequate liquidity to fund its balance sheet growth in order for it to be able to successfully grow its revenues. This liquidity can be gathered in both wholesale and non-wholesale funding markets. Customers Bank's asset growth over the past few years has been funded with various forms of wholesale funding which is defined as wholesale deposits (primarily certificates of deposit) and borrowed funds (FHLB advances, Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2010 represented approximately 4.7% of total funding compared with approximately 13.3% at December 31, 2009. Wholesale funding generally costs more than deposits generated from Customers Bank's traditional branch system and is subject to certain practical limits such as the FHLB-P's maximum borrowing capacity and Customers Bank's liquidity policy limits. Additionally, regulators might consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted.

In the absence of wholesale funding sources, Customers Bank might need to reduce earning asset growth through the reduction of current production, sale of assets, and/or the participating out of future and current loans or leases. This in turn might reduce future net income of Customers Bank and therefore, assuming consummation of the reorganization, the future net income of CBI.

The amount loaned to Customers Bank is generally dependent on the value of the collateral pledged and Customers Bank's financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so because of capital adequacy or other balance sheet concerns, or if further disruptions in the capital markets occur. Any change or termination of Customers Bank's borrowings from the FHLB-P, the Federal Reserve or correspondent banks would have an adverse affect on its liquidity and profitability.

The FDIC's recent policy statement imposing restrictions and criteria on private investors in failed bank acquisitions may apply to Customers and Customers' investors.

On August 26, 2009, the FDIC issued a policy statement imposing restrictions and criteria on private investors in failed bank acquisitions. The policy statement is broad in scope and both complex and potentially ambiguous in its application. In most cases, if it applied, it would apply to an investor with more than 5% of the total voting power of an acquired depository institution or its holding company, but in certain circumstances it could apply to investors holding fewer voting shares. While Customers Bank has been informally advised by the FDIC that the policy statement does not currently apply to Customers Bank, the policy statement might be applied to Customers Bank if Customers Bank makes additional failed bank acquisitions from the FDIC or if the FDIC changes its interpretation of the policy statement or determines at some future date that it should be applied because of the bank's circumstances.

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

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

Customers Bank shareholders may be deemed to be acting in concert and thereby subject to increased regulatory scrutiny, including the application of the FDIC policy statement to Customers Bank and its investors.

The interests in Customers Bank, or, assuming consummation of the reorganization, in CBI, of any shareholders determined by a bank regulatory agency to be acting in concert would be aggregated for purposes of determining whether those shareholders have control of a bank or bank holding company. Each shareholder obtaining control may, if other than an individual, be required to register as a bank holding company. "Acting in concert" generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. How this definition is applied in individual circumstances can vary among the various federal bank regulatory agencies and from bank to bank, and cannot always be predicted with certainty. Many factors can lead to a finding of acting in concert, including where shareholders are commonly controlled or managed; the shareholders are parties to an oral or written agreement or understanding regarding the acquisition, voting or transfer of control of voting securities of a bank or bank holding company; the shareholders each own stock in a bank and are also management officials, controlling shareholders, partners or trustees of another company; or both an investor and a controlling shareholder, partner, trustee or management official of the shareholder own stock in the bank or bank holding company.

Previously enacted and potential future legislation, including legislation to reform the U.S. financial regulatory system, could adversely affect Customers Bank's business.

Market conditions have resulted in creation of various programs by the United States Congress, the Treasury, the Federal Reserve and the FDIC that were designed to enhance market liquidity and bank capital. As these programs expire, are withdrawn or reduced, the impact on the financial markets, banks in general and their customers is unknown. This could have the effect of, among other things, reducing liquidity, raising interest rates, reducing fee revenue, limiting the ability to raise capital, all of which could have an adverse impact on the financial condition of Customers Bank.

Additionally, the federal government is considering a variety of reforms related to banking and the financial industry including, without limitation, the newly adopted Dodd-Frank Act. The Dodd-Frank act is intended to promote financial stability in the U.S., reduce the risk of bailouts and protect against abusive financial services practices by improving accountability and transparency in the financial system and ending "to big to fail" institutions. It is the broadest overhaul of the U.S. financial system since the Great Depression and the overall impact on CBI and its subsidiaries is unknown at this time.

The Dodd-Frank act delegates to various federal agencies the task of implementing its many provisions through regulation. Hundreds of new federal regulations, studies and reports addressing all of the major areas of the new law, including the regulation of banks and their holding companies, will be required, ensuring that federal rules and policies in this area will be further developing for months and years to come. Based on the provisions of the Dodd-Frank act and anticipated implementing regulations, it is highly likely that banks and thrifts as well as their holding companies will be subject to significantly increased regulation and compliance obligations.

The Dodd-Frank act could require Customers Bank and/or CBI to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect business or financial results. It could also require Customers Bank to change certain of its business practices, adversely affect Customers' ability to pursue business opportunities it might otherwise consider engaging in, cause business disruptions and/or have other impacts that are as-of-yet unknown to Customers. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional licensing expenses, any of which could have an adverse effect on Customers' cash flow and results of operations. For example, a provision of the Dodd-Frank act is intended to preclude bank holding companies from treating future trust preferred securities issuances as Tier 1 capital for regulatory capital adequacy purposes. This provision may eliminate one material benefit for Customers Bank in operating with a holding company and narrow the number of possible capital raising opportunities CBI, and other bank holding companies, might have in the future.

The new Bureau of Consumer Financial Protection ("BCFP") may reshape the consumer financial laws through rulemaking and enforcement of unfair, deceptive or abusive practices, which may directly impact the business operations of depository institutions offering consumer financial products or services including Customers Bank.

The BCFP has broad rulemaking authority to administer and carry out the purposes and objectives of the "Federal consumer financial laws, and to prevent evasions thereof," with respect to all financial institutions that offer financial products and services to consumers. The BCFP is also authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service ("UDAP authority"). The potential reach of the BCFP's broad new rulemaking powers and UDAP authority on the operations of financial institutions offering consumer financial products or services including Customers Bank is currently unknown.

Government regulation might have an adverse effect on Customers Bank's business.

Customers Bank is heavily regulated. Banking and other regulations affect its entire business. For example, if Customers Bank fails to meet various minimum regulatory capital requirements, its regulators may take action limiting Customers Bank's activities. Additionally, Customers Bank regulators have wide authority to limit activities in any situation where the regulators believe its safety and soundness is threatened. These regulations change frequently and could get more restrictive. Restrictive regulations or the actions of bank regulators could limit activities and negatively impact its earnings and profitability.

Customers Bank and/or CBI may become subject to additional Pennsylvania taxes as a result of the reorganization.

Customers Bank and/or CBI may become subject to additional corporate taxes in Pennsylvania, although those taxes are not expected to materially affect profitability.

Accounting standards periodically change and the application of Customers Bank's accounting policies and methods may require estimates about matters that are uncertain.

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board and the Securities and Exchange Commission ("SEC"), periodically revise or issue new financial accounting and reporting standards that govern the preparation of Customers Bank's financial statements, and will in the future govern CBI's financial statements. The effect of such revised or new standards on the financial statements can be difficult to predict and can materially impact how it records and reports financial condition and results of operations.

In addition, management must exercise judgment in appropriately applying many of Customers Bank's accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in Customers Bank's reporting materially different amounts than would have been reported if it had selected a different policy or method. Accounting policies are critical to fairly presenting Customers Bank's financial condition and results of operations and may require it to make difficult, subjective or complex judgments about matters that are uncertain.

Customers Bank might not achieve profitability or consistent earnings.

Customers Bank has had periods in which it experienced operating losses, including in 2009 and the first half of 2010. There can be no assurance that Customers will achieve profitability in future periods, or maintain profitability, or that earnings will increase in the future.

Customers Bank might not be able to keep growing or may fail to manage its growth effectively.

Customers' acquisition strategy includes intentions to expand its business. Customers hopes this will make business more profitable and increase earnings per share. Customers' ability to continue to grow depends partly on its ability to expand its market share by acquisition or organically, successfully attract core deposits, and identify loan, investment and acquisition opportunities as well as opportunities to generate fee-based income. Customers' ability to acquire other banking institutions or branches or to establish de novo branches is subject to many contingencies, including regulatory approvals, the receipt of which may depend upon regulators' concurrence in growth strategy and evaluation of Customers Bank's capital, management, earnings, liquidity and sensitivity to market risk.

If Customers keeps growing, such growth may strain its management and operations. Customers' ability to manage this growth will depend upon its ability to continue to attract, hire and retain talented employees. It will also depend on the ability to manage and improve operating systems. Customers Bank must also manage many different customer relationships simultaneously, and provide products and services customers want. If Customers Bank's business continues to grow, there is no guarantee that it will be successful in managing its growth, or that its growth will increase profitability.

Asset growth may not cause Customers Bank's earnings to grow.

Customers Bank's earnings depend not only on its total assets, but also on whether those assets earn interest or other income, and the rate at which they earn income. Customers Bank's earnings also may be reduced by any increased expenses associated with increased assets, such as additional employee compensation expense, and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets. If earnings do not grow proportionately with its assets or equity, its overall profitability may be adversely affected.

If Customers Bank does not open new branches as planned or does not achieve profitability on new branches, earnings may be reduced.

Customers Bank plans to open approximately four new branches each year over the next few years in and around southeastern Pennsylvania and central New Jersey. These plans may change. The opening of new branches is subject to regulatory approvals and in New Jersey currently depends on the ability to acquire an existing branch or bank. Customers Bank cannot predict whether the banking regulators will agree with Customers Bank's growth plans if or when they will provide the necessary branch approvals. Numerous factors contribute to the performance of a new branch, such as the ability to select a suitable location, competition, Customers Bank's ability to hire and retain qualified personnel, and the effectiveness of its marketing strategy. It takes time for a new branch to generate significant deposits and loan volume to offset expenses, some of which, like salaries and occupancy expense, are relatively fixed costs. The initial cost, including capital asset purchases, for each new branch office to open would be in a range of approximately \$200,000 to \$250,000. Additionally, there can be no assurance that any of these new offices will ever become profitable. During the period of time before a branch office can become profitable, operating an office will negatively impact net income.



Interest rate changes might have an adverse effect on Customers Bank's earnings and financial condition.

Customers Bank's profitability depends principally upon earning sufficient net interest income. Net interest income is the difference between interest earned on loans, investments and other interest-earning assets and the interest paid on deposits and borrowed funds. Changes in the general level of interest rates can affect Customers Bank's net interest income by affecting the difference between the weighted average yield earned on Customers Bank's interest-earning assets and the weighted average rate paid on its interest-bearing liabilities, or interest rate spread, and the average life of its interest-earning assets and interest-bearing liabilities. Changes in interest rates also can affect: (1) Customers Bank's ability to originate loans; (2) the value of Customers Bank's interest-earning assets, which would negatively impact shareholders' equity, and its ability to realize gains from the sale of such assets; (3) Customers Bank's ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of Customers Bank's borrowers to repay adjustable or variable rate loans. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. Changes in market interest rates are affected by many factors beyond Customers Bank's control, including inflation, unemployment, money supply, international and domestic political and economic events, and developments in other financial markets. Customers Bank attempts to manage risks relating to interest rate changes, but cannot control these risks entirely. If interest rate changes reduce Customers Bank's net interest margin, or if Customers Bank does not predict those changes accurately, its earnings and profitability could decrease.

FDIC assessments will negatively impact earnings.

As discussed in "SUPERVISION AND REGULATION - Deposit Insurance Assessments," beginning on page 180 of this Joint Proxy Statement-Prospectus, the FDIC has adopted rules requiring banks to prepay their estimated quarterly risk-based federal deposit insurance assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. This prepayment required Customers Bank to pay \$2,039,955 on December 31, 2009. Customers Bank recorded this payment as a prepaid expense as of December 31, 2009, and expects to amortize the expense over three years.

In February 2011, as required under the Dodd-Frank Act, the FDIC issued a ruling, effective April 1, 2011, pursuant to which the assessment base against which FDIC assessments for deposit insurance are made will change. Instead of FDIC insurance assessments being based upon an insured bank's deposits, FDIC insurance assessments will generally be based on an insured bank's total average assets minus average tangible equity. With this change, Customers Bank expects that its overall FDIC insurance cost will decline. However, after the effectiveness of the reorganization, a change in the risk categories applicable to Customers Bank, further adjustments to base assessment rates and any special assessments could have a material adverse effect on CBI.

The Dodd-Frank Act also requires that the FDIC take steps necessary to increase the level of the Deposit Insurance Fund to 1.35% of total insured deposits by September 30, 2020. In October 2010, the FDIC adopted a Restoration Plan to achieve that goal. Certain elements of the Restoration Plan are left to future FDIC rulemaking, as are the potential for increases to the assessment rates, which may become necessary to achieve the targeted level of the Deposit Insurance Fund. Future FDIC rulemaking in this regard may have a material adverse effect on Customers Bank and/or CBI.

The short-term and long-term impact of the new Basel III capital standards and the forthcoming new capital rules to be proposed for non-Basel III U.S. banks is uncertain.

On December 17, 2009, the Basel Committee on Banking Supervision (the "Basel Committee") proposed significant changes to bank capital and liquidity regulation, including revisions to the definitions of Tier I capital and Tier 2 capital applicable to the Basel Committee's Revised Framework for the International Convergence of Capital

Measurement and Capital Standards (“Basel III”).

The short-term and long-term impact of the new Basel III capital standards and the forthcoming new capital rules to be proposed for non-Basel III U.S. banks is uncertain. As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation of Basel III may be or what impact a pending alternative standardized approach to Basel III option for non-Basel III U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

On September 12, 2010, the oversight body of the Basel Committee announced a package of reforms that will increase existing capital requirements substantially over the next four years. These capital reforms were endorsed by the G20 at the summit held in Seoul, South Korea in November 2010.

Competition with other financial institutions might negatively impact Customers Bank’s profits.

Customers Bank faces significant competition in making loans, taking deposits and providing other financial services and products. This competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies, money market funds, other mutual funds, as well as insurance companies and agencies. Banking legislation has caused this competition to further intensify and Customers Bank will face more competition from nonbanking companies in the future. Many of Customers Bank’s competitors have advantages such as greater financial resources, a wider geographic presence, a wider array of services, more favorable pricing alternatives, or lower costs. This competition could limit the types of loans, deposits and other financial services Customers Bank can offer on competitive terms, and could have an adverse effect on its earnings and profitability.

Losses or liabilities may be higher than anticipated and may negatively impact Customers Bank's earnings and financial position.

Management of a bank or other financial institution involves the management of a variety of risks in addition to risks of loan losses. These risks can involve, for example, risks to Customers Bank's reputation due to adverse publicity, risks rising out of its operations such as system or control failures, risks that Customers Bank might be unable to meet its obligations as they mature due to inadequate funding or illiquid assets, legal risks related to activities and contractual obligations, and risks rising out of adverse business decisions, improper implementation of decisions, or lack of response to industry changes. If Customers Bank's management does not fully identify, anticipate or manage a risk, or the amount of any consequent liability or loss, it may have unanticipated losses or liabilities, which could have an adverse effect on its earnings and financial position.

Provisions in Customers Bank's charter documents may prevent others from obtaining control or increase the cost of completing a transaction in which control of Customers Bank is acquired by others.

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

Customers Bank's directors and executive officers can influence the outcome of shareholder votes.

As of March 31, 2011, Customers Bank's directors and executive officers as a group owned a total of 4,666,312 shares of Voting Common Stock, 481,398 shares of Class B Non-Voting Common Stock, and exercisable options or warrants to purchase up to an additional 983,311 shares of Voting Common Stock, which potentially gives them, as a group, the ability to control of approximately 23.6% of issued and outstanding Voting Common Stock. Customers Bank believes ownership of stock causes directors and officers to have the same interests as shareholders, but it also gives them the ability to vote as shareholders for matters that are in their personal interest, which may be contrary to the wishes of other shareholders.

Customers Bank depends on its executive management, and the loss of a member of its management team could have an adverse effect on business.

Customers Bank believes its growth and profitability depends on the talents of its executive management team. Someone else could hire them. The loss of a key manager to a competitor could deepen the potential damage to Customers Bank's business. If Customers Bank loses key managers or if it is not able to attract new managers or retain and motivate key people, earnings and profitability could decrease.

Customers Bank's chairman and chief executive officer also serves as Executive Chairman of Atlantic Coast Financial Corporation, the holding company for another financial institution and such responsibilities could affect his ability to devote sufficient time to his position with Customers Bank.

Customers Bank's Chairman and Chief Executive Officer, Jay S. Sidhu, also serves as Executive Chairman of the Board of Atlantic Coast Financial Corporation, a holding company for Atlantic Coast Bank, located in Jacksonville, Florida. Mr. Sidhu's duties at Atlantic Coast Financial Corporation have the potential to cause him to devote less of his time to his responsibilities at Customers Bank, thereby potentially reducing his effectiveness in overseeing the

strategic plan. A reduction in the time that Mr. Sidhu may devote to Customers Bank's operations could adversely affect the ability to successfully implement Customers Bank's strategic plan and results of operations.

### Risks Related to Customers Bank's Acquisition Strategy

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

Customers regularly evaluates opportunities to strengthen Customers Bank's current market position by acquiring and investing in banks and in other complementary businesses, or opening new branches, and when appropriate opportunities arise, subject to regulatory approval, Customers will engage in acquisitions of other businesses and opening new branches. Such transactions could, individually or in the aggregate, have a material effect on Customers Bank's operating results and financial condition, including short and long-term liquidity. Customers' acquisition activities could be material to Customers Bank and CBI. For example, Customers Bank and/or CBI could issue additional shares of Voting Common Stock in a purchase transaction, which could dilute current shareholders' value or ownership interest. These activities could require Customers Bank to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with acquisitions were determined to be impaired, then Customers Bank would be required to recognize a charge against Customers Bank's earnings, which could materially and adversely affect Customers Bank's results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not impact cash flow, tangible capital or liquidity.

Customers' acquisition activities could involve a number of additional risks, including the risks of:

- Incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in Customers Bank's attention being diverted from the operation of Customers Bank's existing business;
- Using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- Potential exposure to unknown or contingent liabilities of banks and businesses Customers Bank acquires;
- The time and expense required to integrate the operations and personnel of the combined businesses;
- Experiencing higher operating expenses relative to operating income from the new operations;
- Creating an adverse short-term effect on Customers Bank's results of operations;
- Losing key employees and customers as a result of an acquisition that is poorly received; and
- Risk of significant problems relating to the conversion of the financial and customer data of the entity being acquired into Customers Bank's financial and customer product systems.

Additionally, in evaluating potential acquisition opportunities Customers Bank and/or CBI may seek to acquire failed banks through FDIC-assisted transactions. Customers Bank recently completed the acquisition, from the FDIC, of (1) assets of the former USA Bank, which had been headquartered in Port Chester, New York, and (2) assets of the former ISN Bank, which had been headquartered in Cherry Hill, New Jersey. While the FDIC may, in such transactions, provide assistance to mitigate certain risks, such as sharing in exposure to loan losses, and providing indemnification against certain liabilities, of the failed institution, Customers Bank may not be able to accurately

estimate Customers Bank's potential exposure to loan losses and other potential liabilities, or the difficulty of integration, in acquiring such institutions.

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

Customers Bank and CBI are subject to certain risks related to FDIC-assisted transactions.

The success of past FDIC-assisted transactions, and any FDIC-assisted transactions in which Customers Bank and/or CBI may participate in the future, will depend on a number of factors, including the following:

- Customers Bank's ability to fully integrate, and to integrate successfully, the branches acquired into bank operations;
- Customers Bank's ability to limit the outflow of deposits held by new customers in the acquired branches and to successfully retain and manage interest-earning assets (loans) acquired in FDIC-assisted transactions;

- Customers Bank's ability to retain existing deposits and to generate new interest-earning assets in the geographic areas previously served by the acquired banks;
- Customers Bank's ability to effectively compete in new markets in which it did not previously have a presence;
- Customers Bank's success in deploying the cash received in the FDIC-assisted transactions into assets bearing sufficiently high yields without incurring unacceptable credit or interest rate risk;
- Customers Bank's ability to control the incremental non-interest expense from the acquired branches in a manner that enables it to maintain a favorable overall efficiency ratio;
- Customers Bank's ability to retain and attract the appropriate personnel to staff the acquired branches; and
- Customers Bank's ability to earn acceptable levels of interest and non-interest income, including fee income, from the acquired branches.

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

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

Customers Bank's ability to continue to receive benefits of its loss share arrangement with the FDIC is conditioned upon compliance with certain requirements under the Purchase and Assumption Agreement.

Pursuant to the Purchase and Assumption Agreements Customers Bank signed in connection with its FDIC-assisted acquisitions of USA Bank and ISN Bank ("Purchase and Assumption Agreements"), Customers Bank is the beneficiary of loss share arrangements with the FDIC that calls for the FDIC to fund a portion of its losses on a majority of the assets acquired in connection with the transactions. Customers Bank's ability to recover a portion of losses and retain the loss share protection is subject to compliance with certain requirements imposed on Customers Bank in the Purchase and Assumption Agreements. The requirements of the loss share arrangements relate primarily to Customers Bank's administration of the assets covered by the agreements, as well as Customers Bank's obtaining the consents of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. For example, the FDIC approval will be required for any merger of Customers Bank or CBI that would result in the pre-merger shareholders of such entity owning less than sixty-six and two-thirds percent

(66.66%) of the equity of the surviving entity.

In such instances in which the consent of the FDIC is required under the Purchase and Assumption Agreements, the FDIC may withhold its consent to such transactions or may condition its consent on terms that Customers Bank does not find acceptable. There can be no assurance that the FDIC will grant its consent or condition its consent on terms that Customers Bank finds acceptable. If the FDIC does not grant its consent to a transaction Customers Bank would like to pursue, or conditions its consent on terms that Customers Bank does not find acceptable, this may cause it not to engage in a corporate transaction that might otherwise benefit shareholders or Customers Bank may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of the loss share agreement with the FDIC.



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

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

Attractive acquisition opportunities may not be available in the future.

Customers Bank may not be able to sustain a positive rate of growth or be able to expand its business. Customers expects that other banking and financial service companies, many of which have significantly greater resources than Customers Bank, will compete to acquire other financial institutions if Customers Bank pursues such acquisitions. This competition could increase prices for potential acquisitions that Customers Bank believes are attractive. Also, acquisitions are subject to various regulatory approvals. If Customers Bank fails to receive the appropriate regulatory approvals for a transaction it will not be able to consummate such transaction which it believes to be in its best interests. Among other things, Customers Bank's regulators consider capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Other factors, such as economic conditions and legislative considerations, may also impede or prohibit Customers Bank's ability to expand its market presence. If Customers Bank is not able to successfully grow its business, its financial condition and results of operations could be adversely affected.

Customers Bank may currently be unable to ascertain the merits or risks of the businesses it may ultimately acquire.

Until Customers Bank can identify and provide information on any target institutions, shareholders have no basis to evaluate the possible merits or risks of the target institutions' operations. To the extent Customers Bank completes investment transactions with any financially unstable institutions, it may be affected by numerous risks inherent in the operations of such entities. Although Customers Bank's management will evaluate the risks inherent in a particular target institution, they may not properly ascertain or assess all of the significant risk factors inherent in a target institution. An investment in CBI's Voting Common Stock may ultimately prove to be less favorable to shareholders than a direct investment, if such opportunity were available, in a target institution. Customers Bank will have flexibility in identifying and selecting prospective candidates for an investment transaction and will rely on guidance from the board of directors and outside advisors.

Customers Bank is subject to environmental liability risk associated with lending activities.

A significant portion of Customers Bank's loan portfolio is secured by real property. In the course of Customers Bank's business, it may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. Customers Bank may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If Customers Bank were to become subject to significant environmental liabilities, it could have a

material adverse effect on its financial condition and results of operations.

Customers Bank is subject to certain risks in connection with Customers Bank's use of technology.

Communications and information systems are essential to the conduct of Customers Bank's business, as such systems are used to manage customer relationships, general ledger, deposits, and loans. While Customers Bank has established policies and procedures to prevent or limit the impact of systems failures, interruptions, and security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of Customers Bank's security systems could deter customers from using its web site and online banking service, which involve the transmission of confidential information. Although Customers Bank relies on commonly used security and processing systems to provide the security and authentication necessary to effect the secure transmission of data, these precautions may not protect its systems from compromises or breaches of security.

In addition, Customers Bank outsources certain of its data processing to third-party providers. If Customers Bank's third-party providers encounter difficulties, or it has difficulty in communicating with them, Customers Bank's ability to adequately process and account for customer transactions could be affected, and its business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failure, interruption, or breach of security could damage Customers Bank's reputation and result in a loss of customers and business, could subject it to additional regulatory scrutiny, or could expose Customers Bank to civil litigation and possible financial liability. Any of these occurrences could have a material adverse effect on Customers Bank's financial condition and results of operations.

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

Customers Bank is subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and misconduct could subject Customers Bank to financial losses or regulatory sanctions and seriously harm its reputation. Misconduct by Customers Bank's employees could include hiding unauthorized activities, improper or unauthorized activities on behalf of customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions Customers Bank takes to prevent and detect this activity may not be effective in all cases. Employee errors could also subject Customers Bank to financial claims for negligence.

Recently, a number of banks and their customers have experienced unauthorized transfers of customer funds through criminal intrusion into customers' or third parties' systems. While Customers Bank is confident that its systems incorporate reasonable security against unlawful intrusions, Customers Bank cannot control the adequacy of security adopted by its customers. Recent intrusions have produced significant losses for other banks and their customers and can present liability, litigation, compliance and reputation risk for Customers Bank. As a result, security compromises of customers' systems and security pose further risk of loss.

Customers Bank maintains a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Should Customers Bank's internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on its business, results of operations and financial condition.

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

The decline in real estate values in many markets across the United States and weakening general economic conditions may result in increases in delinquencies and losses in the loan portfolios and other assets of financial institutions that Customers Bank or, assuming consummation of the reorganization, CBI acquires in amounts that exceed initial forecasts developed during the due diligence investigation prior to acquiring those institutions. In

addition, asset values may be impaired, in the future due to factors that cannot currently be predicted, including significant deterioration in economic conditions and further declines in collateral values and credit quality indicators. Any of these events could adversely affect the financial condition, liquidity, capital position and value of institutions acquired and of Customers as a whole. Further, CBI intends to become registered as a bank holding company and in that event if CBI acquires more bank subsidiaries they may become subject to cross-guaranty liability under applicable banking law. If CBI does so and any of the foregoing adverse events occur with respect to one subsidiary, they may adversely affect other of CBI's subsidiaries, including Customers Bank.

Current economic conditions have created an uncertain environment with respect to asset valuations and there is no certainty that CBI or Customers Bank will be able to sell assets of target institutions if it is determined to would be in Customers' best interests to do so. The institutions Customers will target may have substantial amounts of asset classes for which there is currently limited or no marketability.

As a result of an investment or acquisition transaction, Customers may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on Customers' financial condition and results of operations, which could cause you to lose some or all of your investment.

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

Customers Bank and/or CBI may in the future hire consultants or advisors on a contingent basis, who would only receive payment in the event an investment or acquisition transaction occurred and, therefore, they might be viewed as having an interest in such investment or acquisition transaction occurring.

Customers Bank and/or CBI may in the future hire placement agents and other consultants or advisors to assist it with searches for a target institution or institutions or otherwise advise in connection with an investment or acquisition transaction and any compensation payable to such persons may be contingent upon the closing of an investment or acquisition transaction. As a result, a placement agent or any such other consultants and advisors who provide advice would only receive compensation if an investment or acquisition transaction occurred and therefore they might be viewed as having an interest in such investment or acquisition transaction occurring that is different from, or conflicts with, the interests of Customers Bank and/or CBI's shareholders.

Shareholders may have no opportunity to evaluate and affect the investment decision regarding a potential investment or acquisition transaction.

Shareholders will not necessarily be provided with an opportunity to evaluate the specific merits or risks of one or more target institutions. Any decision regarding a potential investment or acquisition transaction will be made by Customers Bank and/or CBI's board of directors. For more information on the private offerings and the lead investors, see, "THE REORGANIZATION - Private Offerings," on page 46 of this Joint Proxy Statement-Prospectus. Except in limited circumstances as required by applicable law, consummation of an acquisition will not require the approval of holders of Voting Common Stock. Accordingly, you may not have an opportunity to evaluate and affect the investment decision regarding potential investment or acquisition transactions.

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

Customers anticipates that the investigation of each specific target institution and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific investment or acquisition transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific target institution,

Customers Bank or CBI may fail to consummate the investment or acquisition transaction for any number of reasons, including those beyond its control. Any such event will result in a loss of the related costs incurred, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another institution.

The officers and directors of an acquisition candidate may resign upon consummation of an acquisition.

The role of the key personnel of a target institution upon the consummation of an acquisition cannot be predicted at this time. Although Customers expects that certain members of the management team of a target institution may remain associated with the acquisition candidate following an acquisition, it is possible that key members of the management of a target institution will not wish to remain in such positions.

## Risks Related to Customers Bank and CBI's Industry

Difficult market conditions have adversely affected Customers Bank and CBI's industry.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate-related loans and resulted in significant write-downs of asset values by financial institutions. These writedowns, including asset-backed and other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected and may continue to adversely affect Customers Bank and CBI's business, financial condition and results of operations. Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on Customers and others in the financial services industry.

The soundness of other financial institutions could adversely affect Customers Bank.

Customers Bank's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Customers Bank has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by Customers Bank or by other institutions. Many of these transactions expose Customers Bank to credit risk in the event of default of the counterparty or client. In addition, Customers Bank's credit risk may be exacerbated if the collateral held by Customers Bank cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect results of operations.

There can be no assurance that recently enacted legislation will stabilize the U.S. financial system.

The Emergency Economic Stabilization Act of 2008 ("EESA") provided to the U.S. Treasury Department the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions to stabilize and provide liquidity to the U.S. financial markets. The Treasury Department announced a program under EESA pursuant to which it would make senior preferred equity investments in participating financial institutions. The FDIC announced the development of a guarantee program pursuant to which the FDIC would offer a guarantee of certain financial institution indebtedness in exchange for an insurance premium to be paid to the FDIC by issuing financial institutions. There can be no assurance, however, as to the actual impact that EESA and its implementing regulations, the FDIC programs, or any other governmental program will have on the financial markets. Furthermore, recent adverse economic developments in the European Economic Community may pose a risk to U.S. financial institutions doing business with European countries or banks or companies in those countries. More recently, the Dodd-Frank Act enacted provisions to address some of the risks that are considered to have contributed to the economic crisis of the last few years. The failure of the Dodd-Frank Act or regulations to be adopted under it, EESA, the FDIC, or the U.S. Government to stabilize the financial markets and a

continuation or worsening of current financial market conditions could materially and adversely affect Customers Bank's business, financial condition, results of operations, access to credit or the trading price of Voting Common Stock.

A continuation of recent turmoil in the financial markets could have an adverse effect on the financial position or results of operations of Customers Bank and CBI.

In recent periods, United States and global markets, as well as general economic conditions, have been disrupted and volatile. Concerns regarding the financial strength of financial institutions have led to distress in credit markets and issues relating to liquidity among financial institutions. Some financial institutions around the world have failed; others have been forced to seek acquisition partners. The United States and other governments have taken steps to try to stabilize the financial system, including investing in financial institutions. Customers business and financial condition and results of operations could be adversely affected by (1) continued disruption and volatility in financial markets, (2) continued capital and liquidity concerns regarding financial institutions generally and counterparties specifically, (3) limitations resulting from governmental action in an effort to stabilize or provide additional regulation of the financial system, or (4) recessionary conditions that are deeper or last longer than currently anticipated. Further, there can be no assurance that action by Congress, governmental agencies and regulators, including the enacted legislation authorizing the U.S. government to invest in financial institutions, or changes in tax policy, will help stabilize the U.S. financial system and any such action, including changes to existing legislation or policy, could have an adverse effect on the financial position or results of operation of Customers.



## RECENT DEVELOPMENTS

Raised over \$75 million of capital

In the first quarter of 2011, Customers Bank sold a total of 4,166,679 shares which included 2,638,750 shares of its Voting Common Stock and 1,527,929 shares of its Class B Non-Voting Common Stock at an average price of \$3.87 per share for total proceeds of \$16.1 million.

In December 2010, Customers Bank sold a total of 2,232,641 shares, which included 2,084,841 shares of its Voting Common Stock and 147,800 shares of its Class B Non-Voting Common Stock at an average price of \$3.94 per share for proceeds totaling \$8.8 million. In addition, 700,000 shares of Voting Common Stock were issued when members of senior management exercised their grants under the Customers Bank's Management Stock Purchase Plan.

In the third quarter of 2010, Customers Bank sold a total of 541,098 shares which included 261,098 shares of its Voting Common Stock and 280,000 shares of its Class B Non-Voting Common Stock at an average price of \$3.55 per share for total proceeds of \$2.19 million, net of costs. Taking into account the impact of anti-dilution agreements issued to investors in the previous offerings, additional shares of 1,338,384 have been issued.

In February 2010, Customers Bank sold 10,078,139 total shares, which included 6,529,550 of its Voting Common Stock and 3,548,589 of Class B Non-Voting Common Stock at a price of \$4.28 per share, and in March 1,950,798 total shares, which included 761,596 of its Voting Common Stock and 1,189,202 of its Class B Non-Voting Common Stock at a price of \$3.76 per share. Taking into account the impact of anti-dilution agreements issued to investors in the February 2010 private offering, the result of the two offerings was the issuance of 13.4 million shares in those offerings. As a result, 1,404,177 shares have also been issued to existing investors pursuant to anti-dilution agreements between Customers Bank and those investors.

The capital raised in these transactions is intended generally to support Customers Bank's organic growth, participation in FDIC assisted transactions, and market acquisitions of small banks.

Following the close of these transactions, no investor owns or controls more than 9.9% of the aggregate outstanding shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock, including for purposes of this calculation any shares issuable under unexercised warrants.

Each investor who participated in these capital raises and owns more than 9% of the common equity of Customers Bank has been identified by Customers Bank as a lead investor. The February and March 2010 offerings resulted in seven lead investors and they each received warrants equal to 5% of the shares that they purchased, having exercise prices (after taking into account anti-dilution repricing) of \$3.50 per share. The number of warrants issued for purposes of Voting Common Stock totaled 303,321, and the number of warrants issued for purposes of Class B Non-Voting Common Stock totaled 243,102. The lead investors also have the right to invest in future capital raises until February 17, 2011 at the issuance price of \$3.50 per share.

### FDIC-Assisted Acquisitions

Customers Bank completed two FDIC-assisted transactions in 2010. On July 9, 2010, Customers Bank purchased substantially all of the assets and assumed substantially all of the liabilities of USA Bank, a full-service bank with one branch located in Port Chester, New York ("USA Bank"), from the FDIC. Customers Bank acquired prior to purchase accounting adjustments approximately \$205.6 million in assets from USA Bank and assumed approximately \$192.8 million in liabilities. The FDIC and Customers Bank entered into a loss-share arrangement pursuant to a Purchase and Assumption Agreement upon the terms of which Customers Bank is afforded protection that the FDIC will reimburse

up to 80% of the losses associated with approximately \$159.2 million of the assets acquired.

On September 17, 2010, Customers Bank acquired substantially all of the deposits and the assets of ISN Bank with one branch location in Cherry Hill, New Jersey. In this transaction, Customers Bank acquired prior to purchase accounting adjustments approximately \$79.8 million in assets and assumed approximately \$72.1 million in liabilities from ISN Bank. The FDIC and Customers Bank entered into a loss-share arrangement pursuant to a Purchase and Assumption Agreement upon the terms of which Customers Bank is afforded protection that the FDIC will reimburse up to 80% of the losses associated with approximately \$60.0 million of the assets acquired.

Changed name to Customers Bank

In December 2010, the shareholders of Customers Bank approved a name change from New Century Bank to Customers Bank. After receiving all necessary regulatory approvals in April 2011, the name has been officially changed to Customers Bank.

#### Purchase of manufactured housing portfolio

On August 6, 2010, Customers Bank purchased \$105.8 million of manufactured housing loans for \$94.6 million, net of a \$10.5 million holdback on the purchase price. The Agreement of Sale of Loans includes a holdback for 10% of the purchase price to cover, in accordance with the provisions of the Agreement, certain anticipated costs accruing during the holdback period with respect to the loans purchased including, without limitation, costs to cover payment of past due amounts for principal and interest of the purchased loans and servicing and indemnification obligations. In the event that such costs do not meet or exceed 10% of the purchase price at the end of the holdback period, Customers Bank will pay the remainder to the seller of the loans. The loans purchased were originated on or before 2008, and were current on their payments as of August 6, 2010.

#### Extension of anti-dilution provision

Customers Bank agreed to extend and amend the anti-dilution agreements with shareholders who purchased shares in June 2009 and later, to extend anti-dilution protections from June 30, 2010 through March 31, 2011 for any capital raising transactions at a price or value below \$3.50 per share, but, after June 30, 2010, only where the capital raising transaction involved share issuances for cash. For further information on the terms of the anti-dilution agreements, see, "ANTI-DILUTION AGREEMENTS," beginning on page 108 of this Joint Proxy Statement-Prospectus. On April 12, 2010, Customers Bank's board of directors extended similar anti-dilution protections for warrants held by the shareholders from previous capital raises who had anti-dilution agreements.

PROPOSALS TO BE VOTED ON  
PROPOSAL C1  
TO APPROVE A PLAN OF MERGER AND REORGANIZATION PURSUANT TO  
WHICH THE BANK WILL REORGANIZE TO FORM A BANK HOLDING COMPANY

SUMMARY

Customers Bank is seeking its shareholder approval at the Special Meeting of a transaction which will restructure Customers Bank's corporate organization by creating a new holding company that will own Customers Bank. As a result, current Customers Bank shareholders will own shares of the holding company instead of Customers Bank. The reorganization will be conducted according to a Plan of Merger and Reorganization which is attached as Annex A to this Joint Proxy Statement-Prospectus (the "Plan of Reorganization").

Customers Bank's shareholders are being asked to approve the following resolution:

RESOLVED, that the shareholders of Customers Bank hereby approve and adopt the Plan of Merger and Reorganization among Customers Bank, Customers Interim Bank and Customers Bancorp, Inc., whereby Customers Bank will merge with and into Customers Interim Bank, which will change its name to "Customers Bank" and become a wholly owned subsidiary of Customers Bancorp, Inc., with shareholders of Customers Bank receiving one share of Customers Bancorp, Inc. Voting Common Stock, par value \$1.00 per share, in exchange for every three shares of Voting Common Stock, par value \$1.00 per share, of Customers Bank presently owned, and one share of Customers Bancorp, Inc. Class B Non-Voting Common Stock, par value \$1.00 per share, in exchange for every three shares of Class B Non-Voting Common Stock, par value \$1.00 per share, of Customers Bank presently owned, all in the form submitted to this meeting, with such changes not inconsistent with this resolution as the directors or officers of Customers Bank may deem necessary or appropriate to complete the reorganization.

The reorganization will involve several steps, some of which have already occurred, which steps include the following:

1. Customers Bank has caused the formation of Customers Bancorp, Inc., also called CBI, as a new Pennsylvania business corporation which is expected, subject to regulatory non-objection, to become a direct, wholly-owned subsidiary of Customers Bank.
2. Customers Bank will apply to the applicable banking regulators for permission to form a new Pennsylvania commercial bank subsidiary of CBI, to be named Customers Interim Bank.
3. Customers Bank will apply to the applicable banking regulators for permission for it to merge into Customers Interim Bank according to the Plan of Reorganization and for Customers Interim Bank to change its name to "Customers Bank."
4. After Customers Bank receives all necessary regulatory approvals, it will complete the reorganization in accordance with the Plan of Reorganization, including the following transactions:
  - (i) Customers Bank will merge with Customers Interim Bank, with Customers Interim Bank surviving;
  - (ii) Customers Interim Bank will immediately change its name to "Customers Bank";

- (iii) As a result of that merger, CBI will automatically become the holding company for, and the sole shareholder of, the resulting bank;
- (iv) Holders of Customers Bank's Voting Common Stock will receive one share of CBI Voting Common Stock in exchange for every three shares of Customers Bank's Voting Common Stock that they hold, and, as a result, Customers Bank's shareholders will become shareholders of CBI;
- (v) Holders of Customers Bank's Class B Non-Voting Common Stock will receive one share of CBI Class B Non-Voting Common Stock in exchange for every three shares of Bank Class B Non-Voting Common Stock that they hold;
- (vi) Holders of Customers Bank's Voting Common Stock or Class B Non-Voting Common Stock who would otherwise be entitled to a fractional share of CBI Voting Common Stock or CBI Class B Non-Voting Common Stock will instead receive an amount in cash, rounded to the nearest cent and without interest, equal to the product of (1) the fraction of such number of shares to which the holder would otherwise have been entitled, and (2) the book value of one share of Voting Common Stock or Class B Non-Voting Common Stock, as the case may be, of Customers Bank as of the final day of the quarter ended immediately prior to the closing of the reorganization;

- (vii) Upon this exchange of shares, CBI will become the sole shareholder and holding company for Customers Bank;
- (viii) All warrants and options for the purchase of Customers Bank's Voting Common Stock or Class B Non-Voting Common Stock that are outstanding as of the closing of the reorganization will automatically become warrants or options, respectively, to purchase one-third of the number of shares of the same respective classes of CBI stock. The number of CBI shares for which each outstanding option or warrant will be exercisable after the reorganization will be rounded up to the nearest whole number of CBI shares, subject to the holder's agreement to any necessary corresponding upward rounding adjustments to the per-share exercise price to the nearest whole cent; and
- (ix) CBI will assume Customers Bank's obligations under Customers Bank's equity compensation, employee retirement plans, employee benefit plans, and employment agreements.

As of \_\_\_\_\_, 2011, the Record Date for the Customers Special Meeting, there were outstanding \_\_\_\_\_ shares of Customers Bank's Voting Common Stock, \_\_\_\_\_ shares of Customers Bank's Class B Non-Voting Common Stock, warrants to purchase \_\_\_\_\_ shares of Customers Bank's Voting Common Stock, warrants to purchase \_\_\_\_\_ shares of Customers Bank's Class B Non-Voting Common Stock and options to purchase \_\_\_\_\_ shares of Customers Bank's Voting Common Stock.

For a more complete summary of the reorganization, see "THE REORGANIZATION" beginning on page 45 of this Joint Proxy Statement-Prospectus.

The affirmative vote of two-thirds of outstanding shares of Customers Bank's Voting Common Stock is required for the approval of Proposal C1. Proxies received by the board will be voted "FOR" Proposal C1, except to the extent that shareholders specify a contrary choice in their proxies.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL PROPOSAL C1 TO APPROVE THE MERGER AND REORGANIZATION OF THE BANK TO FORM HOLDING COMPANY.**

## THE REORGANIZATION

### Background and Reasons for the Reorganization

**Basic Benefits of a Bank Holding Company.** Customers Bank seeks to form a holding company to operate with the full privileges granted to a corporation that is registered as a bank holding company under the Bank Holding Company Act of 1956. The benefits to this formation include, but are not limited to, the ability to: acquire other financial service organizations that would complement Customers' business model; pursue growth opportunities in segments of the business which may be accomplished through the formation of subsidiaries; and access credit facilities available to holding companies which would be beneficial to Customers Bank's liquidity and capital needs. Assuming Customers Bank's shareholders approve the reorganization, once established and approved by federal regulators, Customers Bancorp, Inc. will be registered with and supervised by the Board of Governors of the Federal Reserve System ("Federal Reserve Board").

**Acquisition Strategy.** As part of its new business strategy, Customers Bank is focusing on strategic acquisitions to increase its size and diversify its product and service offerings to customers. Customers' acquisition strategy will focus on community banks in identified states, primarily along the Eastern seaboard, with the goal of creating a leading community bank holding company. Customers seeks to achieve sufficient scale in each region and, over time, build a combined balance sheet of \$2.5 to \$5.0 billion. Customers hopes to accomplish this by acquiring, subject to applicable regulatory approval, healthy, distressed, undercapitalized and weakened banking institutions that have stable core deposit franchises, local market share, and quantifiable risks, or that are acquired from the Federal Deposit Insurance Corporation (the "FDIC") with federal assistance, and that offer clear financial benefits through add-on acquisitions, expense reductions and organic growth. Customers Bank also expects to, subject to applicable regulatory approval, purchase assets and banking platforms, as well as assumptions of deposits from the FDIC and possibly enter into loss mitigation arrangements with the FDIC in connection with such purchases. To facilitate execution of this strategy, Customers believes it will be advantageous to become regulated as a bank holding company.

Customers Bank has defined its core market as Pennsylvania, Connecticut, New Jersey, Delaware, Maryland and New York and it will focus its efforts in these markets. Within these states, Customers' strategy is to focus on areas that possess a common set of characteristics, including population density, a concentration of business activities, attractive bank deposit bases, a high number of potential FDIC-assisted deal candidates, potential for economic growth over time and favorable local banking competitive dynamics. Such competitive dynamics include an appropriate number of small to medium sized banks that can be consolidated, an ability to amass local market share, and the opportunity to deliver long-term organic growth and sustained financial results under a community banking model. Customers also plans to seek expansion on areas that contain larger competitors that it can effectively compete against with Customers Bank's unique organic growth strategy.

Customers Bank has also identified other states for possible market expansion including Florida, Georgia, North Carolina, South Carolina, Virginia and Illinois. Customers will closely monitor opportunities for expansion and may decide to add one or more states to its core market definition. Opportunities will be assessed based upon the potential ability for Customers Bank to effectively execute its strategies in these markets in a safe and profitable way. Also, Customers will need to see opportunity to build enough scale in the new market to support extending its reach. Customers has no intention of buying small banks in numerous markets but prefers to focus its efforts in a few markets.

The significant downturn in the U.S. economy and the related crisis in the financial services industry present a unique opportunity for Customers to execute its acquisition strategy. Many banks are trading at historically low multiples and are in need of capital at a time when traditional sources of capital have diminished. Further, the

undercapitalization of the banking sector has caused many banks to drastically reduce lending to new clients and in certain sectors to focus primarily on strengthening their balance sheets. A holding company would provide an opportunity to investors who are interested in taking advantage of acquisition opportunities in the banking sector but do not have bank management experience. Customers can help these investors avoid the costs of building a new banking franchise that, without an existing franchise such as Customers Bank's to build on, can reduce overall investment returns. Customers believes that the current weakness in the banking sector and the potential duration of any recovery provide Customers with an opportunity to execute this strategy to the benefit of its investors, and believes that the platform it has chosen will produce results that are superior to situations in which a banking franchise must be built from the ground up.

At this time, except for the Merger Agreement, Customers Bank has not entered into any definitive agreements to acquire other institutions or their assets. However, management is actively seeking acquisition opportunities, and it is possible that it may, subject to applicable regulatory approval, enter into one or more acquisition agreements at any time.



## Private Offerings

In order to fund Customers Bank's desired growth, in February 2010, Customers Bank completed a \$43.1 million offering of 6,529,550 shares of its Voting Common Stock and 3,548,589 shares of its Class B Non-Voting Common Stock, and warrants to purchase up to an additional aggregate 362,311 shares of Customers Bank's Voting Common Stock at an exercise price of \$4.28 per share. In this Joint Proxy Statement-Prospectus, this is referred to as the February 2010 private offering. Of those investors, six acquired ownership of Voting Common Stock and Class B Non-Voting Common Stock equal to approximately 9.9% of the outstanding shares of Customers Bank after completion of the February 2010 private offering. These six investors, each of whom is identified in "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" at page 136 of this Joint Proxy Statement-Prospectus, elected to be treated as "lead investors." Pursuant to their subscription agreements, the lead investors will have the following special contractual rights:

- Until February 17, 2011, Customers Bank has agreed, subject to appropriate confidentiality agreements, to consult with and give each lead investor an opportunity to review proposed bids for qualified transactions and provide feedback to Customers Bank prior to final submission of such bids. For this purpose, a qualified transaction is an FDIC-assisted investment or acquisition transaction in which the lead investor is not a competing bidder nor interested in a competing bid;
- Each lead investor received a warrant to purchase, at \$4.28 per share, an additional number of shares of Voting Common Stock and Class B Non-Voting Common Stock equal to 5% of the total number of shares for which the investor subscribed in the February 2010 private offering;
- Each lead investor received a contractual, non-transferable pre-emptive right to purchase, at \$4.28 per share, shares of Voting Common Stock or Class B Non-Voting Common Stock that Customers Bank may offer until February 17, 2011, subject, however, in all cases to the limitation that the lead investor will not, as a result of the purchase, be deemed to own or control more than 9.9% of the outstanding shares of Customers Bank; and
- Each lead investor was given registration rights with respect to the lead investor's Bank stock or shares of CBI stock that may be exchanged for it. Customers Bank and CBI anticipate that the registration statement filed by CBI with respect to the reorganization and exchange of CBI shares described in this Joint Proxy Statement-Prospectus will satisfy that requirement.

Investors in the February 2010 private offering also have received anti-dilution agreements providing each of them price protection until March 31, 2011, such that if Customers Bank or CBI issues any shares of its Voting Common Stock at or prior to that date at a price less than \$4.28 per share, sufficient additional shares will be issued to them to maintain the values of their holdings of Voting Common Stock at the new, lower issuance price. For more information on anti-dilution agreements, see "ANTI-DILUTION AGREEMENTS," beginning on page 108 of this Joint Proxy Statement-Prospectus. One of Customers Bank's commitments in connection with the February 2010 private offering is to form a bank holding company. The approval of Proposal C1 by the shareholders at this Special Meeting is therefore required in order for Customers Bank to meet its commitments in connection with the February 2010 private offering.

Pursuant to the anti-dilution agreements they received in the offering and further action by Customers Bank's board of directors on April 12, 2010, the investors in this offering received additional shares and their warrant rights were

adjusted. For more information on the warrant adjustments, see “WARRANTS TO PURCHASE ADDITIONAL STOCK,” beginning on page 107. The shares and warrants issued in this February offering may be subject to anti-dilution adjustment in connection with possible future private offerings.

The purchase price for shares of Voting Common Stock and Class B Non-Voting Common Stock to be offered pursuant to the pre-emptive rights granted to lead investors in the February 2010 private offering has been adjusted from \$4.28 per share to \$3.50 per share, and 1,454,934 additional shares of Voting Common Stock and 80,744 shares of Class B Non-Voting Common Stock were issued under the anti-dilution agreements as a result of subsequent offerings at \$3.50 per share.

In March 2010, Customers Bank also completed a private placement of 761,596 shares of its Voting Common Stock and 1,189,202 shares of its Class B Non-Voting Common Stock to accredited investors, one of which elected to be treated as a “lead investor,” for a purchase price of \$3.76 per share, or a total of \$7,335,003 in proceeds.

Pursuant to their subscription agreements, the lead investor in this March 2010 private offering, identified in “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” at page 136 of this Joint Proxy Statement-Prospectus, will have the following special contractual rights:

- Until February 17, 2011, Customers Bank has agreed, subject to appropriate confidentiality agreements, to consult with and give each lead investor an opportunity to review proposed bids for qualified transactions and provide feedback to Customers Bank prior to final submission of such bids. For this purpose, a qualified transaction is an FDIC-assisted investment or acquisition transaction in which the lead investor is not a competing bidder nor interested in a competing bid.

- Such investor received a warrant to purchase, at \$3.76 per share, an additional number of shares of Voting Common Stock and Class B Non-Voting Common Stock equal to 5% of the total number of shares for which the investor subscribed in the March 2010 private offering.
- Such investor received a contractual, non-transferable pre-emptive right to purchase, at \$3.76 per share, shares of Voting Common Stock or Class B Non-Voting Common Stock that Customers Bank may offer until February 17, 2011, subject, however, in all cases to the limitation that the investor will not, as a result of the purchase, be deemed to own or control more than 9.9% of the outstanding shares of Customers Bank.
- Such investor was given registration rights with respect to the investor's Bank stock or shares of CBI stock that may be exchanged for it. Customers Bank and CBI anticipate that the registration statement filed by Holding Company with respect to the reorganization and exchange of CBI shares described in this Joint Proxy Statement-Prospectus will satisfy that requirement.

Such investors also received anti-dilution agreements providing each of them price protection until March 31, 2011, such that if Customers Bank or CBI issues any shares of its Voting Common Stock at or prior to that date at a price less than \$3.76 per share, sufficient additional shares will be issued to them to maintain the values of their holdings of Voting Common Stock at the new, lower issuance price. For more information on Anti-Dilution Agreements, see "ANTI-DILUTION AGREEMENTS," beginning on page 108 of this Joint Proxy Statement-Prospectus. The shares and warrants issued in this March 2010 private offering may be subject to anti-dilution adjustment in connection with possible future private offerings.

The purchase price for shares of Voting Common Stock and Class B Non-Voting Common Stock to be offered pursuant to the pre-emptive rights granted to lead investors in the February 2010 private offering has been adjusted from \$3.76 per share to \$3.50 per share, and 56,576 additional shares of Voting Common Stock and 88,341 shares of Class B Non-voting Common Stock were issued under the anti-dilution agreements as a result of the subsequent offerings at \$3.50 per share.

One of Customers Bank's commitments in connection with the March 2010 private offering is to form a bank holding company. The approval of Proposal C1 by the shareholders at this Special Meeting is therefore required in order for Customers Bank to meet its commitments in connection with the March 2010 private offering.

The March 2010 offering price resulted in issuance of additional shares to existing shareholders who held anti-dilution agreements. For more information on the anti-dilution agreements, see "ANTI-DILUTION AGREEMENTS," beginning on page 108. In addition, on April 12, 2010, Customers Bank's board of directors approved adjustments to the terms of warrants held by those shareholders benefitting from anti-dilution agreements, to adjust the exercise price and make a corresponding adjustment to the number of shares for which each warrant is exercisable. For further information on the adjustment, see, "WARRANTS TO PURCHASE ADDITIONAL STOCK," beginning on page 107.

Customers Bank paid approximately \$1.5 million in legal, accounting and underwriting fees for the February and March 2010 private offerings.

In the third quarter of 2010, Customers Bank sold a total 541,098 shares which included 261,049 shares of its Voting Common Stock and 280,000 shares of its Class B Non-Voting Common Stock at an average price of \$3.55 per share.

Investors in such offerings received anti-dilution agreements providing each of them with price protection until March 31, 2011, such that if either Customers Bank or CBI issues any shares of its Voting Common Stock at or prior to that date at a price less than the price per share that was paid, additional shares will be issued to them in order to maintain the values of their holdings of Voting Common Stock at the new, lower issuance price. For more information on Anti-Dilution Agreements, see "ANTI-DILUTION AGREEMENTS," beginning on page 108 of this Joint Proxy Statement-Prospectus.

In December 2010, Customers Bank sold 2,232,641 total shares, which included 2,084,841 shares of its Voting Common Stock and 147,800 shares of its Class B Non-Voting Common Stock at an average price of \$3.94 per share.<sup>3</sup> Investors in such offerings received anti-dilution agreements providing each of them with price protection until March 31, 2011, such that if either Customers Bank or CBI issues any shares of its Voting Common Stock at or prior to that date at a price less than the price per share that was paid, additional shares will be issued to them to maintain the values of their holdings of Voting Common Stock at the new, lower issuance price. For more information on Anti-Dilution Agreements, see "ANTI-DILUTION AGREEMENTS," beginning on page 108 of this Joint Proxy Statement-Prospectus.

In the first quarter of 2011, Customers Bank sold a total of 4,166,679 shares which included 2,638,750 shares of its Voting Common Stock and 1,527,929 shares of its Class B Non-Voting Common Stock at an average price of \$3.87 per share for total proceeds of \$16.1 million.

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<sup>3</sup>Note that this does not include the 700,000 shares of Voting Common Stock that were purchased by members of Customers Bank's management in December 2010 when such persons exercised awards granted to them under the Management Stock Purchase Plan.

## The Plan of Reorganization

A copy of the Plan of Merger and Reorganization is attached as Annex A to this Joint Proxy Statement-Prospectus. Please read the entire Plan of Reorganization. The following description is only a summary of the material terms of the Plan of Reorganization. There are several steps to the reorganization:

- Customers Bank will merge with Customers Interim Bank, with Customers Interim Bank surviving;
- Customers Interim Bank will immediately change its name to “Customers Bank”;
- Holders of Customers Bank’s Voting Common Stock will receive one share of CBI Voting Common Stock in exchange for every three shares of Customers Bank’s Voting Common Stock that they hold, and, as a result, Customers Bank’s shareholders will become holders of shares of the CBI Voting Common Stock;
- Holders of Customers Bank’s Class B Non-Voting Common Stock will receive one share of CBI Class B Non-Voting Common Stock in exchange for every three shares of Bank Class B Non-Voting Common Stock that they hold;
- Holders of Customers Bank’s Voting Common Stock or Class B Non-Voting Common Stock who would otherwise be entitled to a fractional share of CBI Voting Common Stock or CBI Class B Non-Voting Common Stock will instead receive an amount in cash, rounded to the nearest cent and without interest, equal to the product of (1) the fraction of such share to which the holder would otherwise have been entitled, and (2) the book value of one share of Voting Common Stock or Class B Non-Voting Common Stock of Customers Bank as of the final day of the quarter ended immediately prior to the closing of the reorganization;
- Upon this exchange of shares, CBI will become the sole shareholder and holding company for Customers Bank;
- All warrants and options for the purchase of Customers Bank’s Voting Common Stock or Class B Non-Voting Common Stock that are outstanding as of the closing of the reorganization will automatically become warrants or options, respectively, to purchase one-third of the number of shares of the same respective classes of CBI shares. The number of CBI shares for which each outstanding option or warrant will be exercisable after the reorganization will be rounded up to the nearest whole number of CBI shares, subject to the holder’s agreement to any necessary corresponding upward rounding adjustments to the per share exercise price to the nearest whole cent; and
- CBI will assume Customers Bank’s obligations under Customers Bank’s equity compensation, employee retirement plans, employee benefit plans, and employment agreements.

After the reorganization, CBI will have no significant assets other than securities of Customers Bank, and, as a result, CBI will have substantially the same assets and liabilities, on a consolidated basis, as Customers Bank.

Amendment or Termination

At any time before the merger becomes effective, by vote of a majority of the board of directors of each of Customers Bank, CBI and Customers Interim Bank, the Plan of Reorganization:

- May be amended in any manner not inconsistent with its general purpose, provided that no amendment shall change the share exchange ratio of one share of CBI Voting Common Stock for every three shares of Customers Bank's Voting Common Stock, and one share of CBI Class B Non-Voting Common Stock for every three shares of Bank Class B Non-Voting Common Stock following approval of the Plan of Reorganization by the shareholders of Customers Bank; and

- May be terminated for any reason including, without limitation, because of the number of shares of Voting Common Stock and Class B Non-Voting Common Stock of Customers Bank exercising dissenters' rights, or if it appears that the consummation of the reorganization would be inadvisable. If the Plan of Reorganization is terminated, it will be void and of no further effect, without any liability on the part of Customers Bank, CBI, Customers Interim Bank, or their respective directors, officers, shareholders or agents.

#### Conditions to Completing the reorganization

The reorganization will not be completed unless and until Customers Bank's shareholders and the applicable bank regulatory agencies approve it.

#### Regulatory Approval of the reorganization

The reorganization will require the following approvals by bank regulatory agencies:

- The Pennsylvania Banking Department and the Federal Reserve must approve the formation and organization of CBI and Customers Interim Bank;
- The Federal Deposit Insurance Corporation ("FDIC") must approve deposit insurance for Customers Interim Bank;
- The Pennsylvania Banking Department must approve the merger of Customers Bank into Customers Interim Bank;
- The Federal Reserve must approve the merger of Customers Bank into Customers Interim Bank; and
- The Federal Reserve Board and the Pennsylvania Banking Department must approve CBI's acquisition of control of Customers Interim Bank and the institution resulting from the merger of Customers Bank into Customers Interim Bank and Federal Reserve membership for the surviving bank.

#### Securities Law Consequences; Resale Restrictions for Certain Persons

The issuance of CBI shares to Customers Bank's shareholders in connection with the reorganization is being registered under the Securities Act of 1933, as amended (the "Securities Act"), on the Form S-1 registration statement of which this Joint Proxy Statement-Prospectus is a part. CBI shares to be issued to Customers Bank shareholders in connection with the reorganization will be freely transferable, except that any persons who are "affiliates" of CBI after the completion of the reorganization or were "affiliates" of Customers Bank within 90 days prior to the completion of the reorganization will be permitted to resell CBI shares they receive only in the manner permitted by Rule 144. In computing the holding period of CBI shares for the purposes of Rule 144(d), such persons will be permitted to "tack" the holding period of their Bank shares held prior to the effective time of the reorganization. Persons who may be deemed to be affiliates of Customers Bank and CBI for these purposes generally include individuals or entities that control, are controlled by, or are under common control with, Customers Bank and CBI, and would generally not include shareholders who are not executive officers, directors or significant shareholders of Customers Bank and CBI.

The Plan of Reorganization requires Customers Bank to prepare and deliver to CBI a list that identifies all persons whom Customers Bank believes may be deemed an affiliate prior to the completion of the reorganization. Customers Bank is also required, pursuant to the Plan of Reorganization, to use its commercially reasonable best efforts to cause each person whom it identifies on the list as a potential affiliate to deliver, at or prior to the completion of the reorganization, a written agreement that the affiliate will not sell, pledge, transfer or otherwise dispose of any CBI shares issued to the affiliate pursuant to the reorganization unless the sale, pledge, transfer or other disposition meets one of the following criteria:

- It is made pursuant to an effective registration statement filed under the Securities Act;
- It is in compliance with Rule 144; or
- In the opinion of counsel, it is otherwise exempt from the registration requirements of the Securities Act.



## Management of CBI

Prior to the effective time of the reorganization, the executive officers of Customers Bank will be appointed as the executive officers of CBI. CBI's board of directors is classified in accordance with its articles of incorporation. For more information regarding CBI's board and management, see "CBI'S BOARD OF DIRECTORS AND MANAGEMENT" and "BOARD GOVERNANCE" beginning at pages 116 and 119, respectively, of this Joint Proxy Statement-Prospectus.

## Dissenters' Rights

Pursuant to the Pennsylvania Banking Code of 1965 and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law of 1988, as amended ("PBCL"), holders of shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock have the right to dissent from the proposed transaction and obtain payment for the "fair value" of their shares should the transaction ultimately be consummated. The term "fair value" is defined as the value of a share of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock immediately before consummation of the reorganization taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the reorganization. Customers Bank cannot predict the future fair value of shares at the time the reorganization becomes effective and cannot assure shareholders as to the methodology a court would employ upon an application for relief to determine fair value or how a court would determine which elements of value are to be considered. For these purposes, fair value is to take into account all relevant factors. The value so determined may be greater or less than the present value of shares to be exchanged for each share of Customers Bank in the reorganization. A copy of the applicable provisions of Pennsylvania law are included as Annex C to this document, which is incorporated herein by reference.

If you wish to exercise dissenters' rights, you must do each of the following:

- File with Customers Bank a written notice of intention to demand that the shareholder be paid the fair value for his or her shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock rather than receive CBI shares as described in the Plan of Reorganization. The dissenting shareholder must file this notice with Customers Bank prior to the shareholder vote on the reorganization at the Special Meeting;
- A dissenting shareholder may not change the beneficial ownership of his or her shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock from the date of the filing of the notice of intention to demand payment through the effective date of the reorganization; and
- A dissenting shareholder also may not vote his or her shares of Customers Bank's Voting Common Stock to approve the reorganization at the Special Meeting.

Voting against, abstaining from voting, or failing to vote on Proposal C1 (whether in person or by proxy) shall not constitute written notice of an intent to demand payment for shares of Customers Bank's Voting Common Stock or Class B Non-Voting Common Stock within the meaning of Subchapter D. You must also send a separate, written notice or demand which includes your name, address and telephone number to:

Customers Bank  
c/o Customers Bancorp, Inc.  
1015 Penn Avenue  
Wyomissing, Pennsylvania 19610

Attention: Corporate Secretary

In the event that, after filing a written notice to demand payment of fair value, you vote for Proposal C1, or you deliver a proxy in connection with the Special Meeting of shareholders that does not specify a vote against, or an abstention from voting on, Proposal C1, you will have waived your dissenters' rights and will have nullified any written notice of an intent to demand payment that you previously submitted. However, failure to submit a proxy specifying a vote against or abstention from voting on Proposal C1 after filing a written notice to demand payment of fair value will not waive your dissenters' rights.

You may assert dissenters' rights as to less than all of the shares registered in your name only if you dissent with respect to all shares owned by any one beneficial owner and you disclose the name and address of each person on whose behalf you are dissenting. The rights of a partial dissenter are determined as if the shares as to which the record holder dissents and the record holder's remaining shares were registered in the names of different shareholders. A beneficial owner may assert dissenters' rights as to shares held on the beneficial owner's behalf only if the beneficial owner submits to Customers Bank the record holder's written consents to the dissent no later than the time the beneficial owner asserts his or her dissenters' rights. A beneficial owner may not dissent with respect to less than all shares of the same class or series owned by the beneficial owner, whether or not the shares owned by the beneficial owner are registered in the beneficial owner's name.

If the reorganization is approved and adopted, Customers Bank will deliver a further notice in accordance with Subchapter D to all shareholders who have satisfied the foregoing requirements. This notice will instruct the shareholder on the procedure for obtaining payment and will include a copy of Subchapter D. Failure to strictly follow the procedures set forth in the notice and Subchapter D regarding perfection of dissenters' rights may result in a loss of the right to payment.

The foregoing is only a summary of the rights of a dissenting shareholder of Customers Bank. If you intend to dissent from the reorganization, you should carefully review the applicable provisions of Subchapter D attached at Annex F and consult with your attorney. Your failure to follow precisely the procedures summarized above may result in the loss of your dissenters' rights. No additional notice of the events giving rise to dissenters' rights or any steps associated with asserting those rights will be furnished to you except as indicated above or otherwise required by law.

#### No Action Required to Exchange Shares

The outstanding stock certificates that presently represent shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock, and the outstanding warrants and options that represent a right to acquire Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock, will be deemed automatically to represent one-third of such number of shares of Voting Common Stock, Class B Non-Voting Common Stock, warrants and options of CBI, as adjusted for any fractional shares. You will not be required to immediately exchange your present stock certificates, warrants or options (bearing the name "Customers Bank") for new stock certificates (bearing the name "Customers Bank").

Upon completion of the reorganization, CBI will mail you a letter of transmittal and instructions related to the exchange of the certificates and other instruments representing your ownership of Customers Bank's Voting Common Stock, Class B Non-Voting Common Stock, or options or warrants to purchase Customers Bank's Voting Common Stock, as applicable, for certificates or other instruments representing CBI's securities into which your securities have been converted as a result of the reorganization.

**YOU SHOULD NOT SEND IN YOUR CERTIFICATES, WARRANTS OR OPTIONS UNTIL YOU ARE NOTIFIED TO DO SO.**

#### Accounting Treatment of the reorganization

Under Accounting Principles Generally Accepted in the United States of America ("USGAAP"), the reorganization represents a transaction between entities under common control. Assets and liabilities transferred between entities under common control are accounted for at cost. Accordingly, the assets and liabilities of CBI will be reflected at their carrying amounts in the accounts of Customers Bank at the effective time of the reorganization.

#### CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE REORGANIZATION

##### For Customers Bank Shareholders

For purposes of this discussion, the Voting Common Stock of Customers Bank, together with the Class B Non-Voting Common Stock of Customers Bank, are referred to as the "Customers Bank Shares;" the Voting Common Stock of CBI, par value \$1.00 per share, together with the Class B Non-Voting Common Stock of CBI, par value \$1.00 per share, are referred to as the "CBI Shares."

The following discussion addresses certain of the material United States federal income tax consequences of the reorganization to a Customers Bank shareholder who holds Customers Bank Shares as a capital asset. This discussion is based upon the Code, Treasury regulations promulgated under the Code, judicial authorities, published positions of the Internal Revenue Service (the “IRS”) and other applicable authorities, all as in effect on the date of this document and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion is general in nature and does not address all aspects of United States federal income taxation that may be relevant to Customers Bank shareholders in light of their particular circumstances and does not address aspects of United States federal income taxation that may be applicable to Customers Bank shareholders subject to special treatment under the Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, Customers Bank shareholders who hold their Customers Bank Shares as part of a hedge, straddle or conversion reorganization, Customers Bank shareholders who acquired their Customers Bank Shares pursuant to the exercise of employee stock options or otherwise as compensation, Customers Bank shareholders, directors, officers, employees and other persons that hold options or warrants to acquire Customers Bank Shares, and Customers Bank shareholders who are not “United States persons” as defined in section 7701(a)(30) of the Code). In addition, the discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the IRS would not assert, or that a court would not sustain a position contrary to any of the tax aspects set forth below.

Customers Bank's tax counsel, Stradley Ronon Stevens & Young, LLP, has issued an opinion substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of Customers Bank, Customers Interim Bank and CBI) if consistent with the state of facts existing as of the effective date of the reorganization, the reorganization will constitute a reorganization under Section 368(a) of the Code. The tax opinions delivered in connection with the reorganization are not binding on the IRS or the courts, and neither Customers Bank nor CBI intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the reorganization. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which the opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the reorganization could be adversely affected.

Taxpayers and preparers of tax returns should be aware that under applicable Treasury regulations a provider of advice on specific issues of law is not considered an income tax return preparer unless the advice (1) is given with respect to events that have occurred at the time the advice is rendered and is not given with respect to the consequences of contemplated actions, and (2) is directly relevant to the determination of an entry on a tax return. Accordingly, taxpayers should consult their own tax advisors and tax return preparers regarding the preparation of any item on a tax return, even where the anticipated tax treatment has been discussed in this Joint Proxy Statement-Prospectus.

The principal federal income tax consequences that are expected to result from the reorganization, under currently applicable law, are as follows:

- The reorganization will qualify as a "reorganization" within the meaning of Section 368(a) of the Code;
- No gain or loss will be recognized by any of Customers Bank, CBI, or Customers Interim Bank as a result of the reorganization.
- No gain or loss will be recognized by a shareholder of Customers Bank upon the exchange of Customers Bank Shares solely for CBI Shares (including any fractional share interests to which the shareholder may be entitled); however, if a cash payment is received by a shareholder of Customers Bank in lieu of a fractional share interest of CBI Shares, the cash payment will be treated as received by the shareholder as a distribution in redemption of that fractional share interest and will be treated as a distribution in full payment in exchange for the fractional share redeemed, subject to the provisions and limitations of Section 302 of the Code;
- The aggregate tax basis of CBI Shares (including any fractional share interests to which the shareholder may be entitled) to be received by a shareholder of Customers Bank will equal the shareholder's aggregate tax basis in Customers Bank Shares surrendered in exchange therefor;
- The holding period of CBI Shares (including any fractional share interests to which the shareholder may be entitled) to be received by a shareholder of Customers Bank will include the period for which such shareholder held Customers Bank Shares exchanged therefor, provided that such Customers Bank Shares are capital assets in the hands of such shareholder as of the closing of the reorganization; and

- If a shareholder of Customers Bank dissents to the proposed reorganization and receives solely cash in exchange for Customers Bank Shares, such cash will be treated as received by such shareholder as a distribution in redemption of his Customers Bank Shares, subject to the provisions and limitations of Section 302 of the Code.

Administrative precedent regarding cash paid in lieu of fractional shares in a reorganization where the cash paid represents merely a mechanical rounding of fractions in the exchange and not separately bargained for consideration, permits shareholders who receive both stock and cash to treat the exchange as if they received all stock in the tax free reorganization and then redeemed the fractional shares in a separate redemption transaction. Accordingly, subject to the special provisions and limitations of Section 302 of the Code, cash received by a Customers Bank shareholder instead of a fractional interest in CBI Shares generally will be treated as received in exchange for the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the shareholder's aggregate adjusted tax basis in Customers Bank Shares surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for Customers Bank Shares is more than one year.

## Dissenting Shareholders

The receipt of solely cash in exchange for Customers Bank Shares by a Customers Bank shareholder that exercises dissenters' rights is treated as a distribution in redemption (i.e., a taxable exchange), subject to the special provisions and limitations of Section 302 of the Code. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the CBI shareholder's deemed percentage stock ownership of CBI. For purposes of this determination, Customers Bank shareholders will be treated as if they first exchanged all of their Bank Shares solely for CBI Shares, and then CBI immediately redeemed (the "deemed redemption") a portion of the CBI Shares in exchange for the cash actually received. The gain recognized in the exchange followed by a deemed redemption will be treated as capital gain if the deemed redemption (1) is in "complete redemption" of all of the CBI Shares treated as owned by the Customer Bank shareholder, (2) is "substantially disproportionate" with respect to the Customer Bank shareholder (and the shareholder actually or constructively owns after the deemed redemption less than 50% of voting power of the outstanding CBI Shares), or (3) is "not essentially equivalent to a dividend." In applying the above tests, a Customers Bank shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by the shareholder.

## Backup Withholding

Customers Bank shareholders that receive cash may be subject to backup withholding at a rate of 28% if the shareholder is a non-corporate United States person and (1) fails to provide an accurate taxpayer identification number; (2) is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or (3) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder's United States federal income tax liability provided that the shareholder furnishes the required information to the IRS.

## Limitation on Use of Net Operating Losses

Subject to special rules that may apply to banks, net operating losses can generally be carried back two (2) years and carried forward to each of the twenty (20) years succeeding the loss year to offset taxable income. However, the amount of taxable income that may be offset may be subject to a Section 382 annual limitation ("Section 382 limitation") if, as of any testing date, there is an ownership change of more than 50 percent during a 3-year look-back period. The Section 382 limitation generally would equal the aggregate fair market value of CBI's stock on the testing date multiplied by the long-term tax-exempt rate for ownership changes during the month in which the change of ownership occurs, with certain adjustments. Customers Bank experienced an ownership change that resulted in the application of Section 382 limitation on June 29, 2009. In addition, the Section 382 limitation could also apply to CBI as a result of ownership changes resulting from recent transactions and stock offerings, as well as from the merger, if such ownership changes of CBI result in a more than 50% change of ownership of CBI during the 3-year look-back period. Whether any such 382 limitation would be material depends on the existence of any net operating losses and other facts on the date of the merger.

As of December 31, 2010, Customers Bank had net operating loss carryovers of approximately \$3.4 million, which expire in 2029, and the amount of such net operating losses would be increased by any current year loss to the extent that such loss is allocable to the period preceding the ownership change. Based on the April 2011 long term tax exempt rate for ownership changes of 4.55% and the approximate value of Customers Bank as of December 31, 2010 (the most recent period for which information is available), the Section 382 limitation with respect to the Customers Bank net operating loss carryovers would be approximately \$4.8 million. The Section 382 limitation with respect to Customers Bank 2009 net operating loss carryover is approximately \$800,000.

For Holders of Warrants and Options to Purchase Shares of Customers Bank Common Stock

Holders of outstanding warrants and options to purchase shares of Customers Bank Common Stock should discuss with their tax advisors the tax results of the reorganization and each course of action available to them.

This discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the reorganization. In addition this discussion does not address tax consequences that may vary with, or be contingent on, individual circumstances. It also does not address any federal estate tax or state, local or foreign tax consequences of the reorganization. Tax matters are very complicated, and the tax consequences of the reorganization to a Customers Bank shareholder will depend upon the facts of his or her particular situation. Accordingly, Customers strongly urges you to consult with a tax advisor to determine the particular tax consequences to you of the reorganization, as well as to any later sale of CBI shares received by you in the reorganization.



### Interests Of Management And Others In The Reorganization

Customers Bank's directors and executive officers, as well as certain principal shareholders of Customers Bank, have interests in the completion of the reorganization. These interests include:

- Ownership of Voting Common Stock of Customers Bank and warrants or options to purchase additional shares of Customers Bank's Voting Common Stock. These interests will become interests in CBI. For more information on Customers Bank's directors and executive officers' ownership interests, see "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," beginning on page 136 of this Joint Proxy Statement-Prospectus;
- Customers Bank has granted stock options to its executive officers and certain members of senior management. CBI will succeed to Customers Bank's obligations;
- One or more directors and officers of Customers Bank and CBI have purchased stock in the February 2010 and March 2010 private offerings. For more information on their interests, see "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" beginning on page 136 of this Joint Proxy Statement-Prospectus; and
- Each of Messrs. Sidhu, Ehst and Brugger have entered into employment agreements with Customers Bank which will be assumed by CBI in connection with the reorganization. For more information with respect to these agreements, see the narrative following "EMPLOYEE BENEFITS – Officer Employment Agreements" beginning on page 134 of this Joint Proxy Statement-Prospectus.

Through the number of shares that they own, the directors and executive officers as a group, and certain principal holders of Customers Bank's Voting Common Stock, may have a significant influence on the outcome of the shareholder vote. For more information on these matters, see, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," beginning on page 136 of this Joint Proxy Statement-Prospectus.

PROPOSAL C2 AND B1

TO APPROVE AND ADOPT THE AGREEMENT AND PLAN OF MERGER, DATED AS OF AUGUST 23, 2010, BY AND AMONG BERKSHIRE BANCORP, INC., BERKSHIRE BANK, CUSTOMERS BANCORP, INC., AND CUSTOMERS BANK, AND TO APPROVE ALL TRANSACTIONS CONTEMPLATED BY SUCH AGREEMENT

SUMMARY

Each of Customers Bank and BBI is seeking the consent of their respective shareholders to approve and adopt the Agreement and Plan of Merger, dated as of August 23, 2010, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc., and Customers Bank (which is referred to as the “Merger Agreement”), and to approve all transactions contemplated by such agreement (which is referred to as the “merger”). The consummation of the merger is contingent upon the consummation of the reorganization, Customers Bank and BBI shareholder approval, and bank regulatory approval.

In the merger, BBI shareholders will receive merger consideration as follows:

Each share of BBI common stock will be converted into the right to receive the number of shares of CBI Voting Common Stock equal to an exchange ratio to be calculated at the closing of the merger plus cash in lieu of fractional shares. The exchange ratio is the “Berkshire Valuation” divided by three (3) times the “NCB Valuation.”

The Merger Agreement defines the “Berkshire Valuation” as the greater of (1) \$1.95, or (2) (A) (i) BBI's tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, minus (ii) the Book Value Adjustment (which is the dollar amount necessary, as of the most recent calendar month end prior to the effective time of the merger, to bring Berkshire Bank's total loan loss reserves up to an amount equal to 40% of its nonperforming loans), if any, minus the costs (whether capitalized or expensed) that have been accrued or otherwise incurred as of the effective time by either or both of BBI and Berkshire Bank related to the Merger Agreement and transactions contemplated thereby, divided by (B) the number of shares of BBI common stock outstanding at the effective time.

The Merger Agreement defines the “NCB Valuation” as Customers Bank's tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, divided by the then-current number of shares of Customers Bank Voting Common Stock and Class B Non-Voting Common Stock outstanding at the effective time.

For example, if the effective time of the merger was January 1, 2011, the merger consideration would have been 0.1559 shares of CBI Voting Common Stock (with a pro forma tangible book value of \$12.51 per share of CBI Voting Common Stock) in exchange for each share of BBI common stock outstanding immediately prior to the merger. This is calculated as the Berkshire Valuation of \$1.95 divided by three times the NCB Valuation of \$4.17. The Berkshire Valuation of \$1.95 is the minimum Berkshire Valuation based on the Merger Agreement. The NCB Valuation of \$4.17 is (1) \$105,140,355 (tangible common book value), divided by (2) 25,194,041 shares of Customers Bank Common Stock outstanding as of January 1, 2011. Please keep in mind that numbers in this paragraph are provided as an example of what the merger consideration would be assuming the merger went into effect on January 1, 2011. Since this Joint Proxy Statement-Prospectus was declared effective and mailed after January 1, 2011, the numbers are not a true representation of what BBI shareholders will receive as consideration for the merger. As the tangible common book value of both BBI and Customers Bank fluctuates, the per share merger consideration will also change.

Shares of BBI common stock owned by Customers Bank, Berkshire Bank or BBI (other than BBI shares held in trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties and other than BBI shares held, directly or indirectly, by CBI, Customers Bank, BBI or

Berkshire Bank in respect of a debt previously contracted) are excluded from the shares of BBI common stock that will be exchanged in the merger.

In the event that any BBI shareholder would be entitled to receive as consideration for the merger a number of shares equaling greater than 4.9% of CBI's Voting Common Stock outstanding immediately after the merger, such BBI shareholder will receive as merger consideration only the number of shares equaling 4.9% of CBI's Voting Common Stock outstanding immediate after the merger until such BBI shareholder obtains applicable regulatory approval or accepts shares of CBI's Class B Non-Voting Common Stock for the rest of the merger consideration owed to such BBI shareholder.

For a more complete summary of the merger and the Merger Agreement, see "THE MERGER" beginning on page 57 of this Joint Proxy Statement-Prospectus, and "THE MERGER AGREEMENT" beginning on page 77 of this Joint Proxy Statement-Prospectus.

The affirmative vote of two-thirds of outstanding shares of each of Customers Bank's Voting Common Stock and BBI common stock is required for the approval of this Proposal. Proxies solicited by the board of each of Customers Bank and BBI will be voted "FOR" this Proposal, except to the extent that shareholders specify a contrary choice in their proxies.

THE BOARDS OF DIRECTORS OF BOTH BBI AND CUSTOMERS BANK RECOMMEND A VOTE "FOR" APPROVAL OF THIS PROPOSAL TO APPROVE AND ADOPT THE AGREEMENT AND PLAN OF MERGER, DATED AS OF AUGUST 23, 2010, BY AND AMONG BERKSHIRE BANCORP, INC., BERKSHIRE BANK, CUSTOMERS BANCORP, INC., AND CUSTOMERS BANK, AND TO APPROVE ALL TRANSACTIONS CONTEMPLATED BY SUCH AGREEMENT

## THE MERGER

### Background of the Merger

BBI's board of directors regularly reviewed and evaluated the strategic options available to it with the goals of strengthening its capital and financial position, identifying internal and external opportunities for growth and profitability consistent with safe and sound banking operations, and enhancing shareholder value. That strategic evaluation process included assessment of its ability to maintain adequate capital to support its business and achieve its goals independently, and under various scenarios including consideration of an affiliation with another financial institution with greater capital, sources of capital, and potential to increase long-term shareholder value.

The duration and severity of the current economic recession and real estate market conditions adversely affected BBI. Many business customers in BBI's market experienced a loss of revenue and there was an increase in unemployment and bankruptcies. Many over-leveraged real estate customers were forced to take action to improve their cash flows. These conditions produced stress on the asset quality of the BBI loan portfolio and primarily the commercial real estate portfolio. The increased stress to the commercial loan portfolio and the adverse development in BBI's results of operations in recent periods resulted in the Federal Reserve and FDIC imposing additional restrictions on BBI and preventing BBI from continuing to pay dividends on the preferred shares it issued pursuant to the United States Treasury Department's Capital Purchase Program (the "TARP Program").

In general, Mr. Jay Sidhu, Customers Bank's Chairman and Chief Executive Officer, has periodic meetings either by telephone or in person with various Presidents and Chief Executive Officers of financial institutions in the Customers Bank market area regarding various topics, including but not limited to, their thoughts on a potential merger. If interest is indicated, detailed discussions follow and further evaluation is performed by Mr. Sidhu and the executive management team to determine if the organizations and management teams would be viable merger candidates. On July 23, 2009, Mr. Sidhu placed such a call to Norman Heilenman, Chief Executive Officer of BBI. Mr. Heilenman indicated interest in a transaction with Customers Bank, and the following timeline outlines discussions and analysis performed by Customers Bank, BBI and their respective management teams as a result.

On July 30, 2009, BBI executives and Mr. Sidhu had a breakfast meeting and general discussions about each respective company.

On September 3, 2009, Mr. Sidhu met with the board of directors of BBI.

On September 9, 2009, BBI was contacted by Mr. Sidhu regarding commencement of potential merger discussions with Customers Bank.

On September 14, 2009, Norman Heilenman, Chief Executive Officer of BBI sent a confidentiality agreement to Customers Bank.

On September 15, 2009 Customers Bank board of directors discussed potential merger candidates and approved the undertaking of due diligence procedures for BBI.

On September 16, 2009, a confidentiality agreement was executed with Customers Bank.

On September 23, 2009, Mr. Sidhu sent a preliminary term sheet to Mr. Heilenman on behalf of Customers Bank. This term sheet contained provisions including pricing, structure, and resulting management. Customers Bank proposed pricing that started with BBI's book value and made substantial credit related adjustments thereby resulting

in a proposed price that was substantially below BBI's book value.

On September 24, 2009, BBI's board of directors met to discuss a potential transaction with Customers Bank, as presented in the Customers Bank preliminary term sheet. At that meeting, BBI's financial advisor presented the financial terms of a potential transaction including the consideration which was anticipated to be an exchange of Customers Bank Voting Common Stock for BBI common stock based on book value of BBI to book value of Customers Bank with credit related adjustments that were not defined or delineated in the proposal. In addition, no specificity was provided as to market value information for Customers Bank's Voting Common Stock since Customers Bank's stock was not publicly traded. At that time there were questions as to what Customers Bank would consider book value after giving effect to non-specific credit related adjustments. In addition, BBI's financial advisor discussed with the directors the value of BBI's stock, BBI's need for additional capital, a current and historical overview of BBI, a summary of current merger pricing, and a preliminary financial pro forma of the combined company. Representatives of BBI's special legal counsel discussed fiduciary duties of the board of directors in considering a transaction. The board of directors also discussed Customers Bank's business model, management team, capital position, and capital raising prospects. The board of directors concluded that a transaction with Customers Bank would require Customers Bank to raise additional capital. The board of directors of BBI authorized continued discussions to clarify terms and develop terms more favorable to BBI. The board of directors specifically wanted to develop pricing terms with a value for BBI common stock greater than or equal to book value. The board of directors discussed revised terms and authorized a revised term sheet. The revised term sheet contained pricing provisions that centered on a common stock exchange with BBI's book value without substantial credit related adjustments.

On September 25, 2009, BBI submitted a revised proposed term sheet to Customers Bank with BBI as the acquirer based on adjusted book value to book value exchange ratio where BBI would issue shares to Customers Bank (CBI was not formed as a bank holding company or in organization at such time) in exchange for each share of Customers Bank stock. The BBI board of directors believed that this would potentially result in a transaction that was more favorable to BBI with less adjustments to BBI's book value and would utilize BBI's bank holding company.

On October 3, 2009, BBI's legal counsel circulated drafts of a definitive agreement to Customers Bank that included terms and structure discussed at the BBI board of directors' meeting on September 25, 2009. The parties continued to negotiate the financial sections of the agreement. No agreement was able to be reached on the exchange ratio and what constituted book value or the methodology of adjustments (credit or otherwise) to book value. There were extensive discussions over the mechanism for the purchase price and BBI's loan loss reserve. Since these discussions focused on price and value, no conclusion was reached by the parties.

On October 6, 2009, BBI executives and Mr. Sidhu discussed proposed transaction terms. The price mechanism was the principal issue of discussion. Each Party held to their basic positions and no agreement was reached.

On October 15, 2009, BBI's board of directors met to discuss proposed terms of the transaction and the negotiations to date. The board of directors determined that the terms proposed by Customers Bank were not sufficiently favorable to the BBI shareholders to continue negotiations.

On October 16, 2009, BBI's board of directors informed Customers Bank executive officers that BBI would not pursue a possible transaction with Customers Bank and BBI would begin raising capital. BBI's board of directors determined that Customers Bank's proposal was not in the best interests of the BBI constituents because the share price proposed by Customers Bank was too low relative to the BBI board of directors' view of the value of the company and the methodology to determine value was too speculative, unclear, and lacked specificity. Therefore, BBI's board of directors decided that BBI should raise capital, thereby improving BBI's capital ratios and enhancing execution of its business strategies.

On November, 2009, BBI's board of directors authorized an attempt to raise additional capital through a preferred stock offering. While BBI was able to raise privately approximately Fifty Thousand Dollars (\$50,000) in November of 2009, that amount was considerably short of its goal. Faced with the continuing need for additional capital and a market in which the prospects of raising additional capital were limited, the board of directors expanded its evaluation of strategic options. These strategic options included, among others, the merger of BBI with and into a financial institution with a better capital position that would be able to meet the future challenges of the business and regulatory environments or a business combination with an entity where the resulting entity would have greater capital raising prospects and abilities.

On December 21, 2009, Mr. Sidhu contacted Mr. Heilenman to re-open discussions. After Mr. Heilenman consulted with and was authorized by the board of directors, discussions re-opened. The board of directors outlined terms it thought would be favorable to BBI. The principal term was an exchange of shares of BBI common stock at book value for shares of Customers Bank's Voting Common Stock at book value based on each company's book value as of a date immediately before closing of a potential transaction. BBI also proposed representation on Customers Bank's board of directors for representatives of BBI to protect the BBI shareholder interests.

On January 5, 2010, BBI presented proposed terms for discussion to Customers Bank. These terms once again included an exchange of CBI and BBI shares of common stock at book value, minimal credit related adjustments and multiple BBI representatives on the CBI board of directors. BBI also requested information on Customers Bank's capital raising efforts, earnings and business plans.

On January 19, 2010, BBI received revised proposed terms from Customers Bank. The terms proposed by Customers Bank once again contained a substantial credit related adjustment for loans of BBI that fell into certain non-defined categories. This provision would have resulted in a pricing mechanism where BBI shareholders would more likely than not be receiving less than book value for their shares in a share exchange.

On January 20, 2010, BBI revised Customers Bank's proposed terms and sent the revised terms to Customers Bank. The revised terms contained a price based on a common stock book value exchange, provisions to limit credit related adjustments and multiple representation on the Customers Bank board of directors.



On February 24, 2010, BBI executives, Customer Bank executives, and BBI legal counsel met in Phoenixville, Pennsylvania to discuss proposed terms. No conclusions were reached or party positions changed.

On March 15, 2010, BBI executives and Mr. Sidhu discussed proposed terms. No conclusions were reached or party positions changed.

On March 17, 2010, Customers Bank held an executive session of the board of directors and discussed the proposed terms.

On March 22, 2010, BBI executives, Mr. Sidhu, and BBI legal counsel met for dinner and discussion of terms in Flying Hills, PA. No conclusions were reached or party positions changed.

On March 28, 2010, BBI's board of directors held a special board meeting attended by Mr. Sidhu. Mr. Sidhu discussed Customers Bank's strategic vision, business plan, and capital raising plan with the board of directors. After Mr. Sidhu left the meeting, the board of directors discussed and revised proposed terms. BBI's board of directors once again proposed transaction pricing at book value with limited credit related adjustments, and multiple member representation on the Customers Bank board of directors.

On April 1, 2010, BBI revised the proposed terms and presented to Customers Bank as its final proposal. This final proposal required pricing based on the book value of Berkshire Bank, not a percentage thereof, with credit adjustments and multiple representation on the Customers Bank board of directors.

On April 14, 2010, BBI executives were introduced to executives of another financial institution over dinner by such institution's financial advisors ("Party B"). At that time there were no discussions regarding a potential merger.

On April 26, 2010, BBI received a revised offer from Customers Bank. BBI's board of directors reviewed the proposal, which was priced at less than book value with substantial credit related adjustments with no limitations. The BBI board of directors did not feel that the proposal was indicative of the value of BBI. BBI did not agree with the book value credit related adjustment mechanism in the Customers Bank proposal or Customers Bank's assessment of BBI's loan loss reserves. BBI also had concerns about Customers Bank's ability to raise additional capital as Customers Bank had not completed an outstanding capital raise. The board of directors concluded not to move forward with Customers Bank at that time.

On April 30, 2010, BBI communicated with Customers Bank BBI's rejection of Customers Bank's proposal. BBI engaged in strategic, capital, and business planning processes.

On May 4, 2010, BBI executives had lunch with the executives of Party B. The parties engaged in preliminary discussions related to the potential of a merger between both companies. These discussions focused on a book value exchange of shares, representation on the board of directors of the resulting bank, and capital raising needs and abilities of Party B and the combined entity.

On May 13, 2010, BBI and Party B entered into a confidentiality agreement.

On May 18, 2010, the BBI executives, Party B executives, and BBI legal counsel met to discuss terms. These terms included structure of the resulting bank, price of shares at book value, the definition of book value, credit related adjustments and board representation.

On June 25, 2010, BBI met with Party B to discuss additional details of a combination of both companies including items discussed on May 18, credit related adjustments, and the roles of management and employees.

On June 25, 2010, Party B sent BBI a non-binding preliminary term sheet. The term sheet proposed a transaction where Party B would acquire BBI. The exchange ratio would be equal to the common equity of BBI less an adjustment divided by the common equity of Party B less an adjustment at the month end prior to closing a transaction. The adjustment was based on a coverage ratio of loan loss reserves and non-performing and past due loans, however, the required coverage ratio was not expressed in the term sheet.

On June 29, 2010, BBI and Party B met to discuss terms of the preliminary term sheet with discussions focusing on the loan loss provisions of BBI and credit related adjustments to the price.

On July 8, 2010, BBI board of directors held a special meeting to discuss the terms of the potential transaction. The BBI board of directors revised the terms of the potential transaction favorable to BBI. The terms revised by the BBI board of directors were the definition of book value and a limit on credit related adjustments. BBI proposed credit adjustments less than those proposed by Party B.

On July 9, 2010, BBI executives and Party B's chief executive officer discussed terms and BBI submitted a revised term sheet based on the BBI July 8, 2010 board of directors' meeting.

On July 10, 2010, BBI engaged Commonwealth Advisors LLC as its investment advisor.

On July 15, 2010, BBI held a board of directors meeting to discuss the status of the potential transaction. The chief executive officer of Party B was invited to attend the board meeting. The chief executive officer of Party B discussed the terms of the transaction as well as selected components of Party B's strategic plan, expected future growth, and capital raising prospects. In addition, Commonwealth Advisors LLC presented on the merger and acquisition environment for financial institutions and recent local and national merger and acquisition transaction values. Commonwealth Advisors LLC presented information on the financial pro forma of a combined company of BBI and Party B. The projected earnings per share of Party B and Party B's ability to raise capital were discussed and assessed. Financial information was also exchanged between BBI and Party B. The BBI board of directors discussed concerns over Party B's calculation of book value, method of credit adjustments, the value and prospects of Party B's shares, and Party B's ability to raise capital.

On July 22, 2010, BBI held a board of directors' meeting to discuss regulatory issues and requirements placed on the company and the bank by the regulators. The transaction with Party B was also discussed and the board of directors voiced concern over the feasibility of Party B's projections (principally the assumed growth rate of Party B's earnings and assets), sufficiency of capital, and capital raising prospects.

On July 28, 2010, BBI held a board of directors meeting to review the Party B proposal. Party B's proposal focused on an exchange ratio at book value of each company but with adjustments based on BBI's loan loss reserve coverage ratios. The board of directors reviewed the financial aspects of the proposal and Party B's capital raising prospects and business model. The board of directors had concerns over Party B's proposal and its calculation of the credit related adjustment coverage ratios. The board of directors also had concerns over Party B's ability to raise capital.

On July 29, 2010, Mr. Sidhu called Mr. Heilenman and expressed Customers Bank's renewed interest in a transaction. In addition, Mr. Sidhu and Mr. Heilenman discussed the significant improvements Customers Bank had made since the last discussion of a transaction, including, but not limited to, the initiation of the process to form a holding company, substantial increase in CBI's capital, the hiring of additional management, increase in Customers Bank's loan loss reserves, and the stabilization of Customers Bank's loan portfolio. In addition, Customers Bank expressed it had the ability to pay a higher purchase price than offered in previous discussions.

On July 29, 2010, Mr. Heilenman solicited and received authorization from the BBI board of directors to re-open discussions with Customers Bank. The board of directors authorized BBI's counsel to meet with Mr. Sidhu and to propose terms as communicated to Mr. Sidhu orally on July 30 and July 31, 2010, in BBI's term sheet.

On July 30, 2010, Mr. Heilenman discussed the proposed terms with the Party B chief executive officer. No conclusion was reached or party position changed.

On July 30, 2010, representatives of Bybel Rutledge LLP, special legal counsel to BBI, and Mr. Sidhu met in Valley Forge, Pennsylvania to discuss preliminary terms of the transaction. BBI's counsel indicated that a price with an exchange of common stock at book value with an identifiable floor price, not subject to substantial credit related adjustments, was important to the board of directors of BBI, as was representation on the CBI board of directors. Mr. Sidhu requested that BBI submit a preliminary term sheet based upon its acceptable terms.

On July 31, 2010, BBI submitted a non-binding preliminary term sheet to Mr. Sidhu through legal counsel. The term sheet contained the main terms of the Merger Agreement between Customers Bank and BBI. The proposed price was an exchange of shares of BBI common stock for Customers Bank's Voting Common Stock at book value to book value, with limited credit related adjustments and a floor price not subject to further downward adjustments in pricing, but that CBI would have a standard material adverse change clause in the agreement.

On August 1, 2010, Mr. Sidhu responded to the term sheet that Customers Bank was interested and agreeable to such terms.

On August 2, 2010, BBI sent the financial information for the quarter ending June 30, 2010 to Customers Bank.

On August 3, 2010, BBI's management met with Party B, the FDIC, and the Pennsylvania Department of Banking in Blue Bell, Pennsylvania regarding regulatory status of each party and the regulator's view of a potential merger of Party B and BBI.

On August 5, 2010, BBI received a letter of intent from Party B containing a "no-shop" provision and a termination fee.

On August 6, 2010, Customers Bank's board of directors approved the term sheet and comments were sent to BBI.

On August 6, 2010, BBI informed Party B that it would not sign the proposed letter of intent due to the "no-shop" and termination provisions.

On August 12, 2010, BBI's special legal counsel received a draft merger agreement from Party B.

On August 12, 2010, at a meeting of the board of directors, representatives of Bybel Rutledge LLP reviewed the current status of negotiations with Customers Bank and Party B with BBI's board of directors. Representatives of Commonwealth Advisors LLC discussed the financial aspects of both transactions with the board of directors, specifically the pricing mechanisms, the material adverse effect provisions, the history and potential future growth of both companies, the capital ratios and the capital prospects of each company. The proposed terms of each transaction and strategic and business plans of each company were discussed by the BBI board of directors. After the board of directors meeting, representatives of Commonwealth Advisors LLC and Bybel Rutledge LLP, at the direction of the BBI board of directors, met with Mr. Sidhu in Phoenixville, Pennsylvania to discuss the terms of the transaction, specifically the exchange ratio of book value of shares of BBI common stock for shares of Customers Bank Voting Common Stock at book value with a mechanism for pricing adjustment based on BBI's loan coverage ratios, a floor to the exchange ratio of a value of \$1.95 per share of BBI common stock for shares of Customers Bank Voting Common Stock, and the parameters of a material adverse change provision to be included in the agreement. Mr. Sidhu indicated that those terms would be taken to Customers Bank's board of directors for its consideration with his recommendation to move forward.

On August 16, 2010, BBI and Party B met with the Federal Reserve regarding regulatory status, potential merger, and capital requirements.

On August 17, 2010, Customers Bank's board of directors approved moving forward with the transaction on the terms previously discussed by the Parties on August 12, 2010.

On August 19, 2010, BBI received a draft merger agreement from Customers Bank's legal counsel. BBI held a meeting of the board of directors to further discuss transaction terms.

From August 19 through August 23, 2010, BBI and Customers Bank's counsel negotiated agreement terms specifically providing for the exchange ratio mechanism, the floor to the exchange ratio, and the material adverse change provisions all of which were contained in the final agreement.

On August 22, 2010, Bybel Rutledge LLP and Commonwealth Advisors LLC performed a due diligence review of Customers Bank in Phoenixville, Pennsylvania.

On August 23, 2010, BBI held a meeting of the board of directors to review both offers and merger agreements. The board of directors reviewed both offers and the chronology of the negotiations to date at the time. In addition, representatives of Commonwealth Advisors LLC reviewed with the board of directors due diligence findings and an overview of the proposed transactions. Representatives of Bybel Rutledge LLP provided an overview of the non-financial aspects of the transactions including the material terms of both parties' merger agreements and exhibits. In addition, representatives of Bybel Rutledge LLP discussed with BBI's board of directors their fiduciary duties under Pennsylvania law in the context of competing offers and the factors that could be considered and the protections of the business judgment rule. The board of directors discussed and considered both offers and each merger agreement and for the reasons discussed below, approved and adopted the Merger Agreement with Customers Bank.

On August 24, 2010, Customers Bank's board of directors approved and ratified the Merger Agreement and BBI informed Party B of the transaction with Customers Bank.

#### Reasons for the Merger – Customers Bank

In connection with its approval of the merger, Customers Bank's board of directors reviewed the terms of the proposed acquisition and definitive agreements and their potential impact on Customers. In reaching its decision to approve the merger, Customers Bank's board of directors considered a number of factors, including the following:

**Acquisition Strategy.** Customers Bank's acquisition strategy focuses on community banks in identified states, primarily along the Eastern seaboard, with the goal of creating a leading community bank holding company. Customers is looking to achieve sufficient scale in each region and, over time, build a combined balance sheet of \$2.5 to \$5.0 billion. The merger with Berkshire is a step towards that goal as it will produce a significant presence for Customers Bank in a concentrated area Pennsylvania, namely Berks County.

**Location.** The merger of BBI with and into CBI will provide a cost effective way to create a bank with enough scale to effectively expand into the Berks County, Pennsylvania market. It will allow Customers Bank to expand its branch office network to 6 banking offices immediately (from 1 currently) without incurring the start up costs associated with expanding organically. Had Customers undertaken such expansion in the absence of the merger, it would have incurred significant costs and risks in conducting such expansion. Customers believes that its shareholders are better served by obtaining an established banking entity such as Berkshire at a reasonable price. Further, Berks County presents a number of qualities that are attractive to Customers in relation to its acquisition strategy including population density, a concentration of business activity, attractive bank deposit bases, potential for economic growth over time and favorable local banking competitive dynamics. The merger may also provide opportunities for Customers Bank to expand even further into Lancaster, Lebanon and Lehigh Counties, Pennsylvania.

**Future Prospects of Customers Bank and CBI.** Based on its understanding of the business, operations, financial condition, earnings, management and future prospects of Berkshire, Customers Bank's board of directors believes that a business combination with Berkshire will enable Customers Bank shareholders to participate in a combined company with enhanced future prospects compared to those that Customers is likely to achieve on a stand-alone basis.

**Cost Savings.** Currently, Customers Bank's expense levels remain elevated due to a combination of higher regulatory costs (FDIC insurance premiums and the impacts of financial regulatory reform) and credit expenses (OREO and asset disposition costs). The merger with Berkshire has the potential to produce meaningful cost savings for the combined entity, including with respect to operational synergies which are expected to be obtained by combining the operations of Customers Bank and BBI. In August 2010, when Customers Bank's board of directors was considering whether Customers Bank should enter into the merger agreement with BBI, Customers Bank anticipated that the combined entity could experience a total annual cost savings of up to 45% of the then-current Berkshire operating expenses.

**Business Expansion.** The fact that BBI's business model would increase Customers Bank's ability to serve the small and mid-sized business sector, and also expand Customers Bank's commercial lending opportunities.

**Terms of the Merger.** The review by the Customers Bank's board of directors of the structure of the merger and the financial and other terms of the Merger Agreement.

**Berkshire Management Team.** The experience of the Berkshire management team and how it might contribute in executing Customers' organic growth and acquisition strategies.

Net Operating Loss Carryovers. Potential net operating loss carryovers and the limitations thereof.

Reorganization. The expectation that the merger will constitute a reorganization under Section 368(a) of the Code.

Berkshire's Financial Condition. BBI's balance sheet and capital levels, asset quality, and certain financial information projected for the combined entity, acknowledging a number of risks inherent in the transaction which are more particularly described below.

In the course of its deliberations regarding the merger, Customers Bank's board of directors also considered the risks attendant to the merger, including without limitation, such factors as:

Risks to Capital Levels. The likely capital levels of the resulting entity and whether such capital levels would be sufficient for the resulting entity to remain well capitalized under applicable regulatory standards.

Allowance for Loan and Lease Losses. The allowance for loan and loss leases ("ALLL") and how the change in ALLL might effect Customers Bank's potential need for additional capital reserves as a result of the merger.

Continued Risks in the Financial Services Industry Generally or Relating to Real Estate Specifically. The combination of Customers and Berkshire results in a larger combined entity that remains exposed to economic factors that have been unfavorable over the recent term for financial institutions and for lenders to real estate in Pennsylvania. Rather than diversifying away from such risks, the merger increases the exposure of Customers to such risks.

Risk of Termination. The possibility that the merger might not be completed and the impact of a public announcement of the termination of the merger agreement on, among other things, the market price of Customers Bank common stock and Customers Bank operating results, particularly in light of the costs incurred in connection with the transaction.

Integration Issues. The challenges of combining the businesses, assets and workforces of Customers Bank and Berkshire Bank, which could affect post-merger success, and the ability to achieve anticipated cost savings and other potential synergies.

The discussion and factors considered by Customers Bank's board of directors are not intended to be exhaustive, but include material factors considered. In approving the merger and ancillary agreements, Customers Bank's board did not specifically identify any one factor or group of factors as being more significant than any other factor in the decision making process. Rather, Customers Bank's board of directors based its recommendation on the totality of information presented to it. Individual members of Customers Bank's board may have given differing weight or priority to different factors.

We cannot provide certainty that the above benefits of the merger anticipated by Customers will occur. Actual results may vary materially from those anticipated. For more information on the factors that could affect actual results, see "FORWARD-LOOKING STATEMENTS," on page 1 and "RISK FACTORS," on page 20 of this Joint Proxy Statement-Prospectus.

Reasons for the Merger – BBI

BBI's board of directors has determined that the merger is advisable and in the company's best interest and the best interests of BBI's shareholders. In approving the Merger Agreement, BBI's board of directors consulted with Commonwealth Advisors LLC regarding the fairness of the transaction to its shareholders from a financial point of view and with its legal counsel regarding its legal duties and the terms of the Merger Agreement and ancillary documents. In determining to approve the Merger Agreement and recommend that shareholders approve and adopt the merger, the board of directors, in consultation with BBI's senior management and financial and legal advisors, considered a number of factors, including the following material factors:

- The understanding of the board of directors of the strategic options available to BBI and its board of directors' assessment of those options with respect to the prospects and estimated results of the execution of its business plan as an independent entity under various scenarios, and the determination that none of those options or the execution of its business plan under the best case scenarios were likely to create greater present or potentially future value for BBI shareholders than the potential value of the transaction with Customers. In addition, the board of directors believed that the CBI transaction has greater upside potential in this regard than a transaction with Party B.
- The board of directors of BBI believed that the future business environment for financial institutions would become more competitive, concentrated, and regulatorily burdensome. It believed that this was illustrated during the past year with the enactment of the Dodd-Frank Act which the board believed will increase BBI's cost of doing business and divert resources to compliance and away from profitable banking operations. The board of directors also believed that the business and regulatory environment will be challenging for smaller financial institutions like BBI because of increased needs for qualified personnel and capital resources. It also believed that the merger with CBI would help the resulting company be more competitive with the financial institutions remaining in the market place because the combined company will have numerous and greater resources than either company had individually in terms of capital, business resources and contacts, management experience, breadth and depth, and certainly more numerous and greater resources than BBI's as of the date that the transaction was approved by the board of directors and that may be expected in the foreseeable future.
- BBI's ability to execute its business plan in light of the regulatory constraints to which BBI is subject and the prospects of the imposition of additional regulatory actions and constraints made a merger with CBI on the terms agreed to preferable to remaining independent. Specifically, BBI and Berkshire Bank are subject to various regulatory constraints issued by the bank regulatory agencies which have been manifested in various resolutions adopted by the board of directors. The board of directors believed that a merger with CBI will likely eliminate many if not all regulatory restrictions and any constraints on future business operations of CBI.
- A merger with CBI on the terms agreed upon would enhance the resulting company's business opportunities, operations, prospective financial condition, future earnings and both short-term and long-term business prospects. More specifically, whereas BBI's branch network is limited to Berks County, Pennsylvania, the combined



company's larger footprint and CBI's future growth strategy would likely grant it a greater competitive edge against other regional and national financial institutions within its market area. The combined bank is expected to have greater capital resources to profitably grow within its current markets and in new more attractive markets, with a diverse customer demographic from which to generate profits, and a more diverse product line from which to generate revenues.

- A merger with CBI on the terms agreed upon would be superior to the other proposal due to Customers' superior capital position and future capital aggregation prospects and the depth and breadth of Customers' management team and their previous experience at larger financial institutions. Specifically, Customers Bank had completed a \$43 million capital raise in early 2010 granting it the ability to take advantage of faster, more profitable growth whereby Customers' management team would likely be able to manage such growth based on past large financial institution experience. Party B had not undertaken any capital raising projects as of the date of entering into the transaction with CBI.
- A merger with CBI on the terms agreed upon would be more likely to receive regulatory approval and be consummated (with a higher certainty of transaction closure, effectiveness and anticipated results) than a merger with the other potential acquirer due to Customers' superior capital position, specifically the addition of \$43 million in capital in early 2010, and its management team's background and experience, and the fact that Customers Bank had been approved for an FDIC assisted transaction.

- A merger with CBI on the terms agreed upon would result in a better business model than the other proposal and a resulting company in a better position to execute that business model. The CBI business model was reviewed and monitored by BBI since late 2009. During this period Customers Bank illustrated and provided evidence that it was capable of executing its business plan, raising capital, developing management, and profitably growing CBI. Party B did not illustrate this to the BBI board of directors.
- The exchange ratio in the Merger Agreement with CBI (calculated as a book value to book value exchange of common stock with adjustments to the ratio as provided in the Merger Agreement) also contains price protection of a guaranteed minimum value of each BBI share of common stock of \$1.95, and additional and greater specificity on the calculation of the exchange ratio adjustments compared to the alternative proposal from Party B which had no minimum price per share floor and less specificity for credit adjustments with adjustment ratios more restrictive than the CBI proposal. The BBI board of directors believed that the book value and earnings growth of CBI has greater upside potential because of its current earnings momentum and the potential earnings that may be generated by its recent FDIC assisted acquisition.
- The prospects to increase long-term shareholder value by increasing the potential of share liquidity enhanced consolidated earnings and earnings per share, immediate increase in franchise value and anticipated further increase of franchise value due to CBI's business plan. The BBI board of directors believed that the earnings prospects of CBI were more favorable than Party B or BBI on a standalone basis as demonstrated by the most recent results of operations of CBI and as reviewed against Party B's projections and BBI's budget.
- The combination could result in significant annual potential cost savings of \$800,000 or more, as well as the potential for incremental revenue opportunities potentially contributing to an increase in earnings, and improving long-term investor value.
- The prospect of exiting participation in the U.S. Department of Treasury's Capital Purchase Program was attractive to the BBI board of directors as it may positively impact the resulting company's long-term value.
- The ability to offer more diverse and progressive business services and products of CBI to BBI customers could result in opportunities to obtain synergies and compete with larger financial institutions as products are cross-marketed and distributed over a broader customer base.
- BBI's board of directors did not anticipate significant branch closures by either BBI or CBI because the market areas are tangential and not overlapping which the board believed would result in more opportunities and less job loss for current BBI employees.
- BBI's board of directors took into account its understanding of the current need for additional capital to support BBI's current operations and its assessment, in

consultation with Commonwealth Advisors LLC, that the financial terms that BBI would likely have to offer to attract potential investors would be highly dilutive to its existing shareholders, creating materially less present value for the shareholders than the potential value of the transaction with CBI.

- The receipt of Commonwealth Advisors LLC's written opinion indicated that, as of August 23, 2010, the merger consideration was fair to the shareholders of BBI from a financial point of view.
- BBI's board of directors also took into account the likelihood of timely receipt of regulatory and shareholder approvals of the transaction with CBI because of Customers Bank's and CBI's strong financial condition with over \$65 million in capital, experienced management and previous approval of an FDIC assisted transaction.

- The results of the due diligence review of Customers Bank indicated the significant progress that Customers Bank had made over the 10 months preceding entry into the Merger Agreement in developing and enhancing its capital position, management depth, regulatory status, business model, and future prospects.
- The fact that one current member of BBI's board of directors will be appointed to the board of directors of CBI.
- The probability that CBI would undertake accretive FDIC assisted transactions because of its capital position and management team would likely have a positive impact on the resulting company and its shareholders and would likely create short and long term value to the BBI shareholders and CBI shares.

The foregoing information and factors considered by BBI's board of directors is not exhaustive, but includes all material factors that the board of directors considered and discussed in approving the Merger Agreement and recommending that BBI's shareholders vote to approve the merger. In view of the wide variety of factors considered and discussed by the board of directors in connection with its evaluation of the merger and the complexity of these factors, the board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision; rather it considered all of the factors as a whole. The board of directors discussed and considered the foregoing factors and reached consensus that the merger with CBI was in BBI's best interest and the best interests of BBI's shareholders. In considering the foregoing factors, individual directors may have assigned different weights to different factors. The board of directors relied on the experience and expertise of Commonwealth Advisors LLC for quantitative analysis of the financial terms of the Merger Agreement. See "THE MERGER -Fairness Opinion of Commonwealth Advisors LLC" on page 70. This explanation of the reasoning of the board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under "FORWARD-LOOKING STATEMENTS" on page 1.

#### Financial Interests of Directors, Officers and Others in the Merger

Certain members of management of BBI and the board of directors may have interests in the transaction in addition to their interests as shareholders of BBI. The BBI board of directors was aware of these factors and considered them, among other matters, in approving the Merger Agreement.

**Share Ownership.** As of March 31, 2011, the directors, executive officers and other significant shareholders of BBI may be deemed to be the beneficial owners of 969,529 shares, representing 22.49% of the outstanding shares of BBI common stock.

**Indemnification and Insurance.** CBI has agreed for six years after the effective date of the merger to indemnify the directors and officers of BBI and its subsidiaries against any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, arising out of or pertaining to the individual's role as a director occurring prior to the merger's effective time, including the transactions contemplated by the Merger Agreement prior to, at or after the effective date of the merger, to the fullest extent permitted under BBI's articles of incorporation, bylaws, and applicable law prior to the merger.

CBI has also agreed that for six years after the effective date of the merger, CBI will, at its expense, maintain directors' and officers' liability insurance for the former directors and officers of BBI and its subsidiaries with respect to matters occurring at or prior to the effective date of the merger.

The insurance coverage is to be on based on conditions and terms substantially comparable to the director and officer liability policy of BBI as of the date of the Merger Agreement, so long as the policy can be obtained at a cost not in excess of 200% of the rate for such director and officer liability insurance tail policy, in effect as of the date of the Merger Agreement. In the event CBI is unable to obtain a director and officer liability insurance tail policy at a cost not in excess of 200% of such rate, CBI shall obtain a director and officer liability insurance tail policy with the maximum coverage reasonably available for a cost that is equal to 200% of the rate.

Board of Directors and Management Following Completion of the Merger. Upon completion of the merger, the current directors and officers of Customers are expected to continue in their current positions. At the closing of the merger, CBI will expand and cause Customers Bank to expand the size of each of their respective boards by one member and will appoint \_\_\_\_\_ as a director on each such board, who will be entitled to compensation in such capacity on the same basis as other Customers directors. Pursuant to the terms of the Merger Agreement, \_\_\_\_\_, or if he must be replaced, a former BBI director replacement, will continue as a director of CBI and Customers Bank for three (3) years following the effective time of the merger.

Additionally, each individual director of BBI and Berkshire Bank who will not be appointed to the board of directors of CBI and Customers Bank will be invited to join CBI's Berks/Schuylkill advisory board after the merger.

Existing Employment Agreements. BBI and Berkshire Bank are parties to employment agreements with Norman Heilenman, Richard Gromis, and Lori Maley. Subject to any applicable TARP restrictions that may remain in effect at the effective time of the merger and any other regulatory approvals, CBI will assume each of these contracts which shall be amended to reflect the employee's new title and position. Further, Norman Heilenman, Richard Gromis, and Lori Maley will each be offered management positions with CBI following the merger.

Messrs. Heilenman's and Gromis's agreements have three (3) year terms and Ms. Maley's agreement has a two (2) year term. Each agreement is automatically extended on the anniversary date for an additional year. If the executive's employment is terminated for reasons other than cause or a voluntary termination (except for good reason), he or she receives the compensation due under the remaining term of his or her agreement, together with continuation of health and welfare benefits for the remaining term. The employment agreements currently provide for an annual base salary of \$156,280 for Messrs. Heilenman and Gromis and \$109,975 for Ms. Maley.

Supplemental Executive Retirement Plan Agreements. BBI and Berkshire Bank are parties to supplemental employee retirement plan agreements ("SERPs") with Norman Heilenman, Richard Gromis, and Lori Maley. Subject to any applicable TARP restrictions that may remain in effect at the effective time of the merger and any other regulatory approvals, CBI shall assume the obligations of the SERPs. Under these agreements which are financed by certain life insurance policies on the life of each executive, BBI is obligated to provide each executive or his or her beneficiaries benefits payable in equal monthly installments for fifteen (15) years. In the event, Messrs. Heilenman and Gromis and Ms. Maley remain employed until his or her sixty-fifth (65th) birthday, he or she shall be entitled to receive a pre-determined benefit payable in equal monthly installments for fifteen (15) years. The merger will constitute a change of control under the agreement; after the change of control, if Messrs. Heilenman or Gromis or Ms. Maley is terminated within twenty-four (24) months, his or her benefits under the agreement become vested. In addition, certain death benefits are payable to the beneficiary. Currently, if the executives terminate their employment after the retirement age of 65, the Bank will make yearly payments of \$41,878, \$56,121 and \$72,565 respectively to Mr. Heilenman, Mr. Gromis and Ms. Maley.

Voting Agreements. As a condition to CBI entering into the Merger Agreement, each of the directors of BBI entered into an agreement with CBI, dated as of August 23, 2010, pursuant to which each director agreed to vote all of their shares of BBI common stock in favor of the Merger Agreement. A form of voting agreement is Exhibit A to the Merger Agreement, which is attached to this document as Annex B. The voting agreements may have the effect of discouraging persons from making a proposal for an acquisition transaction involving BBI. Each director of BBI agreed, among other things, to vote or cause to be voted all of BBI common stock as to which he or she has power to vote or direct the voting of, in favor of the Merger Agreement and merger.

#### Fairness Opinion of Commonwealth Advisors LLC

Pursuant to an engagement letter dated as of July 1, 2010, Berkshire Bank retained Commonwealth Advisors LLC to act as its exclusive financial advisor in connection with its consideration of a possible business combination. In connection with the merger with CBI, the BBI board requested Commonwealth Advisors LLC to render its opinion as to the fairness of the merger consideration to the holders of BBI common stock from a financial point of view.

Commonwealth Advisors LLC was selected to act as BBI's financial advisor in connection with the merger with CBI. Commonwealth Advisors LLC has knowledge of, and experience with the Pennsylvania and surrounding banking markets, as well as banking organizations operating in those markets, and was selected by BBI because of its knowledge of, experience with, and reputation in the financial services industry. Commonwealth Advisors LLC is a Pennsylvania limited liability company that is an indirect subsidiary of Bybel Rutledge LLP. Bybel Rutledge LLP serves as special counsel to BBI with respect to the merger.

On August 23, 2010, BBI's board of directors approved and executed the Merger Agreement. Prior to the approval, Commonwealth Advisors LLC delivered its opinion to BBI's board of directors stating that, as of such date, the merger consideration pursuant to the Merger Agreement was fair to the shareholders of BBI from a financial point of view. The full text of the opinion which sets forth assumptions made, matters considered and limits on the review undertaken is attached as Annex E to this document. The summary of the opinion of Commonwealth Advisors LLC set forth below is qualified in its entirety by reference to the full text of the opinion. No limitations were imposed by BBI's board of directors upon Commonwealth Advisors LLC with respect to the investigations made or procedures followed by Commonwealth Advisors LLC in rendering the opinion.

In arriving at its opinion, Commonwealth Advisors LLC, among other things:

- reviewed the Merger Agreement;
- reviewed and discussed with BBI and CBI certain publicly available business and financial information concerning BBI and CBI and the industry in which they operate;
- reviewed and discussed with BBI and CBI matters relating to their asset quality, reserves, liquidity, leverage and capital adequacy;
- compared the proposed financial terms of the transaction with the publicly available financial terms of certain transactions involving companies it deemed relevant;
- compared the financial and operating performance of BBI and CBI with publicly available information concerning certain other companies it deemed relevant and reviewed the current and historical market prices of BBI common stock (BBI is not publically traded) and CBI Voting Common Stock and certain publicly traded securities of such other companies;
- reviewed and discussed with BBI and CBI certain internal financial analyses and forecasts prepared by the management of BBI and CBI relating to their businesses;
- reviewed and discussed with CBI the estimated amount and timing of the cost savings and related expenses expected to result from the transaction; and
- performed such other financial studies and analyses and considered such other information as it deemed appropriate for the purposes of the opinion.

In connection with rendering its opinion, Commonwealth Advisors LLC assumed that in the course of obtaining material governmental regulatory or other consents and approvals for the merger, no restriction will be imposed on CBI or BBI that would have an adverse effect. Commonwealth Advisors LLC also assumed that no material adverse change in the prospects or operations of CBI after the merger would occur which would void the agreement.

In giving its opinion, Commonwealth Advisors LLC relied upon and assumed the accuracy and completeness of all information that was publicly available or was furnished to or discussed with them by BBI and CBI or otherwise reviewed by or for them, and Commonwealth Advisors LLC did not independently verify (nor did they assume responsibility or liability for independently verifying) any such information or its accuracy or completeness. Commonwealth Advisors LLC did not review individual credit files of BBI or CBI, nor did Commonwealth Advisors LLC conduct or was provided with any valuation or appraisal of any assets or liabilities (including any derivative or off- balance sheet liabilities) of BBI or CBI, nor did Commonwealth Advisors LLC evaluate the solvency of BBI or CBI under any state or federal laws relating to bankruptcy, insolvency or similar

matters. Commonwealth Advisors LLC are not experts in the evaluation of loan and lease portfolios for assessing the adequacy of the allowances for losses with respect thereto and, accordingly, Commonwealth Advisors LLC did not make an independent evaluation of the adequacy of the allowance for loan losses of BBI or CBI and Commonwealth Advisors LLC assumed that the respective allowances for loan losses for both BBI or CBI, respectively, were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. In relying on financial analyses and forecasts provided to it by BBI or CBI or derived therefrom, Commonwealth Advisors LLC assumed that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of BBI to which such analyses or forecasts relate, and that they were reviewed and accepted by the parties' respective regulators. Commonwealth Advisors LLC expressed no view as to the validity or accuracy of any analyses, forecasts or estimates referred to above, or the assumptions on which they were based. Commonwealth Advisors LLC have also assumed that the transaction contemplated by the Merger Agreement will qualify as a tax-free reorganization for United States federal income tax purposes, and will be consummated as described in the Merger Agreement. Commonwealth Advisors LLC also assumed that the representations and warranties made by BBI or CBI in the Merger Agreement and the related agreements are and will be true and correct in all respects material to its analysis and that the covenants and agreements contained therein will be performed in all respects material to its analysis. Commonwealth Advisors LLC is not a legal, regulatory or tax expert and relied on the assessments made by advisors to BBI with respect to such issues. Commonwealth Advisors LLC further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the transaction will be obtained without any adverse effect on BBI or CBI or on the contemplated benefits of the transaction. The Merger Agreement provides that CBI's obligation to carry out the transaction may be voided a material adverse effect, as described in the Merger Agreement, in which case its opinion is void.



The following is a summary of the material analyses prepared by Commonwealth Advisors LLC and presented to BBI's board of directors in connection with the opinion and analyzed by Commonwealth Advisors LLC in connection with the opinion. Additionally, none of the analyses prepared by Commonwealth Advisors LLC in connection with the issuance of the opinion failed to support Commonwealth Advisors LLC's conclusion that the merger consideration was fair to the holders of BBI common stock from a financial point of view as of the date of the opinion. The following analyses do not include the impact of any potential revenue enhancements available to the combined entity or any subsequent transactions by CBI.

#### Transaction Summary

Commonwealth Advisors LLC reviewed the financial terms of the proposed transaction. Based upon financial information for BBI as of and for the twelve month period ended July 31, 2010, Commonwealth Advisors LLC calculated the following ratios with respect to the transaction value per share of BBI common stock:

Transaction Ratios	
Transaction Value/Last Twelve Months Earnings per Share	NM (1)
Transaction Value/Book Value	NA
Transaction Price/Tangible Book Value	100% (2)

(1) Not Meaningful.

(2) The ratio is based on BBI's tangible book value of \$2.09 per share as of July 31, 2010 and the calculation of the exchange ratio in the Merger Agreement. This ratio may change as of the closing date.

The aggregate transaction value as of July 31, 2010 was approximately \$11.8 million based on 3,876,063 shares of BBI common stock outstanding, conversion of 50 shares of Series C Preferred Stock, and repayment of approximately \$3 million in TARP to the Treasury. In addition, 774,571 BBI common stock warrants will be exchanged for warrants of CBI Voting Common Stock on the terms and conditions set forth in the Merger Agreement.

#### Contribution Analysis

Commonwealth Advisors LLC analyzed the contribution that CBI and BBI would make to the combined company based on financial information of both institutions as of July 31, 2010 using information for CBI as of March 31, 2010. This analysis indicated that the implied contributions to the combined entity were as follows:

Contribution Analysis(1)	CBI	BBI
Ownership	89%	11%
Assets	78%	22%
Gross Loans	76%	24%
Deposits	76%	24%
Tangible Common Equity	89%	11%
2011 GAAP Net Income	97%	3%
2011 Cash Net Income	97%	3%
2012 GAAP Net Income	98%	2%
2012 Cash Net Income	98%	2%
Pre-Deal Market Capitalization(2)	89%	11%

(1) Excludes purchase accounting adjustments.

(2) Implied trading value of 0.80x tangible book value.

Comparable Company Analysis

Commonwealth Advisors LLC used publicly available information to compare selected financial, operating and market trading information for BBI and two peer groups of commercial banking institutions selected by Commonwealth Advisors LLC.

The first peer group consists of Pennsylvania headquartered banks with total assets between \$100 million and \$200 million including:

Affinity Bank of Pennsylvania, Wyomissing, PA  
Jim Thorpe National Bank, Jim Thorpe, PA  
Gratz National Bank, Gratz, PA

Apollo Trust Company, Apollo, PA  
 First Resource Bank, Exton, PA  
 National Bank of Malvern, Malvern, PA  
 Gateway Bank of Pennsylvania, McMurray, PA  
 Valley Green Bank, Philadelphia, PA  
 Union National Bank of Mount Carmel, Mount Carmel, PA  
 Union Bank and Trust Company, Pottsville, PA  
 Earthstar Bank, Southampton, PA  
 Allegiance Bank of North America, Bala Cynwyd, PA  
 Clarion County Community Bank, Clarion, PA  
 MileStone Bank, Doylestown, PA

The analysis compared publicly available financial, operating and market information for BBI as of July 31, 2010 and the data for the peer group as of June 30, 2010.

	Peer Group Average (%)	Peer Group Median (%)	BBI (%)
Core ROA	0.25	0.46	0.01
Core ROE	-6.9	4.2	0.12
Net Interest Margin	3.66	3.50	4.58
Fee Income/Revenue	10.3	7.8	18.2
Efficiency Ratio	75.2	76.2	80.5
Tangible Equity/Tangible Assets	9.00	9.21	7.83
Loans/Deposits	78.9	80.9	81.9
Core Deposits/Deposits	80.1	82.0	91.3
Loan Loss Reserve/Loans	1.41	1.26	1.18
Loan Loss Reserve/Non-Performing Loans	137.1	56.9	50.6
Net Charge-Offs/Average Loans	0.49	0.07	0.14

The second peer group consists of Pennsylvania headquartered de novo banks formed since January 1, 2000 with total assets less than \$1 billion including:

Monument Bank, Doylestown, PA  
 Victory Bank, Limerick, PA  
 Vantage Point Bank, Fort Washington, PA  
 MileStone Bank, Doylestown, PA  
 Hometown Bank of Pennsylvania, Bedford, PA  
 Colonial American Bank, Horsham, PA  
 Hyperion Bank, Philadelphia, PA  
 Royal Asian Bank, Philadelphia, PA  
 MoreBank, Philadelphia, PA  
 East River Bank, Philadelphia, PA  
 Valley Green Bank, Philadelphia, PA  
 First Priority Bank, Malvern, PA  
 First Resource Bank, Exton, PA  
 Penn Liberty Bank, Wayne, PA  
 Bucks County Bank, Doylestown, PA

Meridian Bank, Devon, PA  
Gateway Bank of Pennsylvania, McMurray, PA  
Clarion County Community Bank, Clarion, PA  
Integrity Bank, Camp Hill, PA  
Affinity Bank of Pennsylvania, Wyomissing, PA  
York Traditions Bank, York, PA  
Embassy Bank for the Lehigh Valley, Bethlehem, PA  
Landmark Community Bank, Pittston, PA  
Earthstar Bank, Southampton, PA  
First CornerStone Bank, King of Prussia, PA

The analysis compared publicly available financial, operating and market information for BBI as of July 31, 2010 and the data for the peer group as of June 30, 2010.

	Peer Group Average (%)	Peer Group Median (%)	BBI (%)
Core ROA	0.01	0.22	0.01
Core ROE	-1.4	2.3	0.12
Net Interest Margin	3.61	3.52	4.58
Fee Income/Revenue	11.1	6.8	18.2
Efficiency Ratio	90.6	86.1	80.5
Tangible Equity/Tangible Assets	8.68	9.03	7.83
Loans/Deposits	89.5	90.1	81.9
Core Deposits/Deposits	75.4	76.6	91.3
Loan Loss Reserve/Loans	1.49	1.24	1.18
Loan Loss Reserve/Non-Performing Loans	91.5	78.7	50.6
Net Charge-Offs/Average Loans	0.29	0.11	0.14

#### Selected Merger Analysis

Commonwealth Advisors LLC reviewed two sets of merger transactions it deemed comparable to the proposed transaction. Importantly, although representative, no transaction or group is identical to the proposed transaction. The first group represents 18 transactions involving banks located in the Mid-Atlantic region after January 1, 2008 with deal values under \$100 million.

The results of these comparisons are set forth in the following table:

	Average	Median
Price/Book	109%	103%
Price/Tangible Book	124%	117%
Price/Assets	10.0%	7.6%
Core Deposit Premium	7.0%	3.5%

Since BBI's proportion of nonperforming assets ("NPAs") was above the average and medians of acquired banks in those 18 transactions, Commonwealth Advisors LLC performed a second analysis of transactions involving acquisitions with higher levels of NPAs. The second group represents 29 national transactions after January 1, 2008 involving targets with NPAs to assets greater than 6.0% and NPAs to assets greater than 4% and assets between \$50 million and \$500 million.

The results of these comparisons are set forth in the following table:

	NPAs/Total Assets greater than 6%		NPAs/Total Assets greater than 4%	
	Average	Median	Average	Median
Price/Book	65%	70%	79%	76%
Price/Tangible Book	66%	70%	82%	77%
Price/Assets	8.3%	8.6%	9.1%	8.6%

Discounted Cash Flow Analysis

Commonwealth Advisors LLC performed a discounted cash flow analysis on BBI using financial forecasts and estimates confirmed by BBI's management for the calendar years 2011 through 2015, after taking into account the potential cost savings anticipated by CBI's management to result from the proposed merger. Commonwealth Advisors LLC calculated a range of present values for a share of BBI common stock by discounting the cash flows and the terminal value at a discount rate ranging from 10% to 14%. The terminal values were calculated using a range of terminal value multiples ranging from 10.0x to 14.0x the trailing twelve month earnings at December 31, 2016. This analysis resulted in ranges of implied present values of approximately \$7,132,000 to \$12,482,000 aggregate value of the shares of BBI common stock as compared to the implied aggregate value of the merger consideration of \$11.8 million.

Discount Rate	Terminal Multiple		
	10.0x	12.0x	14.0x
10%	\$8,610	\$10,546	\$12,482
12%	\$7,831	\$9,600	\$11,370
14%	\$7,132	\$8,751	\$10,371

In connection with the discounted cash flow analysis performed, Commonwealth Advisors LLC considered and discussed with BBI's board of directors how the present value analysis would be affected by changes in the underlying assumptions, including variations with respect to the cost savings. Commonwealth Advisors LLC noted that the discounted cash flow analysis is a widely used valuation methodology, but the results are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of the actual values or expected values of BBI common stock. However, having noted those caveats, the results of Commonwealth Advisors LLC's discounted cash flow analysis were within the range noted above.

#### Pro Forma Merger Analysis

Commonwealth Advisors LLC analyzed certain pro forma effects of the acquisition using several assumptions including the following: (1) the aggregate consideration to be paid is \$11.8 million, (2) all of the shares of BBI common stock are exchanged for CBI's Voting Common Stock, (3) financial projections for CBI and BBI were consistent with those discussed with the senior management of CBI and BBI, (4) certain purchase accounting adjustments, charges and transaction costs associated with the acquisition and estimated cost savings, and (5) the transaction was completed on December 31, 2010. The analysis indicated that for the year ended December 31, 2011, the acquisition would have had a dilutive effect of approximately 8.0% on CBI earnings per share and an accretive effect of approximately 263.1% on BBI earnings per share. With respect to pro forma capital impact, the analysis indicated that CBI's capital ratios all would remain above regulatory minimum for well-capitalized institutions. This analysis does not include the impact of any potential revenue enhancements available to the combined entity or any subsequent transactions by CBI.

In connection with rendering its opinion, Commonwealth Advisors LLC performed what it deemed were the material financial analyses. Although the evaluation of the fairness, from a financial point of view, of the merger consideration in the merger was to some extent a subjective one based on the experience and judgment of Commonwealth Advisors LLC and not merely the result of mathematical analysis of financial data, Commonwealth Advisors LLC principally relied on the previously discussed financial valuation methodologies in its determinations. Commonwealth Advisors LLC believes its analyses must be considered as a whole and that selecting portions of such analyses and factors considered by Commonwealth Advisors LLC without considering all such analyses and factors could create an incomplete view of the process underlying Commonwealth Advisors LLC's opinion. In its analyses, Commonwealth Advisors LLC made numerous assumptions with respect to business, market, and economic conditions, industry performance and other matters, many of which are beyond BBI and CBI's control. Any estimates contained in Commonwealth Advisors LLC's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates.

In reaching its opinion as to fairness, none of the analyses or factors considered by Commonwealth Advisors LLC was assigned any particular weight by Commonwealth Advisors LLC. As a result of its consideration of the aggregate of all factors present and analyses performed, Commonwealth Advisors LLC reached the conclusion, and opined, that the merger consideration pursuant to the Merger Agreement was fair to the shareholders of BBI from a financial point of view.

Commonwealth Advisors LLC's opinion was based solely upon the information available to it and the economic, market and other circumstances as they existed as of the date its opinion was delivered; events occurring after the date of its opinion could materially affect the assumptions used in preparing its opinion. Commonwealth Advisors LLC has not undertaken to reaffirm and revise its opinion or otherwise comment upon any events occurring after the date of the opinion.

The full text of the Commonwealth Advisors LLC opinion, dated as of August 23, 2010, which sets forth assumptions made and matters considered, is attached as Annex E to this document. BBI's shareholders are urged to read the opinion in its entirety. Commonwealth Advisors LLC's opinion is directed only to the merger consideration pursuant to the Merger Agreement from a financial point of view, is for the information of the board of directors of BBI, and does not address any other aspect of the merger nor does it constitute a recommendation to any holder of BBI common stock as to how such holder should vote at the BBI special meeting. The foregoing provides only a summary of the analyses performed in the opinion of Commonwealth Advisors LLC and is qualified in its entirety by reference to the full text of that opinion.



### Compensation of Commonwealth Advisors LLC

BBI and Commonwealth Advisors LLC entered into an agreement relating to the services to be provided by Commonwealth Advisors LLC in connection with the merger. BBI agreed to pay Commonwealth Advisors LLC a cash fee of \$5,000 upon execution of the engagement letter. In addition, upon delivery of its fairness opinion, BBI agreed to pay Commonwealth Advisors LLC a cash fee equal to \$50,000 and an additional \$45,000 upon closing of the transaction. Pursuant to the Commonwealth Advisors LLC engagement, BBI also agreed to reimburse Commonwealth Advisors LLC for reasonable out-of-pocket expenses incurred in connection with its retention and to indemnify it against certain liabilities.

### Rights of Dissenting Shareholders

Pursuant to the Pennsylvania Business Corporation Law, shareholders of BBI have the right to dissent from the merger and to obtain payment of the “fair value” of their BBI common stock if the merger is consummated. The term “fair value” means the value of BBI common stock immediately before completion of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

The following summary of the steps necessary to exercise the right to dissent is qualified in its entirety by the full text of Section 1930 and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law, which are attached as Annex F to this Joint Proxy Statement-Prospectus. Each step must be taken in the indicated order and in strict compliance with the applicable provisions of the statute in order to perfect dissenters’ rights. The failure of any BBI shareholder to comply with these steps will result in the shareholder receiving the consideration contemplated by the Merger Agreement. See “THE MERGER AGREEMENT”. Any BBI shareholder who contemplates exercising the right to dissent is urged to read carefully the provisions of Section 1930 and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law.

Any written notice or demand by a BBI shareholder which is required in connection with the exercise of dissenters’ rights, whether before or after the effective date of the merger, must be sent to Berkshire Bancorp, Inc., 1101 Woodland Road, Wyomissing, Pennsylvania 19610, Attention: Corporate Secretary.

BBI Shareholders who wish to dissent must:

1. Prior to the vote of shareholders on the merger at the BBI special meeting, file a written notice with BBI of intention to demand that they be paid the fair value for their shares of BBI common stock;
2. Effect no change in the beneficial ownership of their BBI common stock from the date of the filing of the intention to demand payment through the effective date of the merger; and
3. Refrain from voting their BBI common stock to approve and adopt the Merger Agreement and the merger.

Neither submitting a proxy against nor a vote in person against adoption and approval of the Merger Agreement will constitute the necessary written notice of intention to dissent described above. Beneficial owners of BBI common stock whose shares are held of record in “street name” by a brokerage firm or other nominee must obtain the written consent of the record holder to the beneficial owners’ exercise of dissenters’ rights and must submit the consent to BBI, as the case may be, no later than the time of the filing of their notice of intention to dissent.

If the merger is adopted and approved by the required vote of BBI’s shareholders at its special meeting, BBI will mail a notice to all dissenters who gave due notice of intention to demand payment and who refrained from voting in favor

of the merger. The notice will state where and when a demand for payment must be sent, where certificates for BBI common stock must be deposited in order to obtain payment, and to what extent transfer of uncertificated shares, if any, will be restricted from the time that demand for payment is received. It also will include a form for demanding payment that includes a request for certification of the date on which the shareholder acquired beneficial ownership of the shares and a copy of Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law. The time set for receipt of the demand for payment and deposit of stock certificates will not be less than 30 days from the date of mailing of the notice.

Shareholders who fail to timely demand payment or fail to timely deposit stock certificates, as required by BBI's notice, will not have any right to receive payment of the fair value of their BBI common stock.

Promptly after the merger is complete, or upon timely receipt of demand for payment if the merger already has been completed, BBI will either remit to dissenters who have made demand and have deposited their stock certificates the amount that CBI, as successor to BBI, estimates to be the fair value of the BBI common stock or give written notice that no such remittance is being made. The remittance or notice will be accompanied by:

1. A closing balance sheet and an income statement of BBI for a fiscal year ending not more than 16 months before the date of remittance, together with the latest available interim financial statements;
2. A statement of CBI's estimate of the fair value of the BBI common stock; and
3. A notice of the right of the dissenter to demand payment or supplemental payment under Pennsylvania Business Corporation Law accompanied by a copy of Subchapter D of Chapter 15 of Pennsylvania Business Corporation Law.

If CBI does not remit the estimated fair value for shares with respect to which demand for payment has been made, stock certificates have been deposited and uncertificated shares have been restricted, then CBI will return any certificates that have been deposited and release uncertificated shares from any transfer restrictions imposed by reason of the demand for payment. CBI will mark returned certificates and any certificates subsequently issued in exchange therefor to record the fact that demand for payment has been made. Transferees of shares so marked will not acquire any rights in CBI other than those rights held by the original dissenter after such dissenter demanded payment of fair value.

If a dissenter believes that the amount stated or remitted by CBI is less than the fair value of the BBI common stock, the dissenter may send CBI his or her own estimate of the fair value of the BBI common stock which will constitute a demand for payment of the amount of the deficiency. If CBI provides notice of or remits payment of its estimated value of a dissenter's BBI common stock and the dissenter does not file his own estimate within 30 days after the mailing by CBI of its notice or remittance, the dissenter will be entitled to no more than the amount stated in the notice or remitted to him or her by CBI.

Within 60 days after the latest to occur of (1) the completion of the merger, (2) the timely receipt by BBI of any demands for payment, or (3) timely receipt by BBI or CBI of any estimates by dissenters of fair value, if any demands for payment remain unsettled, CBI may file in the Court of Common Pleas of Wyomissing County an application requesting that the fair value of the BBI common stock be determined by the Court. In such case, all dissenters, wherever residing, whose demands have not been settled must be made parties to the proceeding as in an action against their shares, and a copy of the application must be served on each dissenter.

If CBI were to fail to file an application, then any dissenter, on behalf of all dissenters who have made a demand and who have not settled their claim against CBI, may file an application in the name of CBI at any time within the 30-day period after the expiration of the 60-day period and request that the fair value be determined by the Court. The fair value determined by the Court may, but need not, equal the dissenters' estimates of fair value. If no dissenter files such an application, then each dissenter entitled to do so shall be paid CBI's estimate of the fair value of the BBI common stock and no more, and may bring an action to recover any amount not previously remitted, plus interest at a rate the Court finds fair and equitable.

CBI and BBI intend to negotiate in good faith with any dissenting shareholder. If after negotiation, a claim cannot be settled, then BBI and/or CBI, as successor, intends to file an application requesting that the fair value of the BBI common stock be determined by the Court.

#### THE MERGER AGREEMENT

A copy of the Merger Agreement is attached as Annex B to this Joint Proxy Statement-Prospectus. Please read the entire Merger Agreement. The following description is only a summary of the material terms of the Merger Agreement. There are several steps to the merger:

## Terms of the Merger

Each of CBI's, Customers Bank's, BBI's and Berkshire Bank's board of directors has approved the Merger Agreement, which provides for the merger of BBI into CBI, with CBI being the surviving corporation in the merger. Each share of BBI common stock, par value \$1.00 per share, issued and outstanding immediately prior to the completion of the merger, except for shares of BBI common stock held by CBI, Customers Bank, Berkshire Bank or BBI (other than BBI shares held in trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties and other than BBI shares held, directly or indirectly, by CBI, Customers Bank, BBI or Berkshire Bank in respect of a debt previously contracted), will be converted into the right to receive the merger consideration as calculation in accordance with the formula discussed below. The formula for merger consideration takes into account the 3 for 1 exchange ratio of Customers Bank shares to CBI shares that will be used in connection with the reorganization, but if the number of shares of common stock of any of CBI, BBI or Customers Bank otherwise changes before the merger is completed because of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar change in capitalization, an appropriate and proportionate adjustment shall be made to the per share merger consideration.

#### Formula for Determining Merger Consideration

The merger consideration will be calculated based on the tangible common book value per share of common stock of each of BBI and Customers Bank, adjusted to take into account the exchange ratio of Customers Bank shares to be exchanged for CBI shares in the reorganization, on the terms and conditions set forth below.

Each share of BBI common stock will be converted into the right to receive the number of shares of CBI Voting Common Stock equal to an exchange ratio to be calculated at the closing of the merger plus cash in lieu of fractional shares. The exchange ratio is the “Berkshire Valuation” divided by three (3) times the “NCB Valuation.”

The Merger Agreement defines the “Berkshire Valuation” as the greater of (1) \$1.95, or (2) (A) (i) BBI's tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, minus (ii) the Book Value Adjustment (which is the dollar amount necessary, as of the most recent calendar month end prior to the effective time of the merger, to bring Berkshire Bank’s total loan loss reserves up to an amount equal to 40% of its nonperforming loans), if any, minus the costs (whether capitalized or expensed) that have been accrued or otherwise incurred as of the effective time by either or both of BBI and Berkshire Bank related to the Merger Agreement and transactions contemplated thereby, divided by (B) the number of shares of BBI common stock outstanding at the effective time.

The Merger Agreement defines the “NCB Valuation” as Customers Bank’s tangible common book value as of the most recent calendar month-end prior to the effective time of the merger, divided by the then-current number of shares of Customers Bank Voting Common Stock and Class B Non-Voting Stock outstanding as of the effective time.

For example, if the effective time of the merger was January 1, 2011, the merger consideration would have been 0.1559 shares of CBI Voting Common Stock (with a pro forma tangible book value of \$12.51 per share of CBI Voting Common Stock) in exchange for each share of BBI common stock outstanding immediately prior to the merger. This is calculated as the Berkshire Valuation of \$1.95 divided by three times the NCB Valuation of \$4.17. The Berkshire Valuation of \$1.95 is the minimum Berkshire Valuation based on the Merger Agreement. The NCB Valuation of \$4.17 is (1) \$105,140,255 (tangible common book value), divided by (2) 25,194,041 shares of Customers Bank Common Stock outstanding as of January 1, 2011. Please keep in mind that numbers in this paragraph are provided as an example of what the merger consideration would be assuming the merger went into effect on January 1, 2011. Since this Joint Proxy Statement-Prospectus was declared effective and mailed after January 1, 2011, the numbers are not a true representation of what BBI shareholders will receive as consideration for the merger. As the tangible common book value of both BBI and Customers Bank fluctuates, the per share merger consideration will also change.

CBI will not issue any fractional shares of CBI Voting Common Stock in the merger. BBI shareholders who would otherwise be entitled to a fractional share of CBI Voting Common Stock will instead receive an amount in cash, rounded to the nearest whole cent and without interest, equal to the product of (1) the NCB Valuation multiplied by (2) the fraction of a share (after taking into account all BBI shares of common stock held by such holder at the effective time of the merger and rounded to the nearest thousandth when expressed in decimal form) of CBI Voting Common Stock to which such holder would otherwise be entitled to receive.

In the event that any BBI shareholder would be entitled to receive as consideration for the merger a number of shares equaling greater than 4.9% of CBI’s Voting Common Stock outstanding immediately after the merger, such BBI shareholder will receive as merger consideration only the number of shares equaling 4.9% of CBI’s Voting Common Stock outstanding immediate after the merger until such BBI shareholder obtains applicable regulatory approval or accepts shares of CBI’s Class B Non-Voting Common Stock for the rest of the merger consideration owed to such BBI shareholder.

The CBI articles of incorporation as in effect at the time of the merger will be the articles of incorporation of the surviving corporation (the name of the surviving corporation will be Customers Bancorp, Inc.), and the bylaws of CBI, as then in effect, will be the bylaws of the surviving corporation.

#### Conversion of BBI Warrants

All warrants to purchase BBI common stock that are outstanding and unexercised immediately prior to the effective time of the merger will be converted automatically into the right to receive warrants to purchase shares of CBI Voting Common Stock upon the same terms and conditions as the BBI warrants, except that the expiration date shall be extended five (5) years and the number of shares and exercise price of the warrants will be adjusted as follows:

- The number of shares of CBI Voting Common Stock to be subject to the converted BBI warrants will be equal to the product of the number of shares of BBI common stock subject to the BBI warrants multiplied by the exchange ratio (described above in “What will I receive as consideration? – The Merger”), provided that any fractional shares of CBI Voting Common Stock resulting from such multiplication will be rounded down to the nearest whole share; and
- The exercise price per share of CBI Voting Common Stock under the converted BBI warrants will be equal to the exercise price per share of BBI common stock under the BBI warrants divided by the exchange ratio, provided that such exercise price will be rounded up to the nearest cent.

At all times after the effective time of the merger, CBI will reserve for issuance such number of shares of CBI Voting Common Stock as necessary so as to permit the exercise of converted BBI warrants in the manner contemplated by the Merger Agreement and in the instruments pursuant to which such BBI warrants were granted.

#### Closing and Effective Time of the Merger

The merger will be completed only if all conditions to the merger discussed in this Joint Proxy Statement-Prospectus and set forth in the Merger Agreement are either satisfied or waived. See “Conditions to Complete the Merger” below.

The merger will become effective on the time and date set forth in the articles of merger filed with the Pennsylvania Department of State. It currently is anticipated that the completion of the merger will occur in the second quarter of 2011, but it cannot be guaranteed when or if the merger will be completed.

#### Conversion of Shares; Exchange of Certificates

The conversion of BBI common stock into the right to receive the merger consideration will occur automatically upon completion of the merger. As promptly as reasonably practicable after the completion of the merger, an exchange agent will exchange certificates representing shares of BBI stock for the merger consideration, without interest, to be received by holders of BBI stock in the merger pursuant to the terms of the Merger Agreement. CBI will appoint StockTrans as exchange agent in the merger to exchange certificates for the merger consideration and perform other duties as explained in the Merger Agreement.

If any CBI Voting Common Stock is to be issued, or cash payment for fractional shares made, in a name other than that in which the BBI stock certificates surrendered in exchange for the merger consideration are registered, the person requesting the exchange must pay any transfer or other taxes required by reason of the issuance of the new CBI Voting Common Stock or the payment of the cash in lieu of fractional shares in a name other than that of the registered holder of the BBI stock certificate surrendered, or must establish to the satisfaction of CBI or the exchange agent that any such taxes have been paid or are not applicable.

#### Letter of Transmittal

As soon as reasonably practicable after the completion of the merger, the exchange agent will mail a letter of transmittal to those persons who were BBI record shareholders immediately prior to the completion of the merger. This mailing will contain instructions on how to surrender shares of BBI stock in exchange for the merger consideration the holder is entitled to receive under the Merger Agreement.

If a certificate for BBI stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the Merger Agreement upon receipt of appropriate evidence as to that loss, theft or destruction, appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification.

### Withholding

Each of CBI and the exchange agent will be entitled to deduct and withhold from the consideration payable to any BBI shareholder such amounts as it is required to deduct and withhold under any federal, state, local or foreign tax law. If either of them withholds any such amounts, these amounts will be treated for all purposes of the merger as having been paid to the shareholders from whom they were withheld.

### Dividends and Distributions

Until BBI shares of common stock are surrendered for exchange, any dividends or other distributions declared after the effective time with respect to CBI Voting Common Stock into which shares of BBI common stock may have been converted will accrue but will not be paid. CBI will pay to former BBI shareholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their BBI stock certificates.



Prior to the completion of the merger, BBI and its subsidiaries may not declare or pay any dividend or distribution on its capital stock or repurchase any shares of its capital stock without the prior written consent of Customers Bank or at the request of a regulatory agency or government entity.

#### Redemption or Exchange of Series C Preferred Stock

Prior to the closing of the merger, BBI must obtain all requisite approvals to redeem or exchange all BBI 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C for shares of CBI Voting Common Stock, as Customers may elect.

#### Representations and Warranties

The Merger Agreement contains customary representations and warranties of Berkshire and Customers relating to their respective businesses. With the exception of certain representations that must be true and correct in all material respects, no representation or warranty will be deemed untrue or incorrect, and Berkshire will not be deemed to have breached any such representation or warranty, in any case, as a consequence of the existence of any fact, event or circumstance except to the extent such fact, circumstance or event, individually or in the aggregate with all other facts, events or circumstances inconsistent with the representation or warranty, has had or would be reasonably likely to have an effect that is material and adverse to the financial condition, results of operations or business of CBI and its subsidiaries taken as a whole, or BBI and its subsidiaries taken as a whole, respectively, or does or would materially impair the ability of either Berkshire, on the one hand, or Customers, on the other hand, to perform its obligations under the Merger Agreement on a timely basis or otherwise materially threaten or materially impede the consummation of the transactions contemplated by the Merger Agreement. In determining whether any such material adverse effect has occurred or is reasonably likely to occur, the parties will disregard effects resulting from (1) changes in GAAP or regulatory accounting requirements generally applicable to banks or savings associations and their holding companies, (2) changes in laws and regulations affecting banks or savings associations or their holding companies generally, or interpretations thereof by courts or governmental entities, (3) changes after the date of the Merger Agreement of global or national political conditions (including national emergencies, the outbreak of war or acts of terrorism) or in general economic and market conditions affecting banks or savings associations or their holding companies generally, (4) the consummation or public disclosure of the Merger Agreement and the transactions contemplated thereby, and compliance with the Merger Agreement, including the expenses incurred by the parties in consummating the transactions contemplated by the Merger Agreement, and (5) the actions or omissions of Berkshire or Customers taken with the prior written consent of the other. A material adverse effect shall be deemed to have occurred if the combined nonperforming loans and nonperforming assets exceed \$9,685,907.80.

Each of Customers and Berkshire has made representations and warranties to the other regarding, among other things:

- corporate matters, including due organization and qualification;
  - capitalization;
- power and authority to execute, deliver and perform its obligations under the Merger Agreement; and
  - tax matters.

In addition, Berkshire has made representations and warranties to Customers regarding, among other things:

- required government filings and consents;
- financial reports and statements and regulatory matters;
- brokers, finders and financial advisors fees payable in connection with the merger;
- absence of certain changes or events in the business;
- legal proceedings;

- - employee matters;
  - compliance with applicable law;
  - certain contracts;
  - risk management instruments;
  - investment securities and commodities;
  - real property;
  - intellectual property;
  - environmental liability;
  - personal property leases;
  - securitizations;
  - reorganization approvals;
- fairness opinion with respect to the merger;

- information supplied by BBI with respect to Joint Proxy Statement – Prospectus and pending registration statement;
  - the inapplicability of state takeover laws;
  - loan portfolio;
  - internal controls;
  - United States Treasury Capital Purchase Program compliance; and
  - shareholder vote requirement.

In addition, Customers Bank has made representations and warranties to Berkshire regarding, among other things:

- required government filings and consents;
- financial reports and statements and regulatory matters;
- brokers, finders and financial advisors fees payable in connection with the merger;
- absence of certain changes or events in the business;
- legal proceedings;
- compliance with applicable law;
- certain contracts;
- reorganization and approvals; and
- information supplied by Customers Bank with respect to Joint Proxy Statement-Prospectus and pending registration statement.

The representations and warranties described above and included in the Merger Agreement were made by each of Customers and Berkshire to the other. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Customers and Berkshire in connection with negotiating the terms of the Merger Agreement, and may have been included in the Merger Agreement for the purpose of allocating risk between Customers and Berkshire rather than to establish matters as facts. The Merger Agreement is described in, and included as Annex A to, this Joint Proxy Statement-Prospectus only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding Berkshire, Customers or their respective businesses. Accordingly, the representations and warranties and other provisions of the Merger Agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this Joint Proxy Statement-Prospectus and in the documents incorporated by reference into this Joint Proxy Statement-Prospectus.

#### Covenants and Agreements

Each of Berkshire and Customers has undertaken customary covenants that place restrictions on them until the completion of the merger.

#### Affirmative Covenants of Berkshire

Berkshire has agreed that, except as otherwise permitted by the Merger Agreement or consented to in writing by Customers Bank, Berkshire will:

- operate its business in the ordinary course in all material respects;
- use reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key officers and key employees;
- take no action that would be reasonably likely to adversely affect or materially delay the ability of BBI, CBI or Customers Bank to (1) obtain any regulatory approvals or other approvals of governmental entities required for the transactions contemplated by the Merger Agreement (including the merger and the bank merger), (2) perform its

covenants and agreements under the Merger Agreement, or (3) consummate the transactions contemplated by the Merger Agreement;

- at all times comply with all statutory, regulatory and contractual requirements applicable to Berkshire in connection with their participation in the TARP Program, and deliver immediately to Customers Bank true and complete copies of all notice and other communications given or received by Berkshire with respect to the TARP Program (including any communications regarding compliance or alleged noncompliance), the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (liquidation preference \$1,000 per share) that were issued in connection with the TARP Program (the “TARP Shares Series A”), the Fixed Rate Cumulative Perpetual Preferred Stock, Series B (liquidation preference \$1,000 per share) that were authorized in connection with the TARP Program (the “TARP Shares Series B”), or the warrant to acquire the TARP Shares Series B (the “TARP Warrant,” and collectively with the TARP Shares Series A and TARP Shares Series B, the “TARP Securities”), and not to enter into any agreement relating to the foregoing; and
- on or before the effective time of the merger, use commercially reasonable best efforts to promptly apply to the U.S. Treasury for repurchase and retirement of the TARP Securities, and otherwise terminate and satisfy all of Berkshire’s obligations under the TARP Program.

#### Negative Covenants of Berkshire

Berkshire has agreed that, except as otherwise permitted by the Merger Agreement or with Customers Bank’s prior written consent or at the request of a regulatory agency or government entity (with prior notice to and consultation with Customers Bank), Berkshire will not, among other things, undertake the following actions:

- other than in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance or capital contribution to, or investment in, any person;
- adjust, split, combine or reclassify any of its capital stock (except to repay the shares issued in connection with the TARP Program, make or declare a dividend or make any other distribution on, redeem, purchase or otherwise acquire any shares of capital stock or securities convertible into it), grant any stock options, restricted shares or other equity based awards with respect to BBI’s common stock or grant anyone a right to acquire shares of BBI’s capital stock, or issue any additional shares of capital stock or other securities except as contemplated by the Merger Agreement;
- except as otherwise required by the Merger Agreement, any Berkshire employee benefit plan, or applicable law, increase the wages, salaries, incentive compensation or incentive compensation opportunities of any officer, director, or employee of Berkshire, or pay, provide, increase or accelerate the accrual rate, vesting or timing of a payment of any compensation, benefits or rights of such a person except in the ordinary course of business (other than for executive officers and directors);
- pay any bonus other than bonuses to employees who are not executive officers or directors made in the ordinary course of business consistent with past practices;
- establish, adopt or become a party to any new employee benefit or compensation plan, program, commitment or agreement or amend any current Berkshire employee benefit plan;
- sell, transfer, mortgage, encumber or otherwise dispose of any material amount of Berkshire’s properties or assets other than in the ordinary course of business consistent with past practice, or cancel, release, assign or enter into a forbearance agreement with respect to any amount of indebtedness in excess of \$100,000, except as requested or required by a regulatory agency or governmental entity (and upon notice and consultation with Customers Bank);

- enter into any new line of business or change in any material respect Berkshire's lending, investment, underwriting, risk and asset liability management and other banking, operating and servicing policies, except as required by applicable law, regulation or policies imposed by any governmental entity;
- acquire or agree to acquire a substantial equity interest in or a substantial portion of the assets of any business, business organization (such as, among others, a corporation) or division thereof or otherwise acquire any assets or make any investments which would be material, individually or in the aggregate, to BBI or Berkshire Bank, other than in connection with foreclosures and settlements in lieu of foreclosure in the ordinary course of business consistent with prudent banking practices or in accordance with the Merger Agreement;

- open, close, sell or acquire any branches;
- take any action (or knowingly fail to take action) that could reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;
- amend either BBI's or Berkshire Bank's articles of incorporation or bylaws or otherwise take any action to exempt any person (other than Customers Bank or its subsidiaries) or their actions from any takeover statute or similarly restrictive provisions of Berkshire's organizational documents;
- terminate, amend or waive any provisions of any confidentiality or standstill agreements in place with any third parties;
- restructure or materially change Berkshire's investment securities portfolio or their gap position, or the manner in which the portfolio is classified or reported;
- except in accordance with commitments issued prior to the date of the Merger Agreement, renew any existing loan or credit facility, or extend any new loan or credit facility, in an amount in excess of \$500,000;
- except in furtherance of loan collection efforts in the ordinary course, commence or settle any claim, action or proceeding where the amount in dispute is in excess of \$100,000 or subjecting BBI or Berkshire Bank to any material restrictions on its current or future business or operations (including the future business and operations of CBI after the merger);
- take any action (or fail to take action) that is intended to or could reasonably result in (1) any of BBI's or Berkshire's representations or warranties set forth in the Merger Agreement being or becoming untrue in any material respect at any time prior to the effective time of the merger, (2) in any of the conditions to the merger not being satisfied, or (3) in a violation of any provision of the Merger Agreement;
- implement or adopt any change in Berkshire's tax or financial accounting principles, practices or methods, other than as may be required by applicable law, GAAP or regulatory guidelines;
- file any tax return other than in the ordinary course of business, amend any tax return, make, revoke or change any tax election, enter into any closing agreements, settle or compromise any tax liability, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment relating to BBI, Berkshire Bank or CBI, or take any other action that would increase the tax liability of Customers, Berkshire, or any of their subsidiaries for any period ending after the merger or decreasing any tax attribute of Customers Bank existing at the effective time of the merger;
- except for transactions in the ordinary course of business consistent with past practice, terminate, or waive any material provision of any contract or similar arrangement to which Berkshire is a party, or make any change in any instrument or agreement governing the terms of any of its securities, or material lease or contract, other than normal renewals of contracts and leases without material adverse changes of terms;
- take any action that would materially harm or delay the parties from obtaining necessary regulatory and governmental entity approvals for the transactions contemplated by the Merger Agreement;
  - fail to comply with the terms of any regulatory orders issued by any governmental entity;
- make capital expenditures other than in the ordinary and usual course of business consistent with past practice;

- file any application to establish, or relocate or terminate the operations of, any banking office of BBI or Berkshire Bank;
- agree to any modification of the terms of any of the TARP Securities, or enter into any agreement relating to the TARP Securities, issue any additional TARP Securities, other than as contemplated by the Merger Agreement, or fail to redeem or cancel any of the TARP Securities; or
  - agree to do any of the actions prohibited by the preceding bullets.



#### Affirmative Covenants of Customers

Customers has agreed that they will:

- Prior to the effective time of the merger, cause the number of directors on their respective boards of directors to be increased by one (1), and at or immediately after the effective time, to appoint a designated director of BBI to serve on such boards for three (3) years following the effective time of the merger;
- Invite each individual director of BBI and Berkshire Bank who will not be appointed to the board of directors of CBI and Customers Bank to join CBI's Berks/Schuylkill advisory board after the merger; and
- Subject to receipt of necessary regulatory approvals and consents, cause to be invested a minimum of \$3,180,000 in BBI common stock qualifying for Tier 1 capital treatment under all applicable banking laws and regulations to be used for the repurchase and retirement of the TARP Securities and termination and satisfaction of all of Berkshire's obligations under the TARP Program.

#### Negative Covenants of Customers

Customers Bank has agreed that, except as otherwise permitted by the Merger Agreement or consented to in writing by BBI, it will not, and will cause its subsidiaries not to:

- Amend, repeal or otherwise modify any provision of the Customers Bank's articles of incorporation or bylaws in a manner that would adversely affect the shareholders of either Customers Bank or Berkshire Bancorp or the transactions contemplated by the Merger Agreement;
- Take any action (knowingly fail to take action) which could reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986;
- Take any action that is intended or may reasonably be expected to result in any of the conditions to the merger not being satisfied;
- Take any action that would be reasonably expected to prevent, materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency or any governmental entity required for the consummation of the transactions contemplated by the Merger Agreement;
- Take any action (or fail to take action) that is intended or may reasonably be expected to result in any of its representations and warranties set forth in the Merger Agreement being or becoming untrue in any material respect;
- Terminate Norman E. Heilenman, Richard C. Gromis or Lori Maley within seven (7) calendar days following the effective time of the merger; or
- Agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the actions prohibited by the foregoing covenants.

#### Agreements of Customers and Berkshire

The Merger Agreement also contains mutual covenants relating to the preparation of this Joint Proxy Statement-Prospectus and the holding of the Berkshire and Customers Special Meetings, access to financial statements

and other information of the other company, confidentiality, notification to the other party of certain matters and public announcements with respect to the transactions contemplated by the Merger Agreement. BBI and CBI have also agreed to use reasonable best efforts to prepare as promptly as possible all documentation, to effect all filings and to obtain all third party and governmental permits, consents, approvals and authorizations necessary to consummate the transactions contemplated by the Merger Agreement, and to take such further action after the effectiveness of the merger as is necessary to carry out the purposes of the Merger Agreement and to vest in Customers full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to the Merger Agreement.

## Bank Merger

Pursuant to the Merger Agreement, Berkshire Bank will merge into Customers Bank. The bank merger is intended to become effective immediately after the completion of the merger of BBI into CBI. Accordingly, the effective time of the bank merger will be after the effective time of the merger of BBI into CBI

## Reasonable Best Efforts to Obtain the Required Shareholder Votes

Each of Customers and Berkshire have agreed that their respective boards of directors will take all actions necessary to hold special meetings of shareholders as promptly as practicable for the purpose of obtaining shareholder approval of the Merger Agreement and the transactions contemplated thereby. BBI's board of directors may withdraw, modify, condition or refuse to make its recommendation that BBI shareholders approve the Merger Agreement and the transactions contemplated thereby only if BBI's board of directors determines, in good faith after consultation with its outside counsel and financial advisors, that BBI has received a superior proposal that is more favorable to BBI than the merger with CBI. As discussed below, additional requirements apply to any change in recommendation with respect to certain acquisition proposals.

## Agreement Not to Solicit Other Offers

BBI and Berkshire Bank have also agreed not to and to cause their respective officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, agents and representatives (referred to collectively as "representatives") not to, directly or indirectly, solicit, initiate, encourage or facilitate, or take any action designed to facilitate any inquiries or proposals regarding any merger, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of a tender offer) or similar transactions involving either of them that, if consummated, would constitute an alternative transaction (as described below), participate in any discussions or negotiations regarding an alternative transaction; or enter into any agreement regarding any alternative transaction.

The restrictions apply to any alternative proposal, meaning any inquiry or proposal (other than the merger), whether or not in writing, relating to or that could reasonably be expected to lead to an alternative transaction, meaning any of the following:

- a transaction pursuant to which any person (or group of persons) (other than CBI or its affiliates), directly or indirectly, acquires or would acquire more than 25% of the outstanding shares of BBI or Berkshire Bank common stock or outstanding voting power or of any new series or new class of stock that would be entitled to a class or series vote with respect to the merger, whether from BBI or Berkshire Bank or pursuant to a tender offer or exchange offer or otherwise;
- a merger, share exchange, consolidation or other business combination involving Customers Bank (other than the merger);
- any transaction pursuant to which any person (or group of persons) (other than CBI or its affiliates) acquires or would acquire control of assets (including for this purpose the outstanding equity securities of BBI or Berkshire Bank and securities of the entity surviving any merger or business combination) of Customers Bank representing more than 25% of the fair market value of all the assets, net revenues or net income of BBI on a consolidated basis, taken as a whole, immediately before such transaction; or
- any other consolidation, business combination, recapitalization or similar transaction involving BBI or Berkshire Bank, other than the transactions contemplated by the Merger Agreement, as a result of which the holders of shares of BBI or Berkshire Bank immediately before such transactions do not, in the aggregate, own at least 75% of the

outstanding shares of common stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of BBI common stock immediately before the consummation thereof.

A superior proposal means any bona fide, unsolicited written alternative proposal made by any person or entity, other than Customers Bank or CBI, that is on terms that the board of directors of BBI in good faith concludes, after consultation with its financial advisors and legal counsel (with the advice of outside counsel), taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and the person making the proposal, including any break-up fees, expense reimbursement provisions and conditions to consummation, (1) is on terms that the board of directors of BBI in its good faith judgment believes to be more favorable to its shareholders than the merger with CBI; (2) for which financing, to the extent required, is then fully committed or reasonably determined to be available by the board of directors of BBI; and (3) is reasonably capable of being completed; provided that for purposes of the definition of “superior proposal”, the references to “25%” in the definition of alternative transaction as described above shall be deemed to be references to “a majority.”

Prior to the effective time and subject to BBI taking the steps and making the required determinations described below:

- BBI and its board of directors may engage in discussions or negotiations with, and provide any information to, any person in response to a superior proposal; and
- BBI may comply Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act;

if, but only if:

- BBI has provided prior written notice to Customers Bank, at least five (5) business days in advance (which is referred to herein as the “notice period”), of its intention, in response to such Superior Proposal, to effect a withdrawal of its recommendation that BBI shareholders approve the Merger Agreement and the transactions contemplated thereby, which notice shall specify the material terms and conditions of any such superior proposal (including the identity of the party making such superior proposal);
- has contemporaneously provided a copy of the relevant proposed transaction agreements with the party making such superior proposal and other material documents; and
- prior to effecting a withdrawal of its recommendation that BBI shareholders approve the Merger Agreement and the transactions contemplated thereby, BBI has, and has caused its financial and legal advisors to, during the notice period, negotiate with Customers Bank in good faith (to the extent Customers Bank desires to negotiate) to make adjustments to the terms and conditions of the Merger Agreement so that the alternative proposal ceases to constitute a superior proposal.

Additionally, BBI has agreed to notify Customers Bank within 24 hours after receipt of any alternative proposal, any material modification of or material amendment to any alternative proposal, or any request for nonpublic information relating to BBI or for access to the properties, books or records of BBI by any person that informs the BBI board of directors that it is considering making, or has made, an alternative proposal, or if it enters into discussions or negotiations concerning an alternative proposal. Such notice must be made orally and in writing, and must indicate the identity of the person making, or intending or considering to make, such alternative proposal or requesting nonpublic information or access to the books and records of BBI, and the material terms of any such alternative proposal or modification or amendment to an alternative proposal. BBI must keep Customers Bank fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such alternative proposal, indication or request.

BBI has further agreed to notify all representatives of the restrictions described above and to cause such representatives to avoid any violations thereof.

#### Expenses and Fees

Except in the event that the Merger Agreement is terminated under certain conditions (see “The Agreement and Plan of Merger – Termination of the Merger Agreement”), and except with respect to costs and expenses of printing and mailing this Joint Proxy Statement-Prospectus and all filing and other fees paid to the SEC in connection with the Merger, which costs are to be borne equally by Customers Bank and BBI, all fees and expenses incurred in connection with the merger, the Merger Agreement and the transactions contemplated thereby are to be paid by the party incurring such fees or expenses, whether or not the merger is consummated.

#### Employee Matters

CBI has agreed to use commercially reasonable efforts to offer employment to each individual who is an employee of Berkshire Bank immediately prior to the effective time of the merger in a position with a salary at least equal to such BBI employee's salary and within forty miles of the location of the position at the time of the execution of the Merger Agreement. The employees of BBI and its subsidiaries who become employees of CBI or its subsidiaries ("continuing employees") will be entitled to participate in each of CBI's compensation and benefit plans to the same extent as similarly-situated employees of CBI and its subsidiaries.

BBI and Berkshire Bank have agreed to terminate their employee benefit plans that contain "cash or deferred arrangements" subject to section 401(k) of the Internal Revenue Code and to adopt such amendments to their plans as are necessary to cause the written terms of such plans to comply with Section 401(a) of the Internal Revenue Code as of their termination dates.

In addition, CBI has agreed, to the extent any Berkshire Bank employee participates in CBI compensation and benefit plans following the merger for which length of service is taken into account for any purpose, to recognize each such employee's service with Berkshire Bank prior to the completion of the merger for purposes of eligibility, vesting and entitlement to benefits, including for vacation entitlement; provided that such service will not be recognized to the extent that it would result in a duplication of benefits. Such service also shall apply for purposes of satisfying any waiting periods, evidence of insurability requirements, or the application of any preexisting condition limitations. Continuing employees shall be given credit for amounts paid under a corresponding benefit plan during the same period for purposes of applying deductibles, copayments and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of the CBI plan.

Each Berkshire Bank employee who is not offered a position with a salary at least equal to such employee's salary immediately prior to the effective time of the merger will be entitled to receive severance compensation equal to two (2) weeks' base salary for every year of service with Berkshire Bank, with a minimum benefit of two (2) weeks' base salary. Any Berkshire Bank employee who is offered a position with a salary at least equal to such employee's salary immediately prior to the effective time, but does not accept such position, will not be entitled to any severance compensation.

CBI has no obligation to continue the employment of any BBI employee except for Messrs. Heilenman and Gromis and Ms. Maley for any period following the merger and may review, amend, convert, discontinue or otherwise change its employee benefit programs from time to time as it deems appropriate.

#### Indemnification and Insurance

The Merger Agreement requires CBI to indemnify present and former directors and officers of BBI, Berkshire Bank and their subsidiaries (and such future directors and officers who become directors or officers prior to the consummation of the merger) against all threatened or actual claims, actions, suits, proceedings or investigations, whether civil, criminal or administrative (each, a "claim") arising out of or pertaining to the fact that such person is or was a director or officer of BBI or Berkshire Bank prior to the effective time of the merger, or arising out of or pertaining to the Merger Agreement or any of the transactions contemplated thereby, whether asserted or arising before or after the effective time of the merger, to the same extent as required under BBI's articles of incorporation or bylaws, or Berkshire Bank's articles of incorporation or bylaws.

The Merger Agreement also provides that, for a period of six years after completion of the merger, CBI will provide directors' and officers' liability insurance to reimburse current and former directors and officers with respect to claims for acts or omissions occurring prior to the effective time of the merger. The insurance will contain at least the same coverage and amounts and contain terms and conditions that are not less advantageous than the current coverage provided by BBI, except that CBI is not required to incur annual premium expense greater than 200% of BBI's current annual directors' and officers' liability insurance premium.

#### Conditions to Complete the Merger

CBI's and BBI's respective obligations to complete the merger are subject to the fulfillment or waiver of certain conditions, including those set forth below.

Conditions relating to both CBI's and BBI's obligations to complete the merger:

- The approval of the Merger Agreement, the merger, and the bank merger on substantially the terms and conditions set forth in the Merger Agreement by the requisite vote of Customers Bank and BBI shareholders;

- The reorganization having been consummated on the terms and conditions determined by CBI and Customers Bank, as more particularly described in the section titled “THE REORGANIZATION” beginning at page 45 of this Joint Proxy Statement-Prospectus;
- The receipt of all regulatory approvals required in connection with the merger of BBI into CBI and the merger of Berkshire Bank into Customers Bank, none of which shall have required BBI or Customers Bank to take or commit to take any action, or agree to any condition or restriction, that would reasonably be expected to have a material adverse effect on such entity or its affiliates;
- The receipt by each of CBI and BBI of a legal opinion with respect to certain United States federal income tax consequences of the merger;
- The absence of any order, decree, injunction or other order by any court or other governmental entity preventing consummation of the transactions contemplated by the Merger Agreement, nor any threatened Injunction which represents a reasonable probability of preventing the consummation of the transactions contemplated by the Merger Agreement or imposing damages that would reasonably be expected to have a material adverse effect on BBI, Berkshire Bank, CBI or Customers Bank;



- The effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus is a part with respect to the CBI Voting Common Stock to be issued in the merger under the Securities Act and the absence of any stop order or proceedings initiated or threatened by the SEC or any applicable state securities commissioner for that purpose;
- The truth and correctness of the representations and warranties of each other party in the Merger Agreement, and the receipt by each party of certificates from the other party to that effect; and
- The performance by each party in all material respects of their obligations under the Merger Agreement and the receipt by each party of certificates from the other party to that effect.

Conditions relating BBI's obligation to complete the merger:

- The assumption by CBI or Customers Bank of all management contracts, subject to applicable regulatory and legal limitations for Norman Heilenman, Richard Gromis and Lori Maley; and
- The receipt by BBI of not less than \$3,180,000 in new net cash proceeds from an issuance of fully paid, non-assessable capital securities qualifying for Tier 1 capital treatment under all applicable banking laws and regulations.

Conditions relating CBI's obligation to complete the merger:

- The repurchase and retirement of all of BBI's TARP securities and termination and satisfaction of all obligations of BBI and Berkshire Bank under the TARP Program;
- The exercise of dissenters rights by holders of no more than 1% of outstanding BBI common stock in connection with the merger; and
- The receipt by CBI of a certificate from BBI and Berkshire Bank for purposes of satisfying CBI's obligations under Treasury Regulatory Section 1.1445-2(c)(3) relating to non-foreign status.

No assurance can be provided as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this Joint Proxy Statement-Prospectus, there is no reason to believe that any of these conditions will not be satisfied.

Termination of the Merger Agreement

The Merger Agreement can be terminated at any time prior to the effective time of the merger, whether before or after shareholder approval has been obtained:

- if authorized by each of CBI, Customers Bank, BBI and Berkshire Bank's boards of directors;
- if the other party breaches the Merger Agreement in a way that would entitle the party seeking to terminate the agreement not to consummate the merger, and the breach is not cured within 30 days following written notice to the party committing such breach or cannot by its nature or timing be cured within 30 days;
- if the merger has not been completed by March 31, 2011, unless the failure to complete the merger by that date is due to the breach of the Merger Agreement by the party seeking to terminate the Merger Agreement; provided, however, that the if the reorganization has not been approved by Customers Bank's shareholders by March 31, 2011,

the Merger Agreement will be extended for an additional 45 days (a termination based on the foregoing is referred to herein as a “termination for delay”);

- if Customers Bank’s or BBI’s shareholders fail to approve the Merger Agreement and the transactions contemplated thereby on substantially the terms and conditions set forth in the Merger Agreement;
- if there is any final, non-appealable order permanently enjoining or prohibiting the consummation of the transactions contemplated by the Merger Agreement or a regulatory approval required to consummate the transactions contemplated by the Agreement is denied and such denial has become final and non-appealable; or
  - if a material adverse effect has occurred and not been cured with respect to the other party.

In addition, Customers Bank may terminate the Merger Agreement if BBI's board of directors (1) fails to recommend the approval and adoption of the Merger Agreement, or (2) in a manner adverse to Customers Bank, (A) proposes to or does withdraw, modify or qualify its recommendation for the approval and adoption of the Merger Agreement and/or the merger or bank merger by BBI's shareholders, (B) takes any public action or make any public statement in connection with the Berkshire Special Meeting inconsistent with such recommendation (including not taking action to convene the Berkshire Special Meeting) or (C) recommends or resolves to recommend an alternative proposal (a termination based on the foregoing is referred to herein as "a termination for BBI's failure to recommend the merger").

BBI may terminate the Merger Agreement in order to enter concurrently into a superior proposal; provided that the Merger Agreement may only be terminated by BBI after the fifth business day following written notice to Customers Bank in accordance with the terms of the Merger Agreement, and only if (1) during such five business day period, BBI has caused its financial and legal advisors to negotiate with Customers Bank in good faith to adjust the terms and conditions of the Merger Agreement such that the alternative proposal would no longer constitute a superior proposal, and (2) BBI's board of directors has concluded in good faith, based upon consultation with its financial and legal advisers, that such alternative proposal remains a superior proposal even after giving effect to any such adjustments and that BBI will accept such superior proposal (a termination based on the foregoing is referred to herein as "a termination by BBI in connection with a superior proposal").

If the Merger Agreement is terminated, it will become void, and there will be no liability on the part of CBI, Customers Bank, BBI or Berkshire Bank, except that neither Customers Bank nor BBI will be relieved or released from any liabilities or damages arising out of its breach of any provision of the Merger Agreement, and the sections of the Merger Agreement relating to confidentiality, access to information, the effect of the termination, fees and expenses (including the termination fee), notices, interpretation, governing law and jurisdiction, assignment and third-party beneficiaries, and severability will survive the termination.

#### Termination Fee

BBI and Berkshire Bank will be jointly and severally obligated to pay Customers Bank a termination fee in the amount of four hundred thousand dollars (\$400,000) and/or expense reimbursement (including reasonable, out-of-pocket costs and expenses (including attorneys' fees and expenses) in connection with any judgment obtained to enforce payment of the termination fee) on the following terms:

- by consent of the parties in writing, if a termination for BBI's failure to recommend the merger occurs, the termination fee must be paid on the business day following such termination;
- if a termination by BBI in connection with a superior proposal occurs, the termination fee must be paid immediately upon such termination;
- if an alternative transaction is announced and not withdrawn on or before the date of the Berkshire Special Meeting and the Merger Agreement is terminated because either Customers Bank's or BBI's shareholders fail to approve the Merger Agreement, and BBI enters into a definitive agreement with respect to an alternative transaction, or consummates such a transaction, within 12 months of the termination of the Merger Agreement, the termination fee must be paid on the date of the execution or consummation; or
- If an alternative transaction is announced and not withdrawn prior to termination of the Merger Agreement and a termination for delay occurs, and BBI enters into a definitive agreement with respect to an alternative transaction, or consummates such a transaction, within 12 months of the termination of the Merger Agreement, the termination fee must be paid on the date of the execution or consummation.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, at any time prior to the effective time of the merger, the parties may, in writing, amend the Merger Agreement, extend the time for performance of any obligations of the other party in the Merger Agreement, waive any inaccuracies in the representations and warranties of the other party, or waive compliance with any agreements or conditions to that party's obligation to complete the merger; provided, however, that after any approval by Customers Bank's and BBI's shareholders of the Merger Agreement and the transactions contemplated thereby, no amendment may be made without the approval of such shareholders which would alter or change the amount or form of merger consideration, any term of Customers Bank's or CBI's articles of incorporation, or the terms and or conditions of the Merger Agreement in a way that would adversely affect holders of BBI's securities, in each case other than as contemplated by the Merger Agreement.

## Accounting Treatment

The merger will be accounted for as a “business combination,” as that term is used under USGAAP, for accounting and financial reporting purposes, with CBI treated as the acquiror. Under the acquisition method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of BBI as of the effective time of the merger will be recorded at their respective fair values and added to those of CBI. Any excess of purchase price over the fair values of net identifiable, tangible and intangible assets and liabilities is recorded as goodwill. Consolidated financial statements of CBI issued after the merger would reflect these fair values and would not be restated retroactively to reflect the historical financial position or results of operations of BBI.

## CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE MERGER

### For BBI Shareholders

For purposes of this discussion, the BBI common stock, together with the BBI Series C Stock are referred to as the “BBI Shares” and the Voting Common Stock of CBI, par value \$1.00 per share is referred to as the “CBI Shares.”

The following discussion addresses certain of the material United States federal income tax consequences of the reorganization to a BBI shareholder who holds BBI Shares as a capital asset. This discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations promulgated under the Code, judicial authorities, published positions of the Internal Revenue Service (the “IRS”) and other applicable authorities, all as in effect on the date of this document and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion is general in nature and does not address all aspects of United States federal income taxation that may be relevant to BBI shareholders in light of their particular circumstances and does not address aspects of United States federal income taxation that may be applicable to BBI shareholders subject to special treatment under the Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, BBI shareholders who hold their BBI Shares as part of a hedge, straddle or conversion reorganization, BBI shareholders who acquired their BBI shares pursuant to the exercise of employee stock options or otherwise as compensation, BBI shareholders, directors, officers, employees and other persons that hold options or warrants to acquire BBI shares, and BBI shareholders who are not “United States persons” as defined in section 7701(a)(30) of the Code). In addition, the discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the IRS would not assert, or that a court would not sustain a position contrary to any of the tax aspects set forth below.

Each of CBI and BBI has received an opinion from its respective tax counsel, to the effect that, on the basis of certain representations as to matters of fact and assumptions, including that such representations are accurate and remain accurate, the transactions contemplated by the merger will qualify as a tax-free reorganizations for federal income tax purposes under Section 368(a) of the Code. The tax opinions delivered in connection with the merger transactions are not binding on the IRS or the courts, and neither BBI, Berkshire Bank, Customers Bank nor CBI intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the reorganization. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which the opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

Taxpayers and preparers of tax returns should be aware that under applicable Treasury regulations a provider of advice on specific issues of law is not considered an income tax return preparer unless the advice (1) is given with respect to events that have occurred at the time the advice is rendered and is not given with respect to the consequences of contemplated actions, and (2) is directly relevant to the determination of an entry on a tax return.

Accordingly, taxpayers should consult their own tax advisors and tax return preparers regarding the preparation of any item on a tax return, even where the anticipated tax treatment has been discussed in this Joint Proxy Statement-Prospectus.

The principal federal income tax consequences that are expected to result from the transactions contemplated by the merger, under currently applicable law, and which are set forth in the opinion of CBI's and BBI's respective tax counsel are as follows:

- The merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Code;
- No gain or loss will be recognized by any of BBI, Berkshire Bank, CBI or Customers Bank as a result of the merger, except for amounts resulting from any required change in treatment of loan loss reserves or any income or deferred gain recognized under relevant consolidated return regulations.

- No gain or loss will be recognized by a shareholder of BBI upon the exchange of BBI Shares solely for CBI Shares except with respect to any accrued but unpaid dividends on the BBI Series C Stock (discussed below); however, if a cash payment is received by a shareholder of BBI in lieu of a fractional share interest of CBI Shares, the cash payment will be treated as received by the shareholder as a distribution in redemption of that fractional share interest and will be treated as a distribution in full payment in exchange for the fractional share redeemed, subject to the provisions and limitations of Section 302 of the Code;
- The aggregate tax basis of CBI Shares (including any fractional share interests to which the shareholder may be entitled) to be received by a shareholder of BBI will equal the shareholder's aggregate tax basis in BBI Shares surrendered in exchange therefor;
- The holding period of CBI Shares (including any fractional share interests to which the shareholder may be entitled) to be received by a shareholder of BBI will include the period for which such shareholder held BBI Shares exchanged therefor, provided that such BBI Shares are capital assets in the hands of such shareholder as of the closing of the merger; and
  - If a shareholder of BBI dissents to the proposed merger and receives solely cash in exchange for BBI Shares, such cash will be treated as received by such shareholder as a distribution in redemption of his BBI Shares, subject to the provisions and limitations of Section 302 of the Code.

Administrative precedent regarding cash paid in lieu of fractional shares in a reorganization where the cash paid represents merely a mechanical rounding of fractions in the exchange and not separately bargained for consideration, permits shareholders who receive both stock and cash to treat the exchange as if they received all stock in the tax free reorganization and then redeemed the fractional shares in a separate redemption transaction. Accordingly, subject to the special provisions and limitations of Section 302 of the Code, cash received by a BBI shareholder instead of a fractional interest in CBI Shares generally will be treated as received in exchange for the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the shareholder's aggregate adjusted tax basis in BBI Shares surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for BBI Shares is more than one year.

Any CBI Shares or other consideration received in connection with dividend arrearages on the BBI Series C Stock and with respect to which a dividend has been declared will be taxable to the recipient. No opinion is expressed with respect to the federal income tax treatment of CBI Shares or other consideration received in connection dividends arrearages on the BBI Series C Stock where no dividend has been declared.

In addition, no opinion is expressed with respect to the federal income tax consequences of any consideration paid or deemed paid for BBI stock to be used for the repurchase and retirement of the TARP Securities and termination and satisfaction of all of Berkshire's obligations under the TARP Program.

#### Dissenting Shareholders

The receipt of solely cash in exchange for BBI Shares by a BBI shareholder that exercises dissenters' rights is treated as a distribution in redemption (i.e., a taxable exchange), subject to the special provisions and limitations of Section 302 of the Code. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the BBI shareholder's deemed percentage stock ownership of CBI. For purposes of this determination, BBI shareholders will be treated as if they first exchanged all of their BBI Shares solely for CBI Shares, and then CBI immediately redeemed (the "deemed redemption") a portion of the CBI Shares in exchange for the cash actually

received. The gain recognized in the exchange followed by a deemed redemption will be treated as capital gain if the deemed redemption (1) is in “complete redemption” of all of the CBI Shares treated as owned by the BBI shareholder, (2) is “substantially disproportionate” with respect to the BBI shareholder (and the shareholder actually or constructively owns after the deemed redemption less than 50% of voting power of the outstanding CBI Shares), or (3) is “not essentially equivalent to a dividend.” In applying the above tests, a BBI shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by the shareholder.

#### Backup Withholding

BBI shareholders that receive cash may be subject to backup withholding at a rate of 28% if the shareholder is a non-corporate United States person and (1) fails to provide an accurate taxpayer identification number; (2) is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or (3) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder’s United States federal income tax liability provided that the shareholder furnishes the required information to the IRS.



### Limitation on Use of Net Operating Losses

Subject to special rules that may apply to banks, net operating losses can generally be carried back two (2) years and carried forward to each of the twenty (20) years succeeding the loss year to offset taxable income. However, the amount of taxable income that may be offset may be subject to a Section 382 annual limitation (“Section 382 limitation”) if, as of any testing date, there is an ownership change of more than 50 percent during a 3-year look-back period. The merger will result in an ownership change in the case of BBI. The Section 382 limitation generally would equal the aggregate fair market value of BBI’s stock on the testing date multiplied by the long-term tax-exempt rate for ownership changes during the month in which the change of ownership occurs, with certain adjustments. In addition, the Section 382 limitation could also apply to CBI if the merger, along with other ownership changes of CBI, result in a more than 50% change of ownership of CBI during the 3-year look-back period. Whether any such 382 limitation would be material depends on the existence of any net operating losses and other facts on the date of the merger.

As of December 31, 2010, BBI had net operating loss carryovers of approximately \$6.2 million, which expire from 2023 through 2030, and the amount of such net operating losses would be increased by any losses incurred by BBI in 2011 through the date of the merger. Based on the April 2011 long term tax-exempt rate for ownership changes of 4.55% and the approximate value of BBI as of December 31, 2010 (the most recent period for which information is available), the Section 382 limitation with respect to BBI net operating loss carryovers would be approximately \$479,000.

### For Holders of Warrants and Options to Purchase BBI Shares

Holders of outstanding warrants and options for BBI Shares should discuss with their tax advisors the tax results of the reorganization and each course of action available to them.

This discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger. In addition this discussion does not address tax consequences that may vary with, or be contingent on, individual circumstances. It also does not address any federal estate tax or state, local or foreign tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to a shareholder of BBI will depend upon the facts of his or her particular situation. Accordingly, BBI strongly urges you to consult with a tax advisor to determine the particular tax consequences to you of the merger, as well as to any later sale of CBI Shares received by you in the merger.

### USE OF PROCEEDS

Because no cash consideration will be paid for the shares of CBI Voting Common Stock to be issued in the reorganization and the merger, no proceeds will be received from either exchanges, and there will be no use of proceeds.

### DESCRIPTION OF CBI SHARES

The following description of CBI’s share capital is a summary. This summary is not complete and is subject to the complete text of CBI’s articles of incorporation, as amended, and bylaws attached to Annex A as Exhibit A and Exhibit B, respectively, to this Joint Proxy Statement-Prospectus. Except where otherwise indicated, the description below reflects CBI’s articles of incorporation and bylaws as those documents will be in effect upon completion of the reorganization and the merger. Customers encourages you to read those documents carefully.

### General

CBI is authorized to issue up to 100,000,000 shares of CBI Voting Common Stock with a par value of \$1.00 per share, 100,000,000 shares of CBI Class B Non-Voting Common Stock with a par value of \$1.00 per share, and 100,000,000 shares of preferred stock with no stated par value. The board of directors has authority to establish and divide the authorized capital into series of classes of common or preferred shares, and to determine whether or not shares in any series have par value and, if so, the par value, whether or not the shares in a series have voting rights and if so whether such voting rights are full, limited, multiple or fractional, and the designations, preferences, qualifications, privileges, limitations, redemption provisions, options, conversion rights and other special rights attributable to the shares in a series. The board of directors, in its sole discretion, has authority to sell any treasury stock and/or unissued securities, options, warrants, or other rights to purchase any security of CBI, upon such terms as it deems advisable. CBI's board of directors could issue preferred stock, or additional shares of CBI Voting Common Stock or CBI Class B Non-Voting Common Stock, with terms different from those of Customers Bank's existing common or preferred stock, at any time.

## Voting rights

The holders of shares of Voting Common Stock have the right to elect CBI's board of directors and to act on such other matters as are required to be presented to them. Each holder of Voting Common Stock is entitled to one vote per share. The holders of Voting Common Stock do not have the right to vote their shares cumulatively in the election of directors. This means that, for each director position to be elected, a shareholder may only cast a number of votes equal to the number of shares held by the shareholder.

Any action that would significantly and adversely affect the rights of the Class B Non-Voting Common Stock with respect to the modification of the terms of those securities or dissolution requires the approval of the holders of Class B Non-Voting Common Stock voting separately as a class. Otherwise, the holders of the Class B Non-Voting Common Stock have no voting power, and do not have the right to participate in or have notice of any meeting of shareholders.

Because the articles permit CBI's board of directors to set the voting rights of preferred stock, it is possible that holders of one or more series of preferred stock issued in the future could have voting rights of any sort, which could limit the effect of the voting rights of holders of Common Stock.

## Dividend rights

The holders of CBI Voting Common Stock and Class B Non-Voting Common Stock are entitled to receive an equal amount of dividends per share if, as and when declared from time to time by CBI's board of directors. In no event shall any stock dividends or stock splits or combinations of stock be declared or made on Voting Common Stock or Class B Non-Voting Common Stock unless the shares of Voting Common Stock and Class B Non-Voting Common Stock at the time outstanding are treated equally and identically, provided that, in the event of a dividend of Voting Common Stock, shares of Class B Non-Voting Common Stock shall only be entitled to receive shares of Class B Non-Voting Common Stock and shares of Voting Common Stock shall only be entitled to receive shares of Voting Common Stock.

Because the articles permit CBI's board of directors to set the dividend rights of preferred shares, it is possible that holders of one or more series of preferred shares issued in the future could have dividend rights that differ from those of the holders of Voting Common Stock or Class B Non-Voting Common Stock, or could have no right to the payment of dividends. If the holders of a class or series of preferred stock is given dividend rights, the right of holders of preferred shares to receive dividends could have priority over the right of holders of Voting Common Stock or Class B Non-Voting Common Stock to receive dividends.

**Authority Under Pennsylvania Business Corporation Law.** CBI's board of directors has the authority to declare dividends on its common and preferred stock, subject to statutory and regulatory requirements.

**Pennsylvania Business Corporation Law.** Pennsylvania law permits a business corporation such as CBI to pay dividends if, after giving effect to the dividend, it is able to pay its debts as they come due in the usual course of business and its assets exceed its liabilities. However, CBI's ability to pay dividends will be restricted by banking laws and Customers Bank's ability to pay dividends to CBI.

**Federal Bank Holding Company Act Policies Applicable to Cash Dividends.** The Federal Reserve Board, which will be the primary federal banking regulator for CBI, considers adequate capital to be critical to the health of individual banking organizations and to the safety and stability of the banking system. A major determinant of a bank's or bank holding company's capital adequacy is the strength of its earnings and the extent to which its earnings are retained and added to capital or paid out to shareholders in the form of cash dividends.

Normally, during profitable periods, dividends represent an appropriate return of a portion of a banking organization's net earnings to its shareholders. However, the payment of cash dividends that are not fully covered by earnings, in effect, represents the return of a portion of an organization's capital at a time when circumstances may indicate instead the need to strengthen capital and concentrate financial resources on resolving the organization's problems. Therefore, the Federal Reserve believes that a bank or bank holding company generally should not maintain its existing rate of cash dividends on Voting Common Stock unless (1) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (2) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition. The Federal Reserve may strongly encourage, or require, a banking organization whose cash dividends are inconsistent with either of these criteria to cut or eliminate its dividends.

The Federal Reserve Board also believes it is inappropriate for a banking organization that is experiencing serious financial problems or that has inadequate capital to borrow in order to pay dividends since this can result in increased leverage at the very time the organization needs to reduce its debt or increase its capital. Similarly, the payment of dividends based solely or largely upon gains resulting from unusual or nonrecurring events, such as the sale of the organization's building or the disposition of other assets, may not be prudent or warranted, especially if the funds derived from such transactions could be better employed to strengthen the organization's financial resources. Furthermore, a fundamental principle underlying the Federal Reserve's supervision and regulation of bank holding companies is that bank holding companies should serve as a source of managerial and financial strength to their subsidiary banks. The Federal Reserve believes, therefore, that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as a source of strength. Thus, for example, if a major subsidiary bank is unable to pay dividends to its parent company—as a consequence of statutory limitations, intervention by the primary supervisor, or noncompliance with regulatory capital requirements—the Federal Reserve may encourage or require a bank holding company to reduce or eliminate its dividends in order to conserve its capital base and provide capital assistance to the subsidiary bank.

The Federal Reserve Board has further stated that a bank holding company should pay cash dividends only out of income over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition, and only if, after paying the dividend, the bank holding company is not in danger of falling below its required regulatory capital adequacy ratios. It has also indicated that a "small bank holding company," such as CBI, is not expected to pay corporate dividends until such time as its debt to equity ratio (determined separately and not on a consolidated basis with its bank subsidiary) is 1:1 or less and its bank subsidiaries are otherwise well-managed, well-capitalized, and not under any supervisory order.

**Pennsylvania Banking Code Requirements Applicable to Cash Dividends.** Because Customers Bank will be the primary source of cash for payment of dividends by CBI for the foreseeable future, requirements of the Pennsylvania Banking Code setting conditions on payments of dividends by banks will constrain Customers Bank's ability to provide funds to CBI to pay dividends to shareholders. Section 1302 of the Pennsylvania Banking Code permits a bank to pay cash dividends only out of accumulated net earnings. Furthermore if any transfer of net earnings to surplus is required by section 1103 of the Pennsylvania Banking Code to cause Customers Bank's surplus to meet minimum statutory requirements at the time the dividend is to be declared or paid, the transfer must be made prior to the declaration of the dividend, and Customers Bank's surplus cannot be reduced by the payment of the dividend.

For the foregoing reasons, and because a decision by CBI's board of directors to declare and pay cash dividends will depend upon the future financial performance and condition of Customers Bank and CBI, no assurances can be given that any dividends will in fact be paid on any class of stock, or that, if dividends are paid, they will not be reduced or discounted in the future.

#### Redemption, Preemptive Rights and Repurchase Provisions

CBI's Voting Common Stock and Class B Non-Voting Common Stock have no preemptive, redemption or repurchase provisions. The shares are non-assessable and require no sinking fund. Voting Common Stock repurchases are subject to Federal Reserve Board regulations and policy, which generally require that no more than ten percent of the outstanding shares of a bank holding company's Voting Common Stock may be repurchased in any 12-month period unless the bank holding company is deemed "well-managed" and "well-capitalized" under applicable regulations. Repurchases of CBI stock will also be constrained by federal and state bank regulatory capital requirements. Repurchases of stock by bank holding companies may also be subject to prior notice to and approval by the Federal Reserve in some cases.

## Liquidation Rights

In the event of a liquidation, dissolution or winding up of CBI, the holders of Voting Common Stock and Class B Non-Voting Common Stock will be entitled to share ratably in all assets of CBI remaining after payment of all liabilities, subject, however, to any preferential liquidation rights of holders of preferred stock. If CBI's only asset is its ownership of Customers Bank, it is likely that, if Customers Bank is then in liquidation or receivership, shareholders of CBI will not receive anything on account of their shares.

#### Anti-Takeover Effect of Governing Documents and Applicable Law

Provisions of Governing Documents. CBI's articles of incorporation, attached as Exhibit A to Annex A, and CBI's bylaws, attached as Exhibit B to Annex A, contain certain provisions which may have the effect of deterring or discouraging, among other things, a nonnegotiated tender or exchange offer for CBI Voting Common Stock, a proxy contest for control of CBI, the assumption of control of CBI by a holder of a large block of CBI Voting Common Stock and the removal of CBI's management. These provisions:

- Empower CBI's board of directors, without shareholder approval, to issue CBI preferred stock, the terms of which, including voting power, are set by CBI's board of directors;
- Divide CBI's board of directors into three classes serving staggered three-year terms;
- Restrict the ability of shareholders to remove directors;
- Require that shares with at least 80% of total voting power approve mergers and other similar transactions with a person or entity holding stock with more than 5% of CBI's voting power, if the reorganization is not approved, in advance, by CBI's board of directors;
- Prohibit shareholders' actions without a meeting;
- Require that shares with at least 80%, or in certain instances a majority, of total voting power approve the repeal or amendment of CBI's articles of incorporation;
- Require any person who acquires stock of CBI with voting power of 25% or more to offer to purchase for cash all remaining shares of CBI voting stock at the highest price paid by such person for shares of CBI voting stock during the preceding year;
- Eliminate cumulative voting in elections of directors;
- Require an affirmative vote of at least two-thirds of CBI's total voting power in order for shareholders to repeal or amend CBI's bylaws;
- Require advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders; and
- Provide that officers, directors, employees, agents and persons who own 5% or more of the voting securities of any other corporation or other entity that owns 66 2/3% or more of CBI's outstanding voting stock cannot constitute a majority of the members of CBI's board of directors.

Provisions of Applicable Law. The Pennsylvania Business Corporation Law also contains certain provisions applicable to CBI which may have the effect of impeding a change in control of CBI. These provisions, among other things:

- Generally prohibit a person or group who or which exceeds certain stock ownership thresholds (20%, 33 1/3% and 50%) for the first time from voting the "control shares" (i.e., the shares owned in excess of the applicable threshold) unless voting rights are restored by a vote of disinterested shareholders; and

- Prohibit for five years, subject to certain exceptions, a “business combination,” which includes a merger or consolidation of the corporation or a sale, lease or exchange of assets with a shareholder or group of shareholders beneficially owning 20% or more of a public corporation’s voting power.

In 1990, Pennsylvania adopted legislation amending the Pennsylvania Business Corporation Law. To the extent applicable to CBI at this time, the 1990 amendments:

- Expand the factors and groups (including shareholders) which CBI’s board of directors can consider in determining whether a certain action is in the best interests of CBI;
- Provide that CBI’s board of directors need not consider the interests of any particular group as dominant or controlling;



- Provide that CBI's directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof for actions relating to an acquisition or potential acquisition of control;
- Provide that actions relating to acquisitions of control that are approved by a majority of "disinterested directors" are presumed to satisfy the directors' standard, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and
- Provide that the fiduciary duty of CBI's directors is solely to the corporation and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

The 1990 amendments provide that the fiduciary duty of directors does not require directors to:

- Redeem any rights under, or to modify or render inapplicable, any shareholder rights plan;
- Render inapplicable, or make determinations under, provisions of the PBCL, relating to control transactions, business combinations, control-share acquisitions or disgorgement by certain controlling shareholders following attempts to acquire control; or
- Take action as the board of directors, a committee of the board or an individual director solely because of the effect such action might have on an acquisition or potential or proposed acquisition of control of CBI or the consideration that might be offered or paid to shareholders in such an acquisition.

One of the effects of the 1990 amendments may be to make it more difficult for a shareholder to successfully challenge the actions of CBI's board of directors in a potential change in control context. Pennsylvania case law appears to provide that the fiduciary duty standard under the 1990 amendments grants directors the statutory authority to reject or refuse to consider any potential or proposed acquisition of CBI.

Pursuant to provisions of its articles of incorporation, CBI has opted out of coverage by the "disgorgement" and "control transactions" statutes included in the 1990 amendments. To the extent applicable to a Pennsylvania corporation, the "disgorgement" statute generally requires disgorgement by any person or group who or which has acquired or publicly disclosed an intent to acquire 20% or more of a corporation's voting power of any profit realized from the sale of any shares acquired within specified time periods of such acquisition or disclosure if the shares are sold within eighteen months thereafter. The "control transactions" statute generally requires that, following any acquisition of 20% of a public corporation's voting power, the remaining shareholders have the right to receive payment for their shares, in cash, from the acquiring person or group in an amount equal to the "fair value" of the shares, including an increment representing a proportion of any value payable for control of the corporation. As a result of CBI's opt-out from coverage by these statutes, neither the "disgorgement" nor the "control transactions" statute would apply to a nonnegotiated attempt to acquire control of CBI, although such an attempt would still be subject to the special provisions of CBI's governing documents described in the paragraphs above.

The overall effect of these provisions may be to deter a future offer or other merger or acquisition proposals that a majority of the shareholders might view to be in their best interests as the offer might include a substantial premium

over the market price of CBI Voting Common Stock at that time. In addition, these provisions may have the effect of assisting CBI's management in retaining its position and placing it in a better position to resist changes that the shareholders may want to make if dissatisfied with the conduct of CBI's business.

#### COMPARISON OF SHAREHOLDERS' RIGHTS

Upon consummation of the reorganization, Customers Bank shareholders will become CBI shareholders, and upon the consummation of the merger, BBI shareholders will become CBI shareholders. The rights of Customers Bank shareholders are governed by the Pennsylvania Banking Code and Customers Bank's articles of incorporation and bylaws. The rights of BBI's shareholders are governed by the PBCL and BBI's articles of incorporation and bylaws. The rights of CBI shareholders will be governed by the PBCL, and CBI's articles of incorporation and bylaws. A comparison of the material rights of Customers Bank's shareholders, BBI's shareholders and CBI's shareholders follows. This summary is not intended to be a complete statement of all such differences or a complete description of the specific provisions referred to in Pennsylvania law and the respective articles of incorporation and bylaws of Customers Bank, BBI and CBI, as applicable.

#### Authorized Capital

In December 2010, Customers Bank's shareholders approved an amendment to its articles of incorporation authorizing Customers Bank to issue up to 75,000,000 shares of Voting Common Stock with a par value of \$1.00 per share, 25,000,000 shares of Class B Non-Voting Common Stock with par value of \$1.00 per share, and 1,000,000 shares of preferred stock having such par value or no par value as may be determined by Customers Bank's board of directors from time to time. Customers Bank's board of directors has, by filing Statements of Designation with the Secretary of the Commonwealth of Pennsylvania, authorized 1,000 shares of its 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock (par value \$1,000 per share), none of which is presently outstanding.

BBI is authorized by its articles of incorporation to issue up to 10,000,000 shares of common stock with a par value of \$1.00 per share and up to 10,000,000 shares of preferred stock with a par value of \$1.00 per share. BBI's board of directors has authorized three series of preferred stock by filing Statements of Designations with the Secretary of the Commonwealth of Pennsylvania: (1) 2,892 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, of which 2,892 shares are outstanding; (2) 145.14515 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, of which 145 shares are outstanding; and (3) 6,000 shares of its 6% Non-Cumulative Non-Voting Convertible Perpetual Preferred Stock, Series C, of which 50 shares are outstanding.

CBI is authorized by its articles to issue up to 100,000,000 shares of Voting Common Stock with a par value of \$1.00 per share, 100,000,000 shares of Class B Non-Voting Common Stock with par value of \$1.00 per share, and 100,000,000 shares of preferred stock having such par value or no par value as may be determined by its board of directors from time to time.

#### Undesignated Non-Voting Common Stock

BBI's articles of incorporation do not provide for a class of undesignated non-voting common stock. Each of Customers Bank's and CBI's articles provide for Class B Non-Voting Common Stock.

#### 25% Ownership Limitation

Customers Bank's articles contain a prohibition on any person owning more than 25% of the outstanding Voting Common Stock of Customers Bank. This prohibition is not contained in either BBI's or CBI's articles.

#### Supermajority Vote for Business Combinations with 5% Shareholders

While Customers Bank's articles do not have a provision requiring supermajority vote by shareholders to approve business combinations with significant shareholders, CBI's articles require a supermajority shareholder approval by 80% of outstanding shares of Voting Common Stock for business combinations or acquisition involving someone owning at least 5% of CBI's outstanding capital stock.

BBI's articles of incorporation do not have a provision requiring a supermajority vote by shareholders to approve business combinations with significant shareholders. However, BBI's articles of incorporation require a supermajority vote by shareholders to approve business combinations generally which is described below.

#### Shareholder Vote for Business Combinations Generally

The Pennsylvania Banking Code requires approval of two-thirds of the shares outstanding and entitled to vote thereon for each of the banks that is a party to the combination, while CBI articles would require the affirmative vote of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast (or, if the

combination or acquisition involves a 5%-or-greater shareholder, an 80% vote as described above).

BBI's articles of incorporation require that a business combination be approved by an affirmative vote of either: (1) the holders of at least 75% of the outstanding shares of common stock of BBI, or (2) the holders of at least 66 2/3% of the outstanding shares of common stock of BBI, provided that such transaction has received prior approval of at least 75% of BBI's board of directors.

#### Shareholder Right to Valuation and Payment for Shares on Control Share Acquisition

Customers Bank's articles elect not to have Section 1610 of the Banking Code apply. That section gives shareholders a right to receive payment for their shares if anyone acquires 30% or more of a bank's outstanding voting shares. While CBI's articles contain a corresponding election not to have the "Control Transactions provisions" of the PBCL apply, CBI's articles substitute a "control share" provision requiring anyone who acquires 25% or more of CBI's shares to offer to purchase all other issued and outstanding shares at the highest price paid by that controlling shareholder during the 12 months preceding the purchase that caused the acquiror to hold 25% or more of CBI's shares. The "Control Transactions provisions" of the PBCL do not apply to BBI.

#### Board Right to Oppose Acquisition Offers Considering Multiple Constituencies or Factors

Customers Bank's articles give Customers Bank's board the right to oppose acquisition offers, and in the process to consider factors other than just shareholder value. CBI's and BBI's articles, in conjunction with applicable law, provide substantially equivalent authority for their respective boards.

#### Bylaw Amendments

Customers Bank's articles and bylaws provide that shareholders may act affirmatively to amend the bylaws by a 2/3 vote of the outstanding shares, or the board may amend the bylaws by a majority vote. While CBI's bylaws permit amendment by the Board, they do not permit shareholders to take the initiative in amending the bylaws. Both Customers Bank's articles and bylaws and CBI's bylaws permit shareholders to repeal or change a board action amending the bylaws by a vote of 2/3 of the outstanding shares.

BBI's bylaws may be amended by the affirmative vote of the holders of a majority of the outstanding shares of common stock or by a majority vote of the members of the board of directors. Furthermore, an affirmative vote of the holders of a majority of the outstanding shares of common stock may repeal any bylaw amendments made by the board of directors.

#### Amendment of Articles by Board of Directors

Articles V, VII and IX of Customers Bank's articles may only be amended upon the approval of two-thirds (2/3) of the outstanding shares entitled to vote. Except for amendments to Articles V, VII and IX, pursuant to Section 1211 of the Pennsylvania Banking Code, the approval of a majority of votes which all shareholders are entitled to cast is required to amend Customers Bank's articles.

The ability of BBI's board of directors to amend BBI's articles of incorporation is limited to the extent permitted by the PBCL which is described below.

CBI's articles authorize the board of directors to amend its articles to the maximum extent permitted by the PBCL, whereas in contrast Customers Bank's articles may not be amended by the board of directors. Generally, the PBCL will permit CBI's board of directors to approve amendments to its articles of incorporation without approval by the shareholders to do any of the following:

- Changing the corporate name;
- Providing for perpetual existence;
- Reflecting a reduction in authorized shares in cases where CBI acquires its own shares;

- Deleting all references to a class or series of shares that is no longer outstanding;
- Adding or deleting a provision relating to uncertificated shares;
- Adding, changing or eliminating the par value of any class or series of shares if the par value of that class or series does not have any substantive effect under the terms of that or any other class or series of shares;

- Any time CBI has only one class or series of voting shares outstanding and does not have any class or series of shares outstanding that is convertible into those voting shares, junior in any way to those voting shares or entitled to participate on any basis in distributions with those voting shares, amending the articles only to either (A) increase the number of authorized shares of the voting shares in the same proportion that the voting shares to be distributed in the stock dividend increase the issued voting shares in connection with effectuating a stock dividend of voting shares on the voting shares, or (B) split the voting shares and, if desired, increase the number of authorized shares of the voting shares or change the par value of the voting shares, or both, proportionately;
- Restating without change all of the operative provisions of the articles as they have been amended; or
- Any combination of the purposes described above.

#### Special Meetings of Shareholders

Customers Bank's bylaws provide that special meetings of shareholders may be called at any time by the Chairperson of the Board, the President, a majority of the board of directors, one or more shareholders entitled to cast at least a majority of votes which all shareholders are entitled to cast and the particular meeting, and the Pennsylvania Banking Code provides that special meetings may also be called by shareholders entitled to cast at least one-fifth (1/5) of the votes which all shareholders are entitled to cast at the particular meeting. CBI's bylaws provide that special meetings of shareholders may be called by the board of directors, and the PBCL provides that they may also be called by shareholders entitled to cast at least twenty percent (20%) of the votes that all shareholders are entitled to cast at the particular meeting.

BBI's bylaws provide that special meetings of shareholders may be called by the Chairman of the Board, President, board of directors, or the holders of no less than a majority of all the shares issued and outstanding and entitled to vote at the particular meeting.

#### Notice

Customers Bank's bylaws provide that notice of a shareholder meeting must be given at least ten (10) days before the meeting, except to the extent a greater period of notice is required by applicable law. CBI's bylaws provide that notice of shareholder meetings must be delivered not less than ten (10) days, or in the case of bulk mail not less than twenty (20) days, before the date of the meeting. BBI's bylaws provide that its board of directors must give at least ten (10) days notice of an annual shareholder meeting, unless a greater period is required by law. Ten (10) days notice also is required for special shareholder meetings, unless the special meeting is called by a shareholder, in which case twenty (20) days notice is required.

#### Place of Shareholder Meetings

Both of Customers Bank's and BBI's bylaws require shareholder meetings to be held in Pennsylvania. CBI's bylaws do not.

#### Deadline for Annual Meeting

Customers Bank's bylaws require Customers Bank's annual meeting to be held by May 31st of each year. CBI's bylaws do not have a stated deadline but only require an annual meeting each year. BBI's bylaws require its annual meeting of shareholders to be held prior to May 31st of each year.

#### Record Date for Meetings and Other Share-Related Actions

Customers Bank's bylaws require that the Record Date for shareholder meetings, dividends and other matters affecting shares shall be not more than forty-five (45) days prior to the meeting, dividend or other action. CBI's and BBI's bylaws permit a Record Date up to ninety (90) days in advance.

#### Written Consent of Shareholders in Lieu of Meeting

Customers Bank's bylaws permit action to be taken by shareholders by unanimous written consent. CBI's bylaws prohibit shareholder action without a meeting. BBI's bylaws permit shareholder action to be taken without a meeting if a consent in writing setting forth the action is signed by all shareholders who would be entitled to vote on the action.



### Shareholder Nominations for Director

Customers Bank's bylaws require shareholders to submit director nominations from thirty (30) to sixty (60) days prior to the shareholder meeting called for election of directors. CBI's bylaws require shareholder nominations to be submitted from ninety (90) to one hundred twenty days (120) before the meeting. BBI's bylaws require shareholder director nominations to be submitted not less than (60) days prior to any meeting called for the election of directors.

### Cumulative Voting

Customers Bank's shareholders may cumulate their votes when electing directors. CBI's and BBI's articles prohibit cumulative voting in the election of directors.

### Advance Notice of Shareholder Board Nominations

Customers Bank's, CBI's, and BBI's bylaws provide that nominations for the election of directors may be made by the board of directors or by any shareholder entitled to vote in the election of directors.

Customers Bank. Customers Bank's bylaws provide that nominations made by any shareholder must be made in writing, delivered or mailed by registered or certified mail, postage prepaid, return receipt requested, to the Secretary not less than thirty (30) days nor more than sixty (60) days prior to any meeting of the shareholders called for the election of directors. If less than thirty (30) days' notice of the meeting is given to the shareholders, the nomination shall be delivered or mailed to the Secretary not later than the close of the seventh day following the day on which notice of the meeting is mailed to shareholders. Every nomination must include:

- The consent of the person nominated to serve as a director;
- The name, age, business address and residence address of the nominee;
- The principal occupation or employment of the nominee;
- The number of shares of Customers Bank beneficially owned by the nominee;
- The name and address of the notifying shareholder; and
- The number of shares of Customers Bank owned by the notifying shareholder.

Under Customers Bank's bylaws, the chairperson of any meeting called for the election of directors shall reject any nomination made by any shareholder which was not made in accordance with the bylaw provisions, unless the board of directors has agreed to waive those provisions as to such nomination. In the event that the same person is nominated by more than one shareholder, if at least one nomination for such person complies with the bylaw provisions, the nomination shall be honored and all votes cast for such nominee shall be counted. Nominations for the election of directors made by the board of directors need not comply with these bylaw provisions.

BBI. BBI's bylaws provide that director nominations made by shareholders must be made in writing and must be delivered or mailed to the president of BBI not less than sixty (60) days prior to any meeting of shareholders called for the election of directors except that no person may be nominated who will attain the age of seventy (70) prior to the upcoming annual meeting. Such notification must contain the following information to the extent known to the notifying shareholder without unreasonable effort or expense:

- The name and address of each proposed nominee;
- The age of each proposed nominee;
- The principal occupation of each proposed nominee;
- The number of shares of BBI beneficially owned by each proposed nominee;
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The total number of shares that to the knowledge of the notifying shareholder will be voted for each proposed nominee;

- The name and residence address of the notifying shareholder;
- The number of shares of BBI owned by the notifying shareholder;
- The name and registered address of any financial institution for which the proposed nominee is a duly-elected and qualified director and/or a principal executive officer;
- The amount of monies borrowed by the proposed nominee from any source or entity to finance the purchase of any shares of BBI;
- The conviction of the proposed nominee of any felony crime and a complete explanation thereof; and

- The description of any adjudication of bankruptcy of the proposed nominee or any general assignment made by the proposed nominee for benefit of creditors or the description of any entity for which the proposed nominee is or has been an officer, director, partner or principal which is being or was reorganized in bankruptcy, was adjudged bankrupt or made a general assignment for the benefit of creditors within the last two (2) years.

Nominations not made in accordance BBI's bylaws may be disregarded at the discretion of the Chairman of the meeting, and upon the Chairman's instructions, the vote tellers may disregard all votes cast for each such nominee.

CBI. CBI's bylaws provide that nominations made by the shareholders entitled to vote for the election of directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of CBI not less than ninety (90) days nor more than one hundred twenty (120) days prior to any meeting of shareholders called for election of directors. However, if less than twenty-one (21) days' notice of the meeting is given to shareholders, written notice of a director nomination by a shareholder must be delivered or mailed, as prescribed, to the Secretary of CBI not later than the close of the seventh day following the day on which the meeting notice was mailed to shareholders. Each notice must set forth:

- The name, age, business address and, if known, residence address of each nominee proposed in such notice;
- The principal occupation or employment of each nominee; and
- The number of shares of capital stock of CBI which are beneficially owned by each such nominee and the earliest date of acquisition of any of such stock.

The Chairman of a meeting of shareholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and, if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

#### Quorum

Under Customers Bank's, CBI's, and BBI's bylaws, the presence, in person or by proxy, of the holders of a majority of the outstanding shares entitled to vote on any matter shall constitute a quorum. However, CBI's bylaws provide that, in determining a quorum, any shares that are "excess shares" held by a person controlling 25% or more of the outstanding shares of Voting Common Stock are not counted except as provided in Article FIFTEENTH of CBI articles. CBI bylaws also provide that if a proxy casts a vote on behalf of a shareholder on any issue other than a procedural motion considered at a meeting of shareholders, the shareholder shall be deemed to be present during the entire meeting for purposes of determining whether a quorum is present for consideration of any other issue.

#### Required Shareholder Vote

Pursuant to provisions of the Banking Code and the PBCL, in an election of directors for Customers Bank, CBI, and BBI, the candidates receiving the highest number of votes from each class or group of classes entitled to elect directors separately, up to the number of directors to be elected in the same election by such class or group of classes shall be elected.

The Bank. Customers Bank bylaws provide that, when a quorum is present at any meeting the voice vote of the holders of a majority of the stock having voting power, present, in person or by proxy, shall decide any question brought before such meeting except as provided differently by statute or by Customers Bank's articles. Upon demand made by a shareholder entitled to vote at any election for directors before the voting begins, the election shall be by ballot.

Under the Pennsylvania Banking Code, a merger to which Customers Bank is to become a party (including the holding company reorganization that is the subject of this Joint Proxy Statement-Prospectus) must be approved by the holders of two-thirds (2/3) of the outstanding voting common shares of Customers Bank. Article V of Customers Bank's articles, which prohibits anyone from owning more than 25% of the issued and outstanding shares of Customers Bank's Voting Common Stock, provides that it may not be amended except by the affirmative vote of at least two-thirds (2/3) of the outstanding shares of Customers Bank's Voting Common Stock. Article VIII of Customers Bank's articles, which give Customers Bank's board of directors authority to consider a variety of factors other than shareholder value when considering a proposed tender or other offer for Customers Bank's securities, and, if the board of directors decides to oppose an offer, describes actions the board of directors may take, provides that it may not be amended except by the affirmative vote of at least two-thirds (2/3) of the outstanding shares of Customers Bank's Voting Common Stock. Article IX of Customers Bank's articles, which requires the approval of holders of two-thirds (2/3) of the outstanding shares of Customers Bank's Voting Common Stock to amend the bylaws or to change an amendment of the bylaws adopted by the board, and for any merger, consolidation, liquidation or dissolution of Customers Bank or any action that would result in the sale or other disposition of all or substantially all of the assets of Customers Bank, provides that it may not be amended without the approval of two-thirds (2/3) of the outstanding shares of Customers Bank's Voting Common Stock.

BBI. BBI's bylaws provide that, if a quorum is present, except in the election of directors, the vote of the shareholders holding a majority of stock having voting powers, present in person or by proxy, will decide any question brought before the shareholders at such meeting unless the question is one for which the bylaws, the articles of incorporation, the PBCL, or other applicable law requires a different vote. In the case of election of directors, the PBCL provides that the individual receiving the highest number of votes for each position shall be elected to that position up to the number of directors to be elected.

BBI's bylaws may be altered, amended, or repealed by (1) the affirmative vote of the holders of a majority of the outstanding shares of common stock at any regular or special meeting duly convened after notice to the shareholders of that purpose, (2) or by a majority vote of the members of the board of directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, subject always to the power of the shareholders to change such action of the board of directors by the affirmative vote of the holders of a majority of the outstanding shares of common stock.

BBI's bylaws provide that any director, class of directors, or the entire Board may be removed at any time by shareholders, with or without cause, by the affirmative vote of the holders of at least 75% of the outstanding shares entitled to vote generally in the election of directors. The PBCL only requires the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter, unless otherwise provided in a corporation's bylaws.

Article 10 of BBI's articles of incorporation require that, in addition to Article 10 itself, the following provisions of the articles of incorporation may only be amended with the affirmative vote of the holders of at least 75% of the outstanding shares of common stock of BBI:

1. Article 6 which provides that holders of common stock shall have one vote per share and shall not be entitled to cumulative their votes in the election of directors.
2. Article 7 which provides that no merger, consolidation, liquidation or dissolution of BBI, nor any action that would result in the sale or other disposition of all or substantially all of the assets of BBI shall be valid unless first approved by the affirmative vote of:
  - (a) the holders of at least 75% of the outstanding shares of common stock of BBI; or
  - (b) the holders of at least 66 2/3% of the outstanding shares of common stock of BBI, provided that such transaction has received the prior approval of at least 75% of all of the members of the board of directors.
3. Article 8 which provides that:
  - (a) BBI's board of directors may, if it deems advisable, oppose a tender or other offer for BBI's securities, whether the offer is in cash or in the securities of a corporation or otherwise. When considering whether to oppose an offer, the board of directors may, but is not legally obligated to, consider any relevant, germane or pertinent issue. By way of illustration, but not to be considered any limitation on the power of the board of directors to oppose a tender or other offer for BBI's securities, the board of directors may, but shall not be legally obligated to, consider any or all of the following:
    - (i) whether the offer price is acceptable based on the historical and present operating results or financial condition of BBI;
    - (ii) whether a more favorable price could be obtained for BBI's securities in the future;

- (iii) the social and economic effects of the offer or transaction on BBI and any of its subsidiaries, employees, depositors, loan and other customers, creditors, shareholders and other elements of the communities in which BBI and any of its subsidiaries operate or are located;
- (iv) the reputation and business practice of the offeror and its management and affiliates as they would affect the shareholders, employees, depositors and customers of BBI and its subsidiaries and the future value of BBI's stock;
- (v) the value of the securities (if any) which the offeror is offering in exchange for BBI's securities, based on an analysis of the worth of BBI or other entity whose securities are being offered;

(vi) the business and financial conditions and earnings prospects of the offeror, including, but not limited to, debt service and other existing or likely financial obligations of the offeror, and the possible affect of such conditions upon BBI and any of its subsidiaries and the other elements of the communities in which BBI and any of its subsidiaries operate or are located; and

(vii) any antitrust or other legal and regulatory issues that are raised by the offer.

(b) If the board of directors determines that an offer should be rejected, it may take any lawful action to accomplish its purpose including, but not limited to, any or all of the following: advising shareholders not to accept the offer; litigation against the offeror; filing complaints with all governmental and regulatory authorities; acquiring the offeror corporation's securities; selling or otherwise issuing authorized but unissued securities or treasury stock or granting options with respect thereto; acquiring a company to create an antitrust or other regulatory problem for the offeror; and obtaining a more favorable offer from another individual or entity.

4. Article 9 which provides that no holder of shares of any class or of any series of any class shall have any preemptive right to subscribe for, purchase or receive any shares of BBI, whether now or hereafter authorized, or any obligations or other securities convertible into or carrying options or warrants to purchase any such shares of BBI, or any options or rights to purchase any such shares or securities, issued or sold by BBI for cash or any other form of consideration, and any such shares, securities, options, warrants or rights may be issued or disposed of by the board of directors to such persons and on such terms as the board of directors, in its discretion, shall deem advisable.

CBI. CBI bylaws provide that, if a quorum is present, except in the election of directors, the affirmative vote of a majority of all votes cast at the meeting shall be the act of the shareholders, unless the vote of a greater or lesser number or the voting by classes is required by the bylaws, the articles of incorporation, the PBCL or other applicable law. In the case of election of directors, the PBCL provides that the individual receiving the highest number of votes for each position shall be elected to that position.

CBI's bylaws provide that, except and only to the extent otherwise expressly provided in the bylaws, the articles of incorporation, the PBCL or other applicable law, the authority to make, amend, alter, change, or repeal the bylaws is solely granted to and vested in the board of directors, subject always to the power of shareholders to change such action by the affirmative vote of shareholders entitled to cast at least two-thirds (2/3) of the votes that all shareholders are entitled to cast on that matter.

Article SIXTEENTH of CBI's articles require that the following provisions of the articles of incorporation may be amended by either (a) the affirmative vote of shareholders of CBI entitled to cast at least 80% of the votes which all shareholders of CBI are then entitled to cast or (b) the affirmative vote of 80% of the members of the board of directors of CBI and the affirmative vote of shareholders of CBI entitled to cast at least a majority of the votes which all shareholders of CBI are then entitled to cast:

1. Article SEVENTH provides that each holder of record of Voting Common Stock will have the right to one vote for each share of Voting Common Stock standing in such holder's name on the books of CBI, and that no shareholder is entitled to cumulate any votes for the election of directors.
2. Article EIGHTH provides that the management, control and government of CBI shall be vested in a board of directors of from six (6) to twenty-five (25) members, as fixed by the board of directors from time to time. It provides that the directors are to be divided into three (3) classes so that the term of office of one class of directors shall expire each year. It

provides that, if, for any reason, a vacancy occurs on the board of directors, a majority of the remaining directors shall have the exclusive power to fill the vacancy. It also provides that no director shall be removed from office by shareholder vote, except upon a favorable vote of holders of at least a majority of the votes which all shareholders would be entitled to cast at an annual election of directors.

3. Article ELEVENTH requires that, with certain exceptions, the approval of at least 80% of the votes which all shareholders of CBI are entitled to cast, and if any class of shares is entitled to vote as a separate class, the affirmative vote of shareholders entitled to cast at least a majority of the votes entitled to be cast by the outstanding shares of such class shall be required to approve --
  - (i) any merger or consolidation of CBI with or into any other organization;
  - (ii) any share exchange in which an organization, person or entity acquires the issued or outstanding shares of capital stock of CBI pursuant to a vote of shareholders;



- (iii) any sale, lease, exchange or other transfer of all, or substantially all, of the assets of CBI to any other organization, person or entity; or
  - (iv) any transaction similar to, or having similar effect as, any of the foregoing transactions;
  - (v) if that other organization, person or entity beneficially owns 5% or more of the voting shares of CBI. If the other organization, person or entity beneficially does not own 5% or more of the voting shares of CBI, then approval by a majority of the votes which all shareholders are entitled to cast is required to approve any such transaction. It gives the board of directors power to determine conclusively whether anyone owns 5% or more of the voting shares. It further provides that CBI may voluntarily completely liquidate or dissolve only with the approval of 80% of the votes which all shareholders are entitled to cast. However, this Article makes two exceptions to these provisions:
    - a. Article ELEVENTH shall not apply to any transaction which is approved in advance by two-thirds (2/3) of the members of the board of directors.
    - b. A plan of merger or consolidation may be approved and adopted without the approval of CBI's shareholders where the applicable law permits approval by the board of directors without the approval of the shareholders.
4. Article TWELFTH provides that shareholders may not act by unanimous written consent. It also provides that the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast shall constitute a quorum of shareholders at any annual or special meeting of shareholders of CBI.
5. Article THIRTEENTH provides that the authority to make, amend, alter, change or repeal the bylaws is solely granted to and vested in the board of directors, subject always to the power of the shareholders to change such action by the affirmative vote of shareholders entitled to cast at least two-thirds (2/3) of the votes which all shareholders are entitled to cast, except that Article Eight of CBI's bylaws relating to limitations on directors' liabilities and indemnification of directors, officers and others may not be amended to increase the exposure to liability for directors or to decrease the indemnification of directors, officers and others except by the affirmative vote of two-thirds (2/3) of the entire board of directors or by the affirmative vote of shareholders entitled to cast at least 80% of the votes which all shareholders are entitled to cast.
6. Article FOURTEENTH, permits the board of directors, when evaluating any offer of another party to (a) make a tender or exchange offer for any equity security of CBI, (b) merge or consolidate CBI with another corporation, (c) purchase or otherwise acquire all or substantially all of the properties and assets of CBI, or (d) engage in any transaction similar to, or having similar effects as, any of the foregoing transactions, to consider a variety of factors in addition to shareholder value.

Under applicable banking laws each director of Customers Bank must be a shareholder of Customers Bank. Similarly, after the reorganization, applicable banking laws will require that all directors of Customers Bank or CBI must be a shareholder of CBI. The bylaws of BBI require that its directors own common stock of BBI totaling at least \$3,000 in par value.

The Pennsylvania Banking Code requires that each of Customers Bank's directors must be citizens of the United States of America except to the extent this requirement is waived for not more than 20% of Customers Bank's directors by the Pennsylvania Banking Department. In contrast, neither applicable law nor the articles or bylaws of CBI and BBI impose this requirement on directors of CBI or BBI.

Except for certain directors identified in BBI's bylaws, directors of BBI must retire on January 1 of the year following the director reaching the age of seventy (70).

#### Director Classification

Customers Bank's, CBI's, and BBI's bylaws provide that each board of directors shall be divided into three classes, as nearly equal in number as the then total number of directors constituting the whole board permits, with the term of office of one class expiring each year. As a consequence, except for the initial directors in two of the three classes of CBI directors, and except for directors hereafter appointed to fill board vacancies, each director of Customers Bank, CBI, and BBI have a normal term of office of three years.

#### Number of Directors

Customers Bank's bylaws do not set a minimum or maximum number of directors, although the Pennsylvania Banking Code permits there to be from five (5) to twenty-five (25) directors.

BBI's bylaws permit from five (5) to twenty-five (25) directors.

CBI's bylaws permit from six (6) to twenty-five (25) directors.

#### Attendance at Board Meetings

Customers Bank's bylaws mandate directors to attend at least 75% of board meetings each calendar year.

CBI's and BBI's bylaws do not establish a minimum attendance requirement.

#### Vacancies on Board

Customers Bank's bylaws provide that any vacancies in the board of directors for any reason, including vacancies caused by any increase in the number of directors, may be filled by the board of directors, acting by a majority of the directors then in office, although less than a quorum. Any director chosen to fill a vacancy in any class of directors shall become a member of the class of directors in which the vacancy occurred. Such director shall hold office for the remainder of the original term of such vacancy.

BBI's bylaws provide that any vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority of the board of directors. Each director so elected may be a director until a successor is elected by the shareholders who must make such election at the next annual meeting of shareholders or at any special meeting called for that purpose prior thereto. A successor to such appointed director, or a director otherwise to fill the vacancy, must be elected by the shareholders for a term of office consistent with maintaining three classes of directors, each consisting, as nearly as possible, of one-third the number of the whole board of directors.

CBI's articles and bylaws provide that, except as provided in the articles of incorporation, any vacancy occurring in the board of directors shall be filled by a majority of the remaining directors. The bylaws authorize this action even if a majority of the remaining directors is less than a quorum of the board. The bylaws provide that each person so elected shall be a director of the same class as his predecessor until his successor is elected by the shareholders.

#### Control Transactions

Section 1610 of the Pennsylvania Banking Code gives shareholders of a banking institution the right, pursuant to certain procedures, to demand the payment in cash of the fair value of the shareholder's shares upon a change in control of the institution as defined in Section 1610. The articles of Customers Bank and CBI state that these rights

shall not apply. The “Control Transactions” provisions of the PBCL do not apply to BBI.

#### Amendment of Articles of Incorporation

The Bank. Under the Pennsylvania Banking Code, an amendment to the articles of incorporation shall be proposed by adoption of a resolution by the board of directors, directing that it be submitted to a vote at a meeting of shareholders held upon not less than ten days’ notice to all shareholders. Adoption of each amendment requires the affirmative vote of the shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast thereon and, if any class is entitled to vote thereon as a class, of the holders of at least a majority of the outstanding shares of such class. If a proposed amendment would: (1) make any change in the preferences, qualifications, limitations, restrictions or special or relative rights of the shares of any class or series adverse to such class or series, (2) increase or decrease the par value of the shares of any class, (3) increase the authorized number of shares of any class or series, unless otherwise provided in the articles, (4) limit or deny the existing preemptive rights of the shares of any class, (5) authorize a new class or series of shares having a preference as to dividends or assets, or increase the number of authorized shares of any existing class or series, having a preference as to dividends or assets, senior to the shares of a class or series, or (6) authorize the board of directors to fix and determine the relative rights and preferences as between series of any preferred or special class, the holders of the outstanding shares of such class or series shall be entitled to vote as a class on such amendment, regardless of any limitation stated in the articles on the voting rights of any class. Except in such case, only the holders of outstanding shares who, under the articles are entitled to vote on proposed amendments, shall be entitled to vote thereon.

BBI. Under the PBCL, an amendment to the articles of incorporation requires the approval of the board of directors and, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter and the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class. BBI's articles of incorporation require the affirmative vote of the holders of at least 75% of the outstanding shares of common stock of BBI to amend Articles 6 – 10 as previously described.

CBI. Under the PBCL, an amendment to the articles of incorporation requires the approval of the board of directors and, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter and the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class. Pennsylvania law also provides that shareholders of a registered corporation, such as CBI, are not entitled by statute to propose amendments to the articles of incorporation.

Customers Bank's and CBI's articles each provide that:

- The article imposing an ownership limitation of 25% of the issued and outstanding shares of Voting Common Stock (see further description under, "DESCRIPTION OF CBI SHARES - Anti-Takeover Effect of Governing Documents and Applicable Law" beginning on page 95 of this Joint Proxy Statement-Prospectus) may not be amended unless first approved by the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of Voting Common Stock; and
- The article permitting the board of directors to oppose certain acquisition offers (see further description under, "DESCRIPTION OF CBI SHARES - Anti-Takeover Effect of Governing Documents and Applicable Law" beginning on page 95 of this Joint Proxy Statement-Prospectus) may not be amended unless first approved by the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of Voting Common Stock.

#### OUTSTANDING OPTIONS GRANTED TO UNAFFILIATED INSTITUTIONAL INVESTORS

In connection with its purchase of Voting Common Stock in July 1997, pursuant to a Stock Option Agreement, an unaffiliated institutional investor, which at the time of purchase owned 0.73% of Customers Bank's Voting Common Stock, was granted an option to purchase additional shares of Customers Bank's Voting Common Stock within a specified time period after each "Sale" (as defined in the option agreement and described below) of Customers Bank's Voting Common Stock in order to preserve its percentage ownership interest in the outstanding shares of Customers Bank's Voting Common Stock. The option granted to this unaffiliated institutional investor remains in effect, and may be exercised upon any future "Sale" in order to preserve such entity's percentage ownership of Customers Bank's Voting Common Stock at the then-current level. As of March 31, 2011, this unaffiliated institutional investor owned 37,808 shares of Customers Bank's Voting Common Stock, which constituted 0.13% of Customers Bank's issued and outstanding Voting Common Stock as of such date. At March 31, 2011, no shares were available to be purchased under these option agreements.

Pursuant to a Stock Option Agreement dated March 23, 2005, a second unaffiliated institutional investor, which originally owned 135,834 shares (originally 8.53%) of Customers Bank's Voting Common Stock, has an option to purchase additional shares of Customers Bank's Voting Common Stock within a specified time period after each "Sale" (as defined in the option agreement and described below) of Customers Bank's Voting Common Stock in order to preserve its percentage ownership interest in the outstanding shares of Customers Bank's Voting Common Stock. The option granted to this unaffiliated institutional investor remains in effect, and may be exercised upon any future "Sale"

in order to preserve such entity's percentage ownership of Customers Bank's Voting Common Stock at the then-current level. As of March 31, 2011, this unaffiliated institutional investor owned 196,450 shares of Customers Bank's Voting Common Stock, which constituted 0.67% of Customers Bank's issued and outstanding Voting Common Stock as of such date.

Each option agreement defines a "Sale" as the issuance and sale of shares of Customers Bank's Voting Common Stock, other than (1) a sale to the investor or pursuant to an offer which by its terms could have been accepted by the investor, (2) a sale of treasury stock, and (3) a grant of shares of Voting Common Stock or a sale upon exercise of an option granted pursuant to any stock bonus, stock option or similar plan maintained by Customers Bank for the directors, officers and/or any of Customers Bank employees or those of any subsidiary or affiliate. Upon the completion of a Sale, Customers Bank is obligated to offer the investor an opportunity to purchase such number of additional shares of Customers Bank's Voting Common Stock at a price per share equal to the price per share of Voting Common Stock sold in the Sale, as necessary to make the investor's percentage ownership of Customers Bank's outstanding Voting Common Stock, after giving effect to the Sale that triggers the investor's rights and the investor's purchase of additional shares pursuant to the required offer, equal to the investor's percentage ownership of the outstanding shares of Voting Common Stock immediately prior to the Sale. At March 31, 2011, no shares were available to be purchased under these option agreements. Sales contemplated by Customers Bank, or other future sales not presently contemplated by Customers Bank, may give additional purchase rights under the two option agreements described above.

## WARRANTS TO PURCHASE ADDITIONAL STOCK

The below table indicates the types and amounts of stock underlying warrants that were issued by Customers Bank in various private offerings and an exchange offer exchanging shares of Customers Bank's preferred stock into Voting Common Stock in 2009, as well as the original exercise prices for such warrants. The chart also indicates the exercise price and amounts of warrants outstanding following the anti-dilution adjustments described in the paragraphs following the chart below. All of the warrants listed in the chart were immediately exercisable upon issuance.

Transaction	Type of Stock Underlying Warrants	Original Number of Shares Underlying Warrants	Original Exercise Price	Number of Shares Underlying Warrants upon Anti-Dilution Adjustment	Exercise Price upon Anti-Dilution Adjustment
June 30, 2009 Preferred Stock Exchange	Voting Common Stock	24,500	\$5.50	--	--
July 31, 2009 Voting Common Stock Issuance	Voting Common Stock	683,330	\$5.50	1,073,820	\$3.50
February 17, 2010 Voting Common Stock and Class B Non-Voting Common Stock Issuance	Voting Common Stock	205,779	\$4.28	251,643	\$3.50
	Class B Non-Voting Common Stock	156,532	\$4.28	191,421	\$3.50
March 29, 2010 Voting Common Stock and Class B Non-Voting Common Stock Issuance	Voting Common Stock	48,104	\$3.76	51,678	\$3.50
	Class B Non-Voting Common Stock	48,107	\$3.76	51,681	\$3.50

The number of shares of Voting Common Stock issuable upon exercise of each warrant and the exercise price per share shall be proportionately adjusted:

- In the event of any change in the number of shares of Voting Common Stock outstanding by reason of any stock proportionally adjusted dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change; and
- Subject to any required action by Customers Bank's shareholders, in the event of any increase or decrease in the number of issued shares of Voting Common Stock resulting from a subdivision or consolidation of shares of Voting Common Stock or the payment of a stock dividend on Voting Common Stock, or any other increase or decrease in the number of shares of Voting Common Stock outstanding effected without receipt or payment of consideration by Customers Bank.

Subject to any required action by the shareholders of Customers Bank, in the event that Customers Bank is the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Voting Common Stock receive securities of another corporation), the number of shares issuable under each warrant immediately prior to the date of such merger or consolidation shall be converted into the securities

which a holder of that number of shares would have received in such merger or consolidation.

In the event of (1) a dissolution or liquidation of Customers Bank, (2) a sale of all or substantially all of Customers Bank's assets, (3) a merger or consolidation involving Customers Bank in which Customers Bank is not the surviving corporation, or (4) a merger or consolidation involving Customers Bank, or any other reorganization transaction (including without limitation the formation of a holding company for the Bank) in which Customers Bank is the surviving corporation but the holders of shares of Voting Common Stock receive securities of another corporation and/or other property, including cash, Customers Bank's board of directors shall provide for the exchange of each warrant for a warrant with respect to, as appropriate, some or all of the property for which each warrant is exchanged and, incident thereto, make an equitable adjustment as determined by Customers Bank's board of directors in its absolute discretion in the exercise price under each warrant or, if appropriate, provide for a cash payment to the warrant holder in partial consideration for the exchange of the warrant, or any combination thereof.



In the event of any other change in the capitalization of Customers Bank or corporate change other than those specifically referred to above, Customers Bank's board of directors may, in its absolute discretion, make such adjustments in the number and class of shares issuable upon exercise of each warrant on the date on which such change occurs, and in the exercise price of each warrant, as Customers Bank's board of directors may reasonably consider appropriate to prevent dilution or enlargement of rights.

On April 12, 2010, Customers Bank's board of directors approved adjustments to the terms of warrants held by those shareholders benefitting from anti-dilution agreements, to adjust the exercise price and make a corresponding adjustment to the number of shares for which each warrant is exercisable. Warrant exercise prices were adjusted from either \$5.50 per share or \$4.28 per share or \$3.76 per share to \$3.50 per share. The number of shares for which each warrant is exercisable were increased in proportion to the decrease in exercise price. After the adjustment, each adjusted warrant will be exercisable for the type or types of shares (Voting Common Stock or Class B Non-Voting Common Stock) for which the warrant was heretofore exercisable. If the warrant was exercisable for shares of Class B Non-Voting Common Stock as well as shares of Voting Common Stock, the number of shares of each class of stock for which the warrant is exercisable after the adjustment will be proportional to the number of shares of each such class for which the warrant was exercisable prior to the adjustment. However, the number of shares of Voting Common Stock for which a warrant is exercisable is limited so that no warrant holder, after the adjustment, will have the right to purchase, nor be deemed to have the right to purchase, an amount of Voting Common Stock which, together with any other shares of Customers Bank's Voting Common Stock the warrant holder owns or controls or is deemed to own or control (as determined under the federal Change in Bank Control Act, as amended), comprises more than 9.9% of the aggregate outstanding shares of Customers Bank's Voting Common Stock (including, in calculating both the number of shares owned or controlled by the warrant holder and the number of shares outstanding, those shares of Voting Common Stock for which any warrants or options owned or controlled or deemed owned or controlled by the warrant holder are exercisable, and any shares of Voting Common Stock into which any other securities owned or controlled or deemed owned or controlled by the warrant holder are convertible).

Except as expressly provided in each warrant, warrant holders shall not have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of Customers Bank or any other corporation. Except as expressly provided in each warrant, no issuance by Customers Bank of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares issuable upon exercise of each warrant.

#### ANTI-DILUTION AGREEMENTS

Holders of 26,248,259 shares of Customers Bank's Voting Common Stock and Class B Non-Voting Common Stock, including Jay Sidhu, are beneficiaries of anti-dilution agreements providing each of them price protection such that if, at any time on or before designated dates, Customers Bank issues additional shares of its Voting Common Stock or its Class B Non-Voting Common Stock for which the consideration per share is less than \$3.50 for 21,178,831 shares, \$3.93 for 25,443 shares or \$4.00 for 5,043,983 shares (as that price may be deemed adjusted pursuant to the anti-dilution agreements), other than with respect to shares issued to (a) Customers Bank's employees, officer or directors in connection with their employment or retention of services not to exceed the number of shares reserved in Customers Bank's existing equity financing plans, or (b) customers or vendors in connection with bona fide business transactions, Customers Bank shall, concurrently with such issue, issue to the holder, at no additional cost or price to the holder, an additional number of shares of Voting Common Stock or Class B Non-Voting Common Stock sufficient to maintain the values of their current share holdings at the new, lower issuance price. For these purposes, shares issuable upon exercise of an option and shares issuable upon conversion or exercise of a convertible security are deemed to be issued when the option or convertible security is issued, and no adjustment is made thereafter when the option is exercised or the convertible security is converted.

Until March 31, 2011, holders of anti-dilution agreements are protected on those issuances of shares described above that are made solely for cash.

The number of shares to be issued under the anti-dilution agreements are determined, upon each issuance, by multiplying the number of the holder's shares by a fraction, the numerator of which is the purchase price (currently \$3.50, \$3.93 or \$4.00, depending on the date of issuance) immediately before such issue, and the denominator of which is the new issue price. Thereafter, upon each subsequent issuance of additional shares, the number of shares covered by the agreement will be increased by the number of additional shares that have been issued to the holder pursuant to the agreement, and the purchase price will be deemed reduced to the new issue price for the share issuance causing the adjustment.

The additional shares of Voting Common Stock and Class B Non-Voting Common Stock to be issued to a holder upon an adjustment is determined according to provisions applicable to the individual holder under each anti-dilution agreement.

For purposes of the anti-dilution agreements, issue price for additional shares is to be computed as follows:

1. Cash shall be valued at the amount of cash received by Customers Bank, excluding amounts paid or payable for accrued interest or accrued dividends.
2. Property, other than cash, shall be computed at the fair market value thereof at the time of the issue as determined in good faith by the board of directors of Customers Bank.
3. If shares are issued together with other property of Customers Bank for consideration that covers both, the consideration allocable to the shares shall be determined in good faith by the board of directors.
4. The consideration per share for options and convertible securities is to be determined by dividing:
  - (i) the total amount, if any, received or receivable by Customers Bank for the issue of the options or convertible securities, plus the minimum amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to Customers Bank upon exercise of the options or conversion of the convertible securities, by
  - (ii) the maximum number of shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) ultimately issuable upon the exercise of such options or the conversion of such convertible securities.

On April 12, 2010, Customers Bank's board of directors approved adjustments to the terms of warrants held by those shareholders benefitting from anti-dilution agreements, to adjust the exercise price and make a corresponding adjustment to the number of shares for which each warrant is exercisable. For further information on the adjustment, see, "WARRANTS TO PURCHASE ADDITIONAL STOCK," beginning on page 107.

#### CUSTOMERS BANCORP, INC.

##### History, Business, and Properties

CBI was incorporated as a Pennsylvania business corporation under the PBCL in April 2010 at the direction of the board of directors of Customers Bank. CBI was formed to acquire Customers Bank stock and to engage in business as a bank holding company under the Bank Holding Company Act of 1956, as amended. Copies of the articles of incorporation and the bylaws of CBI are attached to this Joint Proxy Statement-Prospectus as Exhibit A and Exhibit B to Annex A.

CBI is in the organizational and developmental stage, and has no earnings or history of operation. CBI neither owns nor leases any real property nor does it currently expect to own any real property in the future.

CBI has no employees, no current business, and owns no property, except that CBI will own all of the stock of the new bank immediately prior to the reorganization. CBI has not issued any stock other than the stock held by Customers Bank. CBI is not a party to any legal proceedings.

CBI has no present plans to engage in any activities other than to act as a holding company for the capital stock of Customers Bank. CBI's management, however, believes that the opportunities available to a bank holding company for diversification of its business and raising of capital cause a bank holding company to be a more advantageous form of operation than a bank. CBI may examine and may pursue opportunities from time to time that arise for expansion of its operations and activities. See "THE REORGANIZATION – Background and Reasons for the Reorganization," beginning on page 45.

The management team and directors of CBI will be the same as those of Customers Bank. A description of the business background of each of the directors and executive officers is provided beginning on page 116 of this Joint Proxy Statement-Prospectus.

The bylaws of CBI provide that, within the requirements of applicable law, the term and number of directors in each class shall be fixed, from time to time, by the board of directors. The term of office, until otherwise fixed, for all directors elected at each annual meeting held after the first annual meeting shall be three (3) years from the date of their election. At each annual meeting after the first annual meeting, elections shall be held to elect directors to replace those whose terms have expired. All directors shall continue in office after the expiration of their term until their successors are elected or appointed and have qualified, except in the event of earlier resignation, removal or disqualification.

CBI articles of incorporation also provide that the board of directors shall be divided into three classes (Class I, Class II and Class III), as nearly equal in number as the then total number of directors constituting the whole board permits, with the term of office of one class expiring each year.

The bylaws of CBI require a Chairman of the Board, a Chief Executive Officer, a Chief Financial Officer, a President, a Secretary, and a Treasurer. The board of directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary, who shall hold their offices for such terms, have such authority and perform such duties as may from time to time be prescribed by the board of directors. Any two or more offices may be held by the same person except both the offices of President and of Secretary.

#### Principal Shareholders

After the reorganization, the persons beneficially owning 5% or more of CBI's Voting Common Stock will be the same persons who currently own 5% or more of Customers Bank stock.

#### Description of CBI's Voting Common Stock

CBI's authorized capital stock consists of 300,000,000 shares of capital stock consisting of:

- 100,000,000 share of Voting Common Stock, par value \$1.00 per share;
- 100,000,000 shares of Class B Non-Voting Common Stock, par value \$1.00 per share; and
- 100,000,000 shares of preferred stock in one or more series, any series having such par value or no par value as may be determined by CBI's board of directors from time to time.

The number of shares of CBI Voting Common Stock and Class B Non-Voting Common Stock expected to be issued to the holders of Bank stock, upon the terms and subject to the conditions of the reorganization, is 7,508,608 and 2,278,298 shares, respectively, based on Customers Bank's share ownership as of March 31, 2011 and assuming no options or warrants are exercised prior to the closing of the reorganization.

There will be no established public trading market for CBI's stock.

CBI will succeed to Customers Bank's contractual obligations under each of the following relating to Voting Common Stock and Class B Non-Voting Common Stock:

- Existing management stock options and other equity compensation award rights, more fully described under, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," beginning on page 136;
- Existing option agreements with institutional investors described under, "OUTSTANDING OPTIONS GRANTED TO UNAFFILIATED INSTITUTIONAL INVESTORS," beginning on page 106;
- The existing warrants described under, "WARRANTS TO PURCHASE ADDITIONAL STOCK," beginning on page 107;
- The existing anti-dilution agreements described under, "ANTI-DILUTION AGREEMENTS," beginning on page 108; and

- The existing contractual pre-emptive purchase rights described under, “THE REORGANIZATION – Private Offerings,” on page 46.

For more information about CBI’s Voting Common Stock, see “DESCRIPTION OF CBI SHARES” beginning on page 92 of this Joint Proxy Statement-Prospectus, and “COMPARISON OF SHAREHOLDERS’ RIGHTS” beginning on page 96 of this Joint Proxy Statement-Prospectus.

## Executive Compensation

The board of directors of CBI reviews and determines the compensation for CBI's officers and directors. No officer will be prevented from receiving such compensation by reason of the fact that he or she is also a director. The board also has the authority to provide for reasonable pensions, disability or death benefits and other benefits and payments to directors, officer and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered to CBI.

Since its incorporation, CBI has not paid any remuneration to any of its directors or executive officers. After the reorganization, it is anticipated that directors and officers of CBI will be paid fees and compensation on the same basis as directors and officers of Customers Bank are presently paid. No changes in remuneration to any directors or officers are planned except as otherwise described in this Joint Proxy Statement-Prospectus. To date, CBI has not established standards or other arrangements by which its directors are compensated for services as directors, including any additional amounts payable for committee participation or special assignments, and no such arrangements. It is anticipated that CBI will provide director compensation similar to that presently provided by Customers Bank. For information relating to compensation paid to Customers Bank's directors in 2010, see "Director Compensation Table" on page 133 of this Joint Proxy Statement-Prospectus. No profit-sharing plan or any other benefit plan exists or is contemplated for CBI.

## Anti-Takeover Mechanisms

CBI's articles contain a number of provisions that are typically considered to be anti-takeover measures. For a description of these provisions, see "DESCRIPTION OF CBI SHARES - Anti-Takeover Effects of Governing Documents and Applicable Law" beginning on page 95 of this Joint Proxy Statement-Prospectus. The board urges shareholders to read the information contained in that section carefully before making a decision on whether or not to vote for CBI. The board and its advisors believe that such provisions are not unusual among bank holding companies. There are risks associated with such provisions. See "RISK FACTORS" beginning on page 20 of this Joint Proxy Statement-Prospectus.

## Indemnification Provisions

Subchapter D of the PBCL provides for indemnification of, and insurance for any person who is or was a representative of CBI and specifically empowers CBI to indemnify, subject to the standards therein prescribed, any person who is or was a representative of CBI in connection with any action, suit or proceeding brought or threatened by reason of the fact that he is or was a representative of CBI. Article 8.02 of CBI's bylaws requires CBI to indemnify each of CBI's directors and officers in such capacity in which any such director or officer acts for or on behalf of CBI including as an employee or agent.

Article 8 of CBI's bylaws provide for indemnification of officers and directors, as follows:

- Section 8.01 provides that, to the fullest extent under Subchapter B of Chapter 7 of the PBCL, CBI's directors shall not be personally liable to CBI or its shareholders or others for monetary damages for any action taken or any failure to take any action unless the director has breached or failed to perform the duties of his or her office and such breach or failure constitutes self-dealing, willful misconduct or recklessness. This section does not apply to the responsibility or liability of such director under any criminal statute or with respect to the payment of taxes pursuant to local, state or federal law;

Section 8.02(a) provides for the indemnification of any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact of such person's involvement as a director, officer, employee or agent of CBI or its bank subsidiaries or any other director or indirect subsidiary of CBI of the bank serving at the request of CBI as a director, officer, employee or agent against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, to the fullest extent authorized or permitted by the laws of the Commonwealth of Pennsylvania;

- Section 8.02(b) requires CBI to pay the expenses (including attorney's fees) incurred in defending a civil or criminal action, suit or proceeding in advance of the final disposition of any action suit or proceeding upon the receipt of (1) an undertaking by or on behalf of a director, officer, employee or agent to repay such amount if it shall be ultimately determined that he or she is not entitled to be indemnified as authorized under the articles of incorporation and (2) if requested at the discretion of the board of directors, adequate security or a bond to cover such amounts for which it is ultimately determined that he is not entitled to such indemnity;
- Section 8.02(c) provides the right to indemnification and advancement of expenses is not exclusive of any other right to which such persons seeking indemnification and advancement of expenses may be entitled under any agreement, vote of shareholders, or disinterested directors or otherwise; and



- Section 8.02(d) provides that CBI may purchase and maintain insurance on behalf of any person, may enter into contracts of indemnification with any person and may create a fund of any nature for the benefit of any person and may otherwise secure in any manner its obligations with respect to indemnification and advancement of expenses regardless of the source of the indemnification right and without respect to whether or not CBI would have the power to indemnify such person under the articles of incorporation.

#### Financial Statements

No financial statements of CBI are presented in this Joint Proxy Statement-Prospectus because CBI currently has no significant assets or liabilities. See “SUMMARY SELECTED UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION” beginning on page 143. Customers Bank’s audited annual financial statements for the fiscal year ended December 31, 2010 are attached beginning on page Customers F-1 of this Joint Proxy Statement-Prospectus.

#### Legal Proceedings

CBI has not, since its inception, been a party to any legal proceedings.

### CUSTOMERS BANK

#### History, Business, and Properties

##### History

Customers Bank was incorporated on March 25, 1994 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank and member of the Federal Reserve System. Customers Bank commenced operations on June 26, 1997. Customers Bank’s deposits are insured by the Federal Deposit Insurance Corporation. At December 31, 2010, Customers Bank had total loans (including held for sale loans) of \$836.8 million and total assets of \$1.37 billion and total deposits of \$1.25 billion and stockholders' equity of \$105.1 million.

Customers Bank’s Corporate Headquarters and a full service branch are located at 99 Bridge Street, Phoenixville, Chester County, PA 19460. The main telephone number is (610) 933-2000.

Customers Bank has not undergone bankruptcy, receivership or any similar proceedings. There have been no material re-classifications, mergers, consolidations or purchases or sales of a significant amount of assets not in the ordinary course of business.

In December 2010, the shareholders of Customers Bank approved a name change from New Century Bank to Customers Bank.

##### Business

Customers Bank provides financial products and services to small businesses, professionals and individuals through its nine branches in Bucks, Berks, Chester and Delaware Counties, Pennsylvania; one branch in Camden County, New Jersey; and one branch in Westchester County, New York. Customers Bank also provides liquidity to the mortgage market nationwide through the operation of its Mortgage Warehouse Business.

As of March 31, 2011, Customers Bank had 142 full time, 9 part time employees, and 4 employees of Berkshire Bank that were working for Customers Bank in accordance with an “employee leasing” arrangement between Berkshire and Customers Bank.

Customers Bank had no revenues in any of the last three years that were attributable to customers outside of the United States, nor did it have any long-lived assets in any of the past three years that were located outside of the United States. See Customers Bank's Audited Financial Statements beginning at page Customers F-2 of this Joint Proxy Statement-Prospectus for additional information with regard to its revenues and assets for the last three fiscal years.

## Competition

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

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

Customers Bank believes that it is able to compete effectively with its competitors and has developed a unique business model that is focused on doing a few things well, and combines high touch customer service with high technology to provide convenience to customers. In particular, Customers Bank believes its competitive strengths include:

- “Concierge Banking – a unique banking model. Customers Bank focuses its customer service efforts on relationship banking, personalized service and the ability to quickly make credit and other business decisions. Relationship managers are assigned for all customers, establishing a single point of contact for all issues and products. Additionally, Customers Bank brings the bank to the customer by using an appointment banking approach available 12 hours a day, seven days a week. This “concierge banking” approach allows Customers Bank to provide more competitive services to the customer in a more convenient and more expeditious manner, delivered by experienced bankers, and enhances the overall customer experience, offering better pricing, speed and convenience.

Customers Bank's current market is primarily served by large national and regional banks, with a few larger institutions capturing more than 60% of the deposit market share. Customers Bank's large competitors utilize expensive, branch-based models to sell products to consumers and small businesses. This expensive branch-based model requires our larger competitors to price their products with wider margins and charge more fees to justify their higher expense base. While maintaining physical branch locations remains an important component of Customers Bank's strategy, Customers Bank intends to pursue an operating model with fewer and less expensive locations, thereby lowering overhead costs.

Customers Bank believes that its “concierge banking” approach and creation of a more inexpensive network of “virtual” branches provides greater convenience and more competitive deposit pricing for customers and will lead to a competitive advantage over larger institutions and contribute to the profitability of the Customers Bank franchise, allowing it to generate core deposits, which are expected to be the primary source of funding for asset growth.

- Sophisticated high technology services. The key components of Customers Bank's technology services are remote account opening, remote deposit capture and mobile banking, collectively creating “virtual branch banks.” Customers Bank's sales force is able to open accounts at the location of the customer, and remote account opening is also available via Customers Bank's web site. Remote deposit capture is available for business customers and new scanners will not only serve the high volume customers, but also the low volume, high dollar customer, which will

enable Customers Bank the opportunity to attract larger deposit relationships. Mobile banking services are available that enable Customers Bank to offer a channel similar to the larger banks and target the customer who is looking to utilize this technological channel for their every day banking. To ensure functionality across the customer base, Customers Bank will not only provide the technology, but also set up and train customers on how to benefit from this technology.

- Experienced lending team with local decision making. Customers Bank has hired experienced lenders who know the market very well, understand prudent lending standards and want to work in an empowered work environment. We believe that this philosophy of having experienced lenders who have worked through numerous economic cycles and are empowered to make quick decisions will allow Customers Bank to effectively compete with larger organizations.

## FDIC Assisted Transactions

### Acquisition of USA Bank

On July 9, 2010, Customers Bank entered into a Purchase and Assumption Agreement with the FDIC as receiver to acquire substantially all of the assets and assume all of the non-brokered deposits and substantially all other liabilities of USA Bank. Excluding the effects of acquisition accounting adjustments, Customers Bank acquired approximately \$205.6 million in assets and assumed \$192.8 million in liabilities. The fair value of the assets acquired was \$196.2 million and the fair value of the liabilities assumed was \$203.2 million. Customers Bank received a net cash consideration from the FDIC in the amount of \$25.6 million.

The transaction consisted of assets with a fair value of \$221.1 million, including \$124.7 million of loans (with a corresponding unpaid principal balance (“UPB”), of \$153.6 million), a \$23.8 million FDIC loss sharing receivable, \$15.3 million of investment securities, \$28.5 million of cash and cash equivalents and federal funds sold, \$3.4 million of foreclosed assets, and \$785,000 of other assets. Liabilities with a fair value of \$202.1 million were also assumed, including \$179.3 million of non-brokered deposits, and \$22.8 million of other liabilities.

Concurrently with the acquisition of USA Bank, Customers Bank entered into Loss Sharing Agreements with the FDIC that cover certain legacy assets, including the entire loan portfolio and OREO. At July 9, 2010, the covered assets consisted of assets with a book value of \$125.6 million. The total UPB of the covered assets at July 9, 2010, was \$159.2 million. Customers Bank acquired other USA Bank assets that are not covered by the Loss Sharing Agreements with the FDIC including cash, certain investment securities purchased at fair market value. The Loss Sharing Agreements do not apply to subsequently acquired, purchased or originated assets.

Pursuant to the terms of the Loss Sharing Agreements, the Covered Assets are subject to a stated loss threshold whereby the FDIC will reimburse Customers Bank for 80% of losses, calculated, in each case, based on UPB plus certain interest and expenses. The carrying value of the FDIC indemnification asset at July 9, 2010 was \$23.8 million. Customers Bank will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC pays Customers Bank in reimbursement under the Loss Sharing Agreements. The FDIC's obligation to reimburse Customers Bank for losses with respect to the covered assets began with the first dollar of loss incurred.

The Covered Loans acquired in connection with the acquisition include all:

- One-to-four family residential real estate loans (both owner occupied and investor-owned);
  - Home equity loans;
- All other loans (including commercial, commercial real estate and certain consumer loans);
- Funding of assumed commitments and permitted advances and permitted amendments; and
  - Other real estate owned.

The Loss Sharing Agreements require Customers Bank to follow specific servicing procedures and to undertake loss mitigation efforts. Additionally, the FDIC has information rights with respect to Customers Bank's performance under the Loss Sharing Agreements, requiring it to maintain detailed compliance records.

Customers Bank has received an aggregate of \$14.6 million from the FDIC in reimbursements under the Loss Sharing Agreements for claims filed for losses incurred as of September 30, 2010 and December 31, 2010.

### Acquisition of ISN Bank

On September 17, 2010, Customers Bank entered into a Purchase and Assumption Agreement with the FDIC as receiver to acquire substantially all of the assets and assume all of the non-brokered deposits and substantially all other liabilities of ISN Bank. Excluding the effects of acquisition accounting adjustments, Customers Bank acquired approximately \$79.8 million in assets and assumed \$72.1 million in liabilities. The fair value of the assets acquired was \$83.9 million and the fair value of the liabilities assumed was \$75.8 million. Customers Bank received a net cash consideration from the FDIC in the amount of \$5.9 million.

The transaction consisted of assets with a fair value of \$83.9 million, including \$51.3 million of loans (with a corresponding UPB of \$58.2 million), a \$5.6 million FDIC loss sharing receivable, \$6.2 million of investment securities, \$12.9 million of cash and cash equivalents, \$1.5 million of foreclosed assets, and \$713,000 of other assets. Liabilities with a fair value of \$75.8 million were also assumed, including \$71.9 million of non-brokered deposits, and \$3.8 million of other liabilities.

Concurrently with the acquisition of ISN Bank, Customers Bank entered into Loss Sharing Agreements with the FDIC that cover certain legacy assets, including the entire loan portfolio and OREO. At September 17, 2010, the covered assets consisted of assets with a book value of \$60.0 million. The total UPB of the covered assets at September 17, 2010 was \$58.2 million. Customers Bank acquired other ISN Bank assets that are not covered by the Loss Sharing Agreements with the FDIC including cash, certain investment securities purchased at fair market value and other tangible assets. The Loss Sharing Agreements do not apply to subsequently acquired, purchased or originated assets.

Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse Customers Bank for 80% of losses, calculated, in each case, based on UPB plus certain interest and expenses. The carrying value of the FDIC indemnification asset at September 17, 2010 was \$5.0 million. Customers Bank will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC pays Customers Bank in reimbursement under the Loss Sharing Agreements. The FDIC's obligation to reimburse the Company for losses with respect to the covered assets began with the first dollar of loss incurred.

The Covered Loans acquired in connection with the acquisition include all:

- One-to-four family residential real estate loans (both owner occupied and investor-owned);
  - Home equity loans;
- All other loans (including commercial, commercial real estate and certain consumer loans);
- Funding of assumed commitments and permitted advances and permitted amendments; and
  - Other real estate owned.

The Loss Sharing Agreements require Customers Bank to follow specific servicing procedures and to undertake loss mitigation efforts. Additionally, the FDIC has information rights with respect to Customers Bank's performance under the Loss Sharing Agreements, requiring it to maintain detailed compliance records.

Customers Bank has submitted its first certificate to the FDIC for reimbursements under the ISN Loss Sharing Agreements and received \$2.0 million for the period ending December 31, 2010.

#### Properties

Customers Bank leases its corporate headquarters and a full service branch, which are located in a freestanding building at 99 Bridge St., Phoenixville, Chester County, PA 19460, wherein Customers Bank leases approximately 15,298 square feet on 2 floors. The lease on this location expires in 2022.

Customers Bank leases office space totaling 8,000 square feet at 1015 Penn Avenue, Wyomissing, Pennsylvania which comprises the intended corporate headquarters of CBI and a full service branch that opened in mid-2010. The lease on this location expires in 2015.

In addition to the corporate headquarters, Customers Bank leases properties in the 2,300 to 3,300 square foot range where it maintains full service commercial bank branches at 155 East Lancaster Ave. in Wayne, Pennsylvania, 215 Lancaster Avenue in Malvern, Pennsylvania, 3557 West Chester Pike in Newtown Square, Pennsylvania and 73 Old Dublin Pike in Doylestown, Pennsylvania, 1 S. Main St. Yardley, Pennsylvania, 601 North Main St., Port Chester, New York and Hamilton, New Jersey. The leases on these locations expire in 2013, 2014, 2014, 2015, 2015 and 2015 respectively.

Customers Bank also leases 5,500 square feet of property at 513 Kimberton Road in Phoenixville, Pennsylvania where it maintains a full service commercial bank branch and corporate offices. The lease on this location expires in 2013.

Customers Bank subleases 5,059 square feet of space in Hamilton, New Jersey from which it conducts its mortgage warehouse lending activities. The lease on this location expires in 2015.

The total minimum cash lease payments for Customers Bank's current office, branch offices and mortgage warehouse lending locations amounts to approximately \$100 thousand per month.



Actual branch and office openings and timing of such openings will depend on satisfaction of a variety of other contingencies, including signing of appropriate agreements, completion of any construction work, compliance with any local regulatory matters, and satisfactory staffing arrangements.

The aggregate minimum cash lease payments associated with the three leases that have been proposed for the offices are approximately \$35,000 per month.

#### Legal Proceedings

On May 14, 2010, Alliance Bank, a bank located in Broomall, Delaware County, Pennsylvania, commenced a civil action in the U.S. District Court for the Eastern District of Pennsylvania, seeking preliminary and permanent injunctive relief as well as compensatory and punitive damages against Customers Bank. The lawsuit arises from Alliance's allegations that Customers Bank's use of the name and trademark "CUSTOMERS 1st BANK" infringes Alliance's federal trademark registration for the mark CUSTOMER FIRST®. The specific relief requested by Alliance includes (a) the entry of a preliminary and permanent injunction against Customers Bank from using the mark "CUSTOMERS 1st BANK" or any other similar designation in connection with Customers Bank's banking services; (b) an order that Customers Bank is to remove and/or destroy all commercial and promotional materials using or showing the mark "CUSTOMERS 1st BANK" in connection with Customers Bank's banking services; (c) an order that Customers Bank should pay Alliance compensatory and punitive damages as determined at a trial on the merits; and (d) an order that Customers Bank should pay Alliance an amount equal to Customers Bank's profits realized through the alleged infringing conduct, as well as court costs, reasonable attorney fees, and pre- and post-judgment interest. On July 27, 2010, the court issued an order entering a preliminary injunction against Customers Bank's continued use of the name and mark "Customers 1st Bank" in connection with any banking and financial services. Customers Bank has accordingly ceased use of the name "Customers 1st Bank" in accordance with the Order.

On November 15, 2010, Customers Bank filed suit against Open Solutions, Inc. ("OSI") in the United States District Court for the Eastern District of Pennsylvania, seeking damages for failure to assist in the conversion of system and customer information associated with the former USA Bank and requesting injunctive relief to compel OSI to assist with the deconversion of the former USA Bank's systems. OSI filed counterclaims against Customers Bank on November 24, 2010, asserting claims for breach of contract and breach of settlement agreement. In support of its breach of contract claim, OSI alleged that Customers Bank "assumed" the former-USA Bank agreements and is bound by those agreements. OSI claimed that it has sustained damages in excess of \$1 million. Customers Bank disputed that it has any liability to OSI. Prior to trial, OSI dismissed with prejudice its settlement agreement claim. Trial was held on February 24, 2011. On March 7, 2011, the Court ruled against Customers Bank and in favor of OSI as follows: judgment was entered against Customers on OSI's claim that the agreements between OSI and USA Bank were assumed by Customers Bank and judgment was entered against Customers on its claims against OSI; judgment was entered for OSI on its breach of contract claim under one agreement, in the amount of \$104 thousand; the Court found there was no breach of the second agreement by Customers Bank and no proof of damages. OSI has filed a motion for payment of legal fees and costs associated with the litigation, which are estimated to be around \$205,000. Customers Bank has filed a motion with the District Court to vacate the judgment and to enter judgment in favor of Customers on OSI's counterclaim. In addition, the FDIC has filed a motion to intervene in the litigation, and has also sought dismissal of OSI's counterclaims on jurisdictional grounds. These motions are pending consideration by the District Court. As of December 31, 2010, the \$104,000 has been properly accrued and Customers Bank has not provided notice of termination of the contract with OSI for the former USA Bank system and continues to accrue amounts as services are rendered.

Although Customers Bank from time to time is involved in various legal proceedings in the normal course of business, other than as described above, there are no material legal proceedings to which it is a party or to which its property is subject.

## Management

The names, ages and positions of each of the directors and executive officers of Customers Bank, together with descriptions of the business backgrounds of each of the directors and named executive officers, are provided in “CBI’S BOARD OF DIRECTORS AND MANAGEMENT” beginning on page 116 of this Joint Proxy Statement-Prospectus.

## CBI’S BOARD OF DIRECTORS AND MANAGEMENT

CBI’s board members are:

Name	Director Since	Position	Age	Term Expires:
Bhanu Choudhrie	2009	Director	32	2012
John R. Miller	2010	Director	64	2013
Daniel K. Rothermel, J.D.	2009	Director, Lead Independent Director	72	2013
Jay S. Sidhu	2009	Director, Chairman and Chief Executive Officer	59	2012
T. Lawrence Way, CPA J.D.	2005	Director	62	2011
Steven J. Zuckerman	2009	Director	47	2011

Pursuant to the terms of the Merger Agreement, CBI has agreed to, upon the closing of the merger, expand the size of its board by one member and appoint \_\_\_\_\_ as a director. Certain biographical information regarding \_\_\_\_\_ can be found below. Other than pursuant to the Merger Agreement, there are no arrangements or understandings between any director and any other persons pursuant to which a director was or is to be selected as a director or nominee.

Below are the biographies of CBI's directors:

Jay S. Sidhu, Chairman and Chief Executive Officer of CBI,

Mr. Sidhu joined Customers Bank as Chairman and Chief Executive Officer in the second quarter of 2009. Before joining Customers Bank, Mr. Sidhu was the Chief Executive Officer of Sovereign Bank from 1989 and its Chairman from 2002 until his retirement on December 31, 2006, and the Chairman and Chief Executive Officer of SIDHU Advisors, LLC, a consulting firm. He has received Financial World's CEO of the year award and named Turnaround Entrepreneur of the Year. He has received many other awards and honors, including a Hero of Liberty Award from the National Liberty Museum. Mr. Sidhu serves as the Executive Chairman of the board of directors of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, a federal savings bank with main offices in Jacksonville, Florida. Mr. Sidhu has also served on the boards of numerous businesses and not-for-profits, including as a member of the board of Grupo Santander. He obtained an MBA from Wilkes University and is a graduate of Harvard Business School's Leadership Course. Mr. Sidhu also helped establish the Jay Sidhu School of Business and Leadership at Wilkes University.

Mr. Sidhu's demonstration of day-to-day leadership combined with his extensive banking sector experience provide the board with intimate knowledge of Customers Bank's direction and strategic opportunities.

Bhanu Choudhrie, Director

Mr. Choudhrie has been Executive Director of C&C Alpha Group Limited, a London based family private equity group, since November 2006, and was the Executive Director of C&C Business Solutions Ltd. from June 2003 to November 2006. In July 2010, Mr. Choudhrie became a director of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, a federal savings bank with main offices in Jacksonville, Florida. Mr. Choudhrie is a private equity investor with investments in the United States, United Kingdom, Europe and Asia. C&C Alpha Group was founded in 2002. The company, with global headquarters in London, has established offices in several countries. Its team comprises entrepreneurs, financial analysts, project developers, project managers and strategy consultants.

As an executive of a UK-based firm with international interests, Mr. Choudhrie provides the board with a global market perspective.

Daniel K. Rothermel, Director and Chairman of the Risk Management Committee

Mr. Rothermel has been the President and Chief Executive Officer of Cumru Associates, Inc., a private holding company located in Reading, Pennsylvania since 1989, and served over twenty years on the board of directors of Sovereign Bancorp and Sovereign Bank. At Sovereign, he was lead independent Director and served on the Audit, Governance, and Risk Management Committee and was chairman of the Executive Committee. He is a graduate of The Pennsylvania State University with a B.S. in Business Administration (finance and accounting) and of the American University with a Juris Doctor.

Mr. Rothermel's background as an attorney and general counsel, plus his extensive service as director of Sovereign Bank provide unique and valuable perspective to the board.

John R. Miller, Director

Mr. Miller has been a member of the Board of Trustees of Wilkes University since 1996, including a tenure as Chairman of the Board from 2005 to 2008. He has also been the Chairman of the Board of Trustees of the Osborn Retirement Community since 2006. Mr. Miller served in various capacities as an accountant at KPMG, LLP, a global accounting, tax and advisory firm, from 1968 to January 2005, including a tenure as Vice Chairman from 1999 to 2004, as a member of the Board of Directors from 1993 to 1997, and as a member of the Management Committee from 1997 to 2004. He was the Chairman of the United States Comptroller General's Governmental Auditing Standards Advisory Council from 2001 to 2008. He has received the Ellis Island Medal of Honor, recognizing distinguished Americans who have made significant contributions to the nation's heritage. Mr. Miller is a graduate of Wilkes University with a B.S. in Commerce and Finance and is registered as a certified public accountant in both Pennsylvania and New York.

Mr. Miller's 36 years of experience at KPMG, LLP and 7 years as Chairman of the US Comptroller's General Auditing Standards Advisory Council have given him valuable experience and insight into auditing, accounting and financial reporting, making him a valuable asset to CBI's board. If elected, Mr. Miller will be considered an independent member of Customers Bank's board of directors, as independence for board members is defined under NASDAQ Rules. It is not currently known on which committees Mr. Miller will serve for CBI's board of directors.

T. Lawrence Way, Director and Chairman of the Audit Committee

Mr. Way is the Chairman of Alco Industries, Inc. and has been its CEO since 2000. Over the years, Mr. Way held various positions at Alco Industries, Inc., including a stretch as interim Chief Financial Officer. He is a Certified Public Accountant, received a Masters in Business Administration from Mount St. Mary's College, a Juris Doctor degree from Rutgers-Camden School of Law, and graduated from Tufts University. He has experience in varied management, finance, operations and mergers and acquisitions.

Mr. Way's background as an attorney and certified public accountant, as well as his experience leading a company through the current economic, social and governance issues as Chairman and Chief Executive Officer of Alco Industries, Inc., make him well-suited to serve on the board.

Steven J. Zuckerman, Director

Mr. Zuckerman, President and CEO of Clipper Magazine, graduated from Franklin & Marshall College with a B.A. in Business Management in 1985. While in college, he co-founded the Campus Coupon Clipper, a predecessor to Clipper Magazine, now, a full-service media company, with numerous subsidiaries, including Loyal Customer Club, Spencer Advertising & Marketing, Clipper Web Development, The Menu Company, Total Loyalty Solutions, Clipper Graphics and Clipper TV. Clipper Magazine has over 550 individual market editions in over 31 states with 1,200 employees around the country, including approximately 500 in Lancaster County, Pennsylvania. He is a partner in Opening Day Partners, owner and operator of the Atlantic League of Professional Baseball Teams and Stadiums in New Jersey, Maryland and South Central Pennsylvania.

Mr. Zuckerman's experience in the advertising industry make him uniquely situated to provide the board with insight in the key areas of marketing and customer strategies.

Executive Officers

Richard Ehst, President and Chief Operating Officer of CBI and Customers Bank - Age 64

Mr. Ehst joined Customers Bank as President and Chief Operating Officer in August 2009. Mr. Ehst was previously an Executive Vice President, Commercial Middle Market, Mid-Atlantic Division, of Sovereign Bank. Before this role, Mr. Ehst served as Regional President for Berks County from 2004 until 2009 and Managing Director of Corporate Communications for Sovereign from 2000 until 2004 where his responsibilities included reputation risk management and marketing services support systems. Mr. Ehst also began serving as a member of the County of Berks Workforce Investment board of directors in 2009. Before joining Sovereign Bank, Mr. Ehst was an independent consultant to more than 70 financial institutions in the mid-Atlantic region, including Sovereign Bank, where he provided guidance on regulatory matters, mergers and acquisitions, and risk management.

Mr. Ehst has superior knowledge and lengthy experience in the banking industry, as well as superlative business development skills which provide significant value to the board.

Thomas Brugger, Chief Financial Officer and Treasurer of CBI and Customers Bank - Age 44

Mr. Brugger is the Chief Financial Officer. He joined Customer Bank in September 2009. Mr. Brugger was employed by Sovereign Bank for 15 years in the roles of Corporate Treasurer, Chief Investment Officer and Portfolio Manager. At Sovereign Bank, Mr. Brugger was responsible for investment portfolio management, wholesale funding, liquidity, regulatory and economic capital, securitization, interest rate risk, business unit profitability, budgeting, and

treasury operations. He was Chairman of the Asset/Liability committee and all pricing committees. In addition, he participated in 19 acquisitions while at Sovereign Bank. Before Sovereign Bank, he worked in the treasury department and internal audit at Independence Bancorp.

Warren Taylor, President and Director of Community Banking - Age 52

Mr. Taylor is the President and Director of Community Banking. He joined Customers Bank in July 2009. Prior to Customers Bank, Mr. Taylor was employed by Sovereign Bank for 20 years in the role of Division President. At Sovereign Bank, Mr. Taylor was responsible for retail banking in various markets in southeastern Pennsylvania and central and southern New Jersey. Mr. Taylor was actively involved with team member selection from the branch manager role and higher.

Glenn A. Hedde, President of Customers Bank Mortgage Warehouse Lending - Age 50

Mr. Hedde is the President of Customers Bank Mortgage Warehouse Lending. He joined Customers Bank in August 2009, and immediately prior to that he provided consulting services in the banking, mortgage banking and multi-family lending industries. Mr. Hedde was the President of Commercial Operations at Popular Financial Holdings, LLC from 2000 to 2008. During his time at Popular Financial, Mr. Hedde was a member of a senior leadership team with direct responsibility for management of more than \$300 million assets in mortgage warehouse lending. Additionally, Mr. Hedde was responsible for business development, risk management, collateral operations and compliance. Mr. Hedde also previously worked in mortgage banking, business development, and credit quality management for various companies including GE Capital Mortgage Services, Inc. and PNC Bank.

## BOARD GOVERNANCE

### Director Independence

Each of Messrs. Rothermel, Way, Zuckerman and Choudhrie was considered independent in 2010, as independence for board members is defined under NASDAQ Rules. In determining that Messrs. Rothermel, Way, Zuckerman and Choudhrie meet the definition of independent, the board of directors considered routine banking transactions between Customers Bank or its affiliates and each of the directors, their family members and businesses with whom they are associated, such as loans, deposit accounts, routine purchases of insurance or securities brokerage products, any overdrafts that may have occurred on deposit accounts, any contributions CBI or Customers Bank made to non-profit organizations with whom any of the directors are associated, and any transactions that are discussed under "TRANSACTIONS WITH RELATED PARTIES" beginning on page 138 of this Joint Proxy Statement-Prospectus. In addition, when determining Mr. Zuckerman's independence, the board considered and deemed immaterial certain advertising arrangements Customers Bank has with Clipper Magazine and its affiliates, for which Mr. Zuckerman is the Chief Executive Officer.

### Information about Board Committees

CBI's board of directors has not designated any standing committees, however, it is anticipated that upon effectiveness of the reorganization, CBI will have designated each of Executive, Audit, Risk Management, Compensation and Nominating and Corporate Governance Committees. CBI's directors are expected to assume the same committee memberships on such CBI committees as they currently hold on Customers Bank's corresponding board committees. The table below highlights the current membership composition of CBI's directors on Customers Bank's board committees:

Name	Executive	Audit	Risk Management	Compensation	Nominating and Corporate Governance
		X		X	X

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Bhanu Choudhrie					
Daniel	X	X	X*	X	X*
Rothermel					
Jay Sidhu	X		X		
T. Lawrence	X	X*	X		X
Way					
Steven Zuckerman				X*	X
John R. Miller		X	X		X

\* Committee Chair



#### Compensation Committee Interlocks and Insider Participation

Messrs. Choudhrie, Rothermel, Sickler<sup>1</sup> and Zuckerman served as members of Customers Bank's Compensation Committee in 2010. None of the members of Customers Bank's Compensation Committee was an officer or employee of CBI or Customers Bank during the year 2010 or during prior years, with the exception of a portion of 2009 when Mr. Sickler served as interim Chairman of the Board. None of the members of Customers Bank's Compensation Committee had any relationship requiring disclosure pursuant to Item 404 of Regulation S-K under the Securities Act nor any other interlocking relationships as defined by the SEC.

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<sup>1</sup> After more than 10 years of service as a director, John J. Sickler's term on the boards of Customers Bank and CBI expired at Customers Bank's December 9, 2010 annual meeting of shareholders and Mr. Sickler determined not to seek reelection. During 2010, Mr. Sickler served as a member of Customers Bank's Executive Committee, and Chair of its Compensation Committee.

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

#### Customers Bank's Compensation Objectives and the Focus of Compensation Rewards

Customers Bank's compensation program is designed to attract highly qualified individuals, retain those individuals in a competitive marketplace for executive talent and motivate performance in a manner that maximizes corporate performance while ensuring that these programs do not encourage unnecessary or excessive risks that threaten the value of the bank. Customers Bank seeks to align individual performance with long-term strategic business objectives and shareholder value, and believes that the combination of executive compensation provided fulfills these objectives.

Currently, Customers Bank's executive compensation program has three key elements: (1) salary; (2) bonus and (3) long-term equity incentives. The mix of short term performance incentives versus long term incentives are reviewed annually with the intention of achieving a reasonable balance of those incentives. Customers Bank does not have set percentages of short term versus long term incentives.

Compensation philosophy is determined by the board of directors, based upon the recommendations of the Compensation Committee, which is comprised solely of independent directors. Customers Bank's chief executive officer makes recommendations to the Compensation Committee concerning the compensation of other executive officers, but does not participate in establishing his own compensation.

The guiding principle of Customers Bank's compensation philosophy is that the compensation of executive officers should be based primarily on the financial performance of the Bank, and partially on individual performance. While this "pay-for-performance" philosophy requires the Compensation Committee to first consider the Bank's profitability, the Committee does not intend to reward unnecessary or excessive risk taking. These principles are reflected in the specific elements of the compensation program, particularly the incentive bonus program, as described below.

#### Role of the Compensation and Corporate Governance Committee

The Compensation Committee assists the Board of Directors in discharging its responsibilities regarding Customers Bank's compensation and benefit plans and practices. Authority granted to the Compensation Committee is established by the board of directors. The Compensation Committee met as necessary in 2010. The Compensation Committee strongly considered the recommendations of the Chief Executive Officer regarding the other named executive officers. The actions of the Compensation Committee were presented for discussion at meetings of the full Board of Directors.

#### Specific Elements of the Compensation Program

Described below are the specific elements of Customers Bank's compensation program for executive officers.

##### Salary

Customers Bank believes that a key objective of the salary structure is to maintain reasonable "fixed" compensation costs, while taking into account the performance of the executive officers. Base salaries are paid to executive officers on a bi-weekly basis, and are reviewed annually by the Compensation Committee as described in "Compensation Methodology," above. The Compensation Committee determines if any base pay changes should be made for executive officers. All of the named executive officers for 2010 joined Customers Bank in 2009, and their initial base salaries were established by the Compensation Committee. Base pay changes, if any, are normally determined after

considering the executive's current base pay position relative to Customers Bank's peer group, Customer Bank's performance and the individual's contribution to that performance for the prior year and the national and regional economic conditions, their effect upon Customer Bank and how the executive has dealt with them within his or her area of responsibility.

In 2010, the Compensation Committee decided not to raise salaries of the named executive officers because such officers had been with Customers Bank only since 2009. The salaries disclosed in the Summary Compensation Table set forth on page 124 of this Joint Proxy Statement-Prospectus indicate the actual amount paid to each named executive officer in 2009 and 2010. Since each of the named executive officers were employed by Customers Bank for less than half of 2009, the total salary paid to each such person is significantly higher in 2010 compared to 2009, however, the salary rates were not changed during those periods.

## Bonuses

Bonuses are designed to motivate executives by rewarding performance. The Compensation Committee considers the Customers Bank's financial performance, including growth and various financial measures. As with base salary, the Compensation Committee also considers national and regional economic conditions. The chief executive officer makes recommendations to the Compensation Committee with respect to the annual bonus of the other executive officers, based on their respective contributions to the performance of the areas for which they are responsible. Based on the Customers Bank's 2009 performance, limited bonuses were paid to the named executive officers in 2010.

Bonuses earned in 2010 and approved by the Compensation Committee on February 17, 2011 are based on the judgement of the Committee and recommendations of executive management. The bonus allocated to Glenn Hedde is based on 10% of the net profit of the mortgage warehouse division. The bonus will be paid 40% in cash and 60% in restricted stock units that vest over a three year period.

## Long-Term Equity Incentive Compensation

Customers Bank's shareholders approved the Management Stock Purchase Plan, the 2010 Stock Option Plan and the Bonus Retention and Recognition Plan (referred to collectively as "equity compensation programs") at the 2010 annual meeting of shareholders held on December 9, 2010.

Customers Bank's equity compensation program permits the Compensation Committee to grant stock options and restricted stock unit awards on a discretionary basis. With the exception of warrants issued to Mr. Sidhu in connection with the capital raising activities in 2009, none of the named executive officers were granted equity awards in 2009 due to their limited employment periods. Stock options were granted to the named executive officers in 2010 at an exercise price equal to the then current market price of Customers Bank's Voting Common Stock.

## Perquisites, Post-Retirement and Other Elements of Compensation for Executive Officers

In order to attract and retain qualified executives, Customers Bank provides executives with a variety of benefits and perquisites, consisting primarily of retirement benefits through a 401(k), executive life insurance, and the use of automobiles. Details of the values of these benefits and perquisites that were paid to the named executive officers in 2010 may be found in the footnotes and narratives to the summary compensation table.

## Employment and Other Agreements

Customers Bank has entered into Employment Agreements with each of Messrs. Sidhu, Ehst and Brugger, and a Supplemental Executive Retirement Plan Agreement with Mr. Sidhu, the material elements of which are described elsewhere in this Joint Proxy Statement-Prospectus. See "EMPLOYEE BENEFITS - Officer Employment Agreements" beginning on page 134.

## Consideration of Risk

Customers Bank's compensation methods are discretionary and balance short and long-term goals for its executive officers. The Compensation Committee strives to provide strong incentives to manage Customers Bank for the long-term, while avoiding excessive risk taking in the short term. Goals and objectives reflect a fair mix of quantitative and qualitative performance measures to avoid excessive weight on a single performance measure. As a matter of best practice, beginning in 2010, the Compensation Committee intends to annually review the relationship between the risk management practices and the incentive compensation provided to the executive officers to confirm

that the incentive compensation does not encourage unnecessary and excessive risks.

#### Risk Management Checks and Balances

The Committee believes that the design and governance of Customers Bank's executive compensation program is consistent with the highest standards of risk management. The design of the executive compensation program supports Customers Bank's risk management goals through an interlocking set of checks and balances.

- Rather than determining incentive compensation awards based on a single metric, the Committee applies its informed judgment taking into account factors such as quality and sustainability of earnings, successful implementation of strategic initiatives and adherence to risk and compliance policies and other core values of Customers Bank.
- To further ensure that executive officers are focused on long-term performance, a significant portion of the incentive award is provided as a long-term equity award that does not become earned and paid until three to five years after the grant date.
- Use of equity awards aligns executive officers' interests with the interests of shareholders, and the significant stock ownership requirements further enhance this alignment.

Together, these features of the executive compensation program are intended to:

- Ensure that compensation opportunities do not encourage excessive risk taking;
- Focus executive officers on managing the bank towards creating long-term, sustainable value for shareholders; and
- Provide appropriate levels of realized rewards over time.

#### Compliance with Section 409A of the Internal Revenue Code

The executive compensation arrangements are intended to be maintained in conformity with the requirements of Section 409A of the Internal Revenue Code, which imposes certain restrictions on deferred compensation arrangements and tax penalties on the affected employees if their deferred compensation arrangements do not comply with those restrictions.

## SUMMARY COMPENSATION TABLE

The following table sets forth information for each of the named executive officers for the fiscal years ended December 31, 2010, 2009 and 2008: (1) the dollar value of base salary and bonus earned; (2) option awards; (3) all other compensation; and (4) the dollar value of total compensation.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Award (\$) (4)	Option Awards (\$) (2)	All Other Compensation (\$) (3)	Pension (\$) (6)	Total (\$)
Jay S. Sidhu Chairman & CEO	2010	225,000	225,000	1,075,000	1,683,809	7,599	2,561,677	5,778,085
	2009	120,835	120,835	--	684,923(2)	18,762 (5)	--	945,355
	2008	--	--	--	--	--	--	----
Richard A. Ehst President & COO	2010	150,000	75,000	12,500	252,371	21,500	--	511,371
	2009	55,668	27,833	--	--	5,461	--	88,962
	2008	--	--	--	--	--	--	----
Thomas R. Brugger EVP & Chief Financial Officer	2010	145,000	72,500	125,000	252,371	5,374	--	600,245
	2009	45,281	22,640	--	--	2,751	--	70,672
	2008	--	--	--	--	--	--	----
Warren Taylor President and Director of Community Banking	2010	134,615	50,000	187,500	51,570	1,508	--	425,193
	2009	64,620	10,000	--	--	632	--	75,252
	2008	--	--	--	--	--	--	----
Glenn A. Hedde President of Customers Bank Mortgage Warehouse Lending	2010	125,000	150,000(7)	368,752	10,314	6,073	--	660,139
	2009	50,584	5,000	--	--	1,932	--	57,516
	2008	--	--	--	--	--	--	----

- (1) The columns disclosing Non-Equity Incentive Plan Compensation and Non- Qualified Deferred Compensation Earnings have been omitted from the table because no named executive officer earned any compensation during 2010, 2009 or 2008 of a type required to be disclosed in those columns.
- (2) Represents the grant date fair value, as calculated in accordance with FASB ASC Topic 718, including 834,350 immediately exercisable warrants to purchase Voting Common Stock of Customers Bank granted to Mr. Sidhu in connection with the 2009 private offering.
- (3) In addition to the items specified in footnotes (5) and (6) below, the amounts listed in this column include for each named executive officer insurance premiums paid under Customers Bank's insurance plans available to all employees, and matching 401(k) contributions paid under Customers Bank's 401(k) Retirement Savings and Profit Sharing Plan, as well as car allowance payments for each of Messrs. Ehst and Brugger. For a summary of Customers Bank's insurance plans, see "EMPLOYEE BENEFITS-Insurance" at page 133 of this Joint Proxy Statement-Prospectus. For a summary of the 401(k) Retirement Savings and Profit Sharing Plan, see "EMPLOYEE BENEFITS-401(k) Retirement Savings and Profit Sharing Plan" at page 133 of this Joint Proxy Statement-Prospectus.

(4)

Represents the aggregate grant date fair value calculated in accordance with FASB ASC Topic 718 of awards to purchase shares of Customers Bank Common Stock at a purchase price of \$1.00 per share, granted pursuant to the Management Stock Purchase Plan. For a summary of the Management Stock Purchase Plan, see the description on 118 of this Joint Proxy Statement-Prospectus.

- (5) Includes \$14,755 paid as a car allowance for Mr. Sidhu in 2009.
- (6) Reflects the aggregate present value of the benefits under Mr. Sidhu's supplemental executive retirement plan that became effective upon the acquisition of USA Bank on July 9, 2010.
- (7) Represents aggregate bonus for 2010 of which \$293,752 will be paid through the issuance of 73,438 shares of restricted stock units in February 2011 under the 2004 Incentive Equity and Deferred Compensation Plan. The restricted stock units vest over a three year period.



## GRANTS OF PLAN-BASED AWARDS(9)

Name	Grant date	All other stock awards: Number of shares of stock (#)	All other awards: Number of securities underlying options (#) (2)	Exercise or base price of option awards (\$/Sh)	Grant date fair value of stock and option awards (\$)
Jay S. Sidhu	4/6/2010	--	1,346,262 (3)	3.25	1,388,534(3)
	7/14/2010	--	35,000 (4)	3.50	32,071(4)
	7/9/2010	430,000 (1)	--	--	--
	12/28/2010	--	223,262 (5)	4.00	263,204(5)
	2/28/2011	--	3,394 (6)	4.00 (6)	3,666(6)
	4/6/2010	--	201,939 (3)	3.25	208,280(3)
Richard A. Ehst	7/14/2010	--	5,250 (4)	3.50	4,811(4)
	7/9/2010	5,000 (1)	--	--	--
	12/28/2010	--	33,489 (5)	4.00	39,481(5)
	2/28/2011	--	509 (6)	4.00 (6)	550(6)
	4/6/2010	--	201,939 (3)	3.25	208,280(3)
Thomas R. Brugger	7/14/2010	--	5,250 (4)	3.50	4,811(4)
	7/9/2010	50,000 (1)	--	--	--
	12/28/2010	--	33,489 (5)	4.00	39,481(5)
	2/28/2011	--	509 (6)	4.00 (6)	550(6)
Warren Taylor	4/6/2010	--	50,000 (3)	3.25	51,570(3)
	7/9/2010	75,000 (1)	--	--	--
	2/17/2011	--	50,000 (7)	4.00 (7)	55,230(7)
Glenn A. Hedde	4/6/2010	--	10,000 (3)	3.25	10,314(3)
	7/9/2010	30,000 (1)	--	--	--
	2/17/2011	--	25,000 (7)	4.00 (7)	27,615(7)
	2/17/2011	73,438 (8)	--	4.00 (8)	293,752(8)

(1) Reflects restricted stock shares issued under the Management Stock Purchase Plan at \$1.00 per share.

(2) Includes options awarded on April 6, 2010 with an exercise price of \$3.25 and vesting of 20% per year on the first through fifth anniversary date of grant, options awarded on July 14, 2010 to Messrs. Sidhu, Ehst and Brugger with an exercise price of \$3.50 and vesting of 20% per year on the first through fifth anniversary date of grant, options awarded on December 28, 2010 to Messrs Sidhu, Ehst, and Brugger with an exercise price of \$4.00 and vesting of 20% per year on the first through fifth anniversary date of grant, options awarded on February 17, 2011 to Messrs Taylor and Hedde with an exercise price of \$4.00 per share and vesting of 20% per year on the fifth anniversary date of grant, and options awarded on February 28, 2011 to Messrs Sidhu, Ehst and Brugger with an exercise price of \$4.00 per share and vesting of 20% per year on

- the first through fifth anniversary date of grant. All options are non-qualified stock options.
- (3) This value is based upon the Black-Scholes option valuation model, which estimates the present dollar value of Customer Bank's common stock to be \$1.03 per share under option. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes model. The assumptions underlying the Black-Scholes model include: (a) an expected volatility of 20%; (b) a risk-free rate of return of 3.28%, which equals the zero-coupon rate paid on U.S. Treasury bonds with lives approximating the expected term of the option as of the grant date; (c) Customers Bank's has not paid dividends through 2010 and (d) an expected term of 7 years.
- (4) This value is based upon the Black-Scholes option valuation model, which estimates the present dollar value of the company's common stock option to be \$0.92 per share under option. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes model. The assumptions underlying the Black-Scholes model include: (a) an expected volatility of 20%; (b) a risk-free rate of return of 1.82%, which equals the zero-coupon rate paid on U.S. Treasury bonds with lives approximating the expected term of the option as of the grant date; (c) Customers Bank's has not paid dividends through 2010 and (d) an expected term of 7 years.

- (5) This value is based upon the Black-Scholes option valuation model, which estimates the present dollar value of the company's common stock option to be \$1.178 per share under option. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes model. The assumptions underlying the Black-Scholes model include: (a) an expected volatility of 20%; (b) a risk-free rate of return of 2.89%, which equals the zero-coupon rate paid on U.S. Treasury bonds with lives approximating the expected term of the option as of the grant date; (c) Customers Bank's has not paid dividends through 2010 and (d) an expected term of 7 years.
- (6) This value is based upon the Black-Scholes option valuation model, which estimates the present dollar value of Customer Bank's common stock to be \$1.0801 per share under option. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes model. The assumptions underlying the Black-Scholes model include: (a) an expected volatility of 20%; (b) a risk-free rate of return of 2.13%, which equals the zero-coupon rate paid on U.S. Treasury bonds with lives approximating the expected term of the option as of the grant date; (c) Customers Bank's has not paid dividends through 2010 and (d) an expected term of 7 years.
- (7) This value is based upon the Black-Scholes option valuation model, which estimates the present dollar value of Customer Bank's common stock to be \$1.1046 per share under option. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes model. The assumptions underlying the Black-Scholes model include: (a) an expected volatility of 20%; (b) a risk-free rate of return of 2.30%, which equals the zero-coupon rate paid on U.S. Treasury bonds with lives approximating the expected term of the option as of the grant date; (c) Customers Bank's has not paid dividends through 2010 and (d) an expected term of 7 years.
- (8) Reflects restricted stock units issued under the 2004 Incentive Equity and Deferred Compensation Plan.
- (9) The columns disclosing Estimated Future Payouts Under Non-Equity Incentive Plan Awards and Estimated Future Payouts Under Equity Incentive Plan Awards have been omitted from the table because no named executive officer earned any compensation of a type required to be disclosed in those columns.

#### 2004 Incentive Equity and Deferred Compensation Plan

During 2004, the shareholders of Customers Bank approved the 2004 Incentive Equity and Deferred Compensation Plan ("2004 Plan"), the purpose of which is to promote the success and enhance the value of Customers Bank by linking the personal interests of the members of the board of directors and Customers Bank's employees, officers and executives to those of Customers Bank's shareholders and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to shareholders of Customers Bank. The 2004 Plan is further intended to provide flexibility to Customers Bank in its ability to motivate, attract and retain the services of members of the board of directors, employees, officers and executives of Customers Bank.

The 2004 Plan is administered by the Compensation Committee of the board of directors. It provides for the grant of options, some or all of which may be structured to qualify as incentive stock options if granted to employees, and for the grant of stock appreciation rights, restricted stock and unrestricted stock up to a total of 200,000 shares of Voting Common Stock.

#### Management Stock Purchase Plan

In December 2010, Customers Bank's shareholders approved Customers Bank's Management Stock Purchase Plan (the "Management Stock Purchase Plan"), which consists of a pool of 700,000 shares of Common Stock of Customers Bank (or any successor bank or holding company of Customers Bank) that may be offered for purchase by senior management personnel at a deeply-discounted purchase price of \$1.00 per share during a short election period. The Management Stock Purchase Plan is intended to provide Customers Bank with a flexible way to motivate, attract, and retain the services of employees, officers, and executives upon whose judgment, interest, and special effort the successful conduct of Customers Bank's operation largely depends. The Management Stock Purchase Plan promotes the success and enhances the value of Customers Bank by linking the personal interests of executive and senior management-level employees of Customers Bank to those of shareholders, and by providing those individuals with an incentive for outstanding performance in order to generate superior returns to shareholders.

The Management Stock Purchase Plan is administered by the Compensation Committee of the board of directors or, in certain cases, by the full board of directors. The Compensation Committee, or the full board if applicable, has the authority to determine which senior management personnel may be granted the right to purchase shares under the Management Stock Purchase Plan, and to make decisions and interpretations necessary to administer the Management Stock Purchase Plan. In making determinations, the Compensation Committee may consider the nature of services rendered by the individual, his or her present and potential contributions to Customers Bank's success and other factors as the Committee in its discretion deems relevant. Unless sooner terminated by the board, the Management Stock Purchase Plan will expire ten (10) years from the date the Management Stock Purchase Plan was approved by the shareholders of Customers Bank, which was December 9, 2010. Offers granted under the Management Stock Purchase Plan are, by the Plan's terms, not transferable other than by will or laws of descent and distribution. No right or interest of a participant in any offer may be pledged, encumbered, or hypothecated to or in favor of any party other than Customers Bank, or be subject to any lien, obligation, or liability of the participant to any other party other than Customers Bank. However, the foregoing does not imply any obligation of Customers Bank to lend against or accept a lien or pledge of any offer for any reason.

## 2010 Stock Option Plan

In December 2010, Customers Bank's shareholders approved the 2010 Stock Option Plan (the "Stock Option Plan") which provides for the grant of stock options to management personnel, other employees of Customers Bank, and non-employee members of the board of directors. The purpose of the Stock Option Plan is to promote the success and enhance the value of Customers Bank by linking the personal interest of employees, officers, executive and non-employee directors of Customers Bank to those of shareholders and by providing those individuals with an incentive for outstanding performance in order to generate superior returns to shareholders. The Stock Option Plan provides flexibility for Customers Bank to motivate, attract, and retain the services of employees, officers, and executives upon whose judgment, interest, and special effort the successful conduct of Customers Bank's operation largely depends. The options can take the form of either tax-qualified incentive stock options under Section 422 of the Code ("ISOs") or non-qualified stock options ("NQOs"), although only NQOs may be granted to non-employee directors.

The Stock Option Plan consists of a pool of the lesser of ten million (10,000,000) shares of Common Stock Customers Bank, or fifteen percent (15%) of the number of shares of Common Stock and Class B Non-Voting Common Stock issued by Customers Bank in consideration of cash or other property after December 31, 2009. The Stock Option Plan is administered by the Compensation Committee of the board of directors or, in certain cases, by the full board of directors. The maximum number of shares underlying options granted to any single participant during a fiscal year shall be six million six hundred sixty six thousand six hundred sixty seven (6,666,667) shares of Common Stock or Class B Non-Voting Common Stock. All employees are potentially eligible to receive options under the Stock Option Plan. In making determinations regarding the potential eligibility of any employee, the Compensation Committee may take into account the nature of the services rendered by the employee, his or her present and potential contributions to Customers Bank's success and such other factors as the Compensation Committee in its discretion deems relevant.

The Compensation Committee is authorized to grant stock options to participants subject to the following terms and conditions: (1) the exercise price per share of an option must not be less than the fair market value of one share at the time the option is granted, and the term of an option must not be longer than ten (10) years from the date of grant; and (2) in the case of a participant who owns stock representing more than 10% of the total combined voting power of Customers Bank at the time of the grant of an option to that participant, the option cannot qualify as an ISO unless the exercise price is at least 110% of the fair market value of the stock at the time of grant and the term is not longer than five years from the date of grant.

Unless sooner terminated by the board, the Stock Option Plan will expire ten (10) years from the date the Stock Option Plan was approved by the shareholders of Customers Bank, which was December 9, 2010. The termination of the Stock Option Plan must not affect any option that is outstanding on the termination date without the consent of the participant. Offers granted under the Stock Option Plan are, by its terms, not transferable other than by will or laws of descent and distribution. No right or interest of a participant in any offer may be pledged, encumbered, or hypothecated to or in favor of any party other than Customers Bank, or be subject to any lien, obligation, or liability of that participant to any other party other than Customers Bank; provided, however, that the foregoing must not be deemed to imply any obligation of Customers Bank to lend against or accept a lien or pledge of any offer for any reason.

The Compensation Committee recently approved equity compensation awards to certain named executive officers and members of senior management under each of the Management Stock Purchase Plan and Stock Option Plan.

## Stock Option Grants in Connection with Recent Private Offerings

In connection with a recent offering, under its 2010 Stock Option Plan, Customers Bank granted 10-year nonqualified stock options to members of its senior management team for shares up to 15% of the offered shares. Of these, 10% were granted to Mr. Sidhu and 3.0% were granted to other executive officers, with the remainder being granted to unidentified employees. As long as an individual to whom these options are granted remains an employee or director of Customers Bank, as the case may be, the options will vest 5 years from the date of grant, subject to earlier vesting upon a change in control of Customers Bank or a termination without cause of the executive's employment (but not, in the case of employees other than Mr. Sidhu, termination of employment upon voluntary resignation). In Mr. Sidhu's case, the options will vest upon his resignation for "Good Reason" in accordance with the provisions of his employment agreement but not on any other voluntary resignation. Vesting of each award is also contingent upon achievement, at any time during the option life, of a performance goal that the market price of Customers Bank's Voting Common Stock appreciate by 50%.

#### Bonus Recognition And Retention Program

In December 2010, Customers Bank's shareholder approved the Bonus Recognition and Retention Program (the "BRRP") which provides specified benefits to a select group of management and highly compensated employees who contribute materially to the continued growth, development and future business success of Customers Bank that are eligible under the BRRP. Participation in the BRRP is limited to a select group of management and highly compensated employees, as determined by the Compensation Committee in its sole discretion. From that group, the Committee selects, in its sole discretion, the employees who are eligible to participate in the BRRP, which always includes Customers Bank's Chief Executive Officer.

As a condition of participation, each selected employee must annually complete and return to the Committee (or its designee) the forms the Committee may prescribe, including an annual deferral election form. Each election made by a participant to defer receipt of a portion of his or her bonus for a given calendar year must be filed no later than December 31 prior to the calendar year with respect to which the relevant bonus may be earned; provided, however, in the event an employee is hired during a plan year and is designated as being eligible to participate for that year, the employee may commence participation for that year by filing a deferral election within 30 days of employment. Each eligible employee must file a new deferral election for each year with respect to which he or she desires to defer receipt of a portion of a bonus.

A participant may elect to defer receipt of not less than 25%, nor more than 50%, of his or her bonus payable with respect to each year of participation. Shares of Common Stock having a value equal to the portion of the bonus deferred by a participant will be allocated to an annual deferral account (the "Annual Deferral Account") established by Customers Bank for the year of deferral. On the same day that the shares of Common Stock attributable to a deferred bonus are allocated to the Annual Deferral Account, a matching amount equal to an identical number of shares of Common Stock shall be allocated to the Annual Deferral Account. . The Annual Deferral Account shall be increased by that number of shares of Common Stock having a value equal to the amount of any cash dividend payable with respect to the number of shares of Common Stock allocated to the Annual Deferral Account.

In the event a participant files a deferral election and subsequently terminates as an employee prior to the date bonuses are paid for in that year, the deferral election filed for that year shall be administered as provided in the BRRP. In such event, if (a) he or she is entitled to a bonus notwithstanding termination or (b) the termination of employment is related to death, disability, or is involuntary or related to a change in control, then the bonus and the related matching amount shall be distributed to the individual or his or her beneficiary in cash or invested and so distributed in Common Stock, at the Compensation Committee's election, within 60 days following the date that year's bonuses are paid.

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 Customers Bank or any subsidiaries from the date of funding to the anniversary date. All required tax withholding with respect to an employee's participation in the BRRP is his or her responsibility.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE—NAMED EXECUTIVE OFFICERS

The following table sets forth information on outstanding warrants and options awards held by the named executive officers at February 28, 2011, including the number of shares underlying each stock option and warrant as well as the exercise price and the expiration date of each outstanding option and warrant.

Name & Principal Position	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Warrants or Options (#)	Number of Securities Underlying Unexercised Warrants or Options (#)	Warrant or Option Exercise Price (\$)	Warrant or Option Expiration Date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)
Jay S. Sidhu Chairman & CEO	571,918 (2)	-	3.50 (2)	6/30/2016	-	-
	65,671 (2)	-	3.50 (2)	9/30/2016	-	-
	181,895 (2)	-	3.50 (2)	11/13/2016	-	-
	-	1,346,262 (3)	3.25 (3)	4/6/2017	-	-
	-	35,000 (4)	3.50 (4)	7/14/2017	-	-
	-	198,262 (5)	4.00 (5)	12/28/2017	-	-
Richard A. Ehst President & COO	-	3,394 (7)	4.00 (7)	2/17/2018	-	-
	-	201,939 (3)	3.25 (3)	4/6/2017	-	-
	-	5,250 (4)	3.50 (4)	7/14/2017	-	-
	-	33,489 (5)	4.00 (5)	12/28/2017	-	-
Thomas R. Brugger EVP & Chief Financial Officer	-	509 (7)	4.00 (7)	2/17/2018	-	-
	-	201,939 (3)	3.25 (3)	4/6/2017	-	-
	-	5,250 (4)	3.50 (4)	7/14/2017	-	-
	-	33,489 (5)	4.00 (5)	12/28/2017	-	-
Warren Taylor President and Director of Community Banking	-	509 (7)	4.00 (7)	2/17/2018	-	-
	-	50,000 (3)	3.25 (3)	4/6/2017	-	-
Glenn A. Hedde President of Customers Bank Mortgage Warehouse Lending	-	50,000 (6)	4.00 (6)	2/17/2018	-	-
	-	10,000 (3)	3.25 (3)	4/6/2017	-	-
	-	25,000 (6)	4.00 (6)	2/17/2018	73,438 (8)	\$4.00

- (1) The columns disclosing “equity incentive plan awards - number of securities underlying unexercised unearned options,” have been omitted from the table because no named executive officer had any awards described in those columns outstanding at fiscal year end.
- (2) Represents immediately exercisable warrants to purchase Voting Common Stock of Customers Bank granted to Mr. Sidhu in connection with an agreement between Customers Bank and Mr. Sidhu relating to the 2009 private offerings.
- (3) Stock options awarded in April 2010 vest at the rate of 20% per year, with vesting dates of 4/6/2011, 4/6/2012, 4/6/2013, 4/6/2014 and 4/6/2015.



- (4) Stock options awarded in July 2010 vest at the rate of 20% per year, with vesting dates of 7/14/2011, 7/14/2012, 7/14/2013, 7/14/2014 and 7/14/2015.
- (5) Stock options awarded in December 2010 vest at the rate of 20% per year, with vesting dates of 12/28/2011, 12/28/2012, 12/28/2013, 12/28/2014 and 12/28/2015.
- (6) Stock options awarded in February 2011 vests at the rate of 20% per year, with vesting dates of 2/17/2012, 2/17/2013, 2/17/2014, 2/17/2015 and 2/17/2016.
- (7) Stock options awarded in February 2011 vests at the rate of 20% per year, with vesting dates of 2/28/2012, 2/28/2013, 2/28/2014, 2/28/2015 and 2/28/2016.
- (8) These restricted stock units will vest on the anniversary of their grant date (February 17, 2011) at a rate of 33.3% per year with vesting dates of 2/17/2012, 2/17/2013 and 2/17/2014.

## OPTION EXERCISES AND STOCK VESTED

Name	Option awards		Stock awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Jay S. Sidhu Chairman & CEO	N/A	N/A	430,000	1,075,000
Richard A. Ehst President & COO	N/A	N/A	5,000	12,500
Thomas R. Brugger EVP & Chief Financial Officer	N/A	N/A	50,000	125,000
Warren Taylor President and Director of Community Banking	N/A	N/A	75,000	187,500
Glenn A. Hedde President of Mortgage Warehouse Lending	N/A	N/A	30,000	75,000

## PENSION BENEFITS

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit (\$)	Payments during last fiscal year (\$)
Jay S. Sidhu	Supplemental Executive Retirement Plan for Jay S. Sidhu	--	2,561,677	--
Richard A. Ehst	--	--	--	--
Thomas R. Brugger	--	--	--	--
Warren Taylor	--	--	--	--
Glenn A. Hedde	--	--	--	--

- (1) As a result of the acquisition of USA Bank on July 9, 2010, Mr. Sidhu's SERP became effective and Mr. Sidhu is entitled to receive the balance of the SERP account payable over 15 years commencing upon the later of his separation from service or his 65th birthday. If Mr. Sidhu dies prior to his payment commencement date, his beneficiary receives a lump sum payment equal to \$3,000,000. If Mr. Sidhu dies after reaching age 65, his beneficiary receives the remainder of his scheduled retirement benefits. If Customers Bank terminates Mr. Sidhu's employment for cause, he forfeits the benefits provided under the SERP.



## Potential Payments upon Termination or Change in Control (1)

The table below shows the value of estimated payments pursuant to the employment agreements, equity plans and other non-qualified plans described above upon a termination of employment, including gross-up payments for any excise tax on the parachute payments upon a change of control, for each of Messrs. Sidhu, Ehst, Brugger, Taylor and Hedde. The payments represent the maximum possible payments under interpretations and assumptions most favorable to the executive officer. All termination events are assumed to occur on December 31, 2010. Actual payments to a terminated executive officer may be more or less than the amounts contained in the various agreements and plans. In addition, certain amounts currently are vested and, thus, do not represent an increased amount of benefits.

## Jay S. Sidhu

Assuming one of the following events had occurred on December 31, 2010, Mr. Sidhu's payments and benefits had an estimated value as follows:

Termination Reason	Change in Control Payment (2)	Accelerated Vesting of Stock Options (3)	Value of Health and Welfare Benefits (4)	Life Insurance Benefit Paid (5)
	(\$)	(\$)	(\$)	(\$)
Voluntary with 'Good Reason'	\$ 1,350,000	\$ 1,027,197	\$ 33,000	\$-
Involuntary without 'Cause'	1,350,000	1,027,197	33,000	-
Death	-	1,027,197	33,000	3,000,000
Change in Control (with or without adverse employment action)	\$ 1,350,000	\$ 1,027,197	\$-	\$-

## Richard A. Ehst

Assuming one of the following events had occurred on December 31, 2010, Mr. Ehst's payments and benefits had an estimated value as follows:

Termination Reason	Change in Control Payment (2)	Accelerated Vesting of Stock Options (3)	Value of Health and Welfare Benefits (4)	Life Insurance Benefit Paid (5)
	(\$)	(\$)	(\$)	(\$)
Voluntary with 'Good Reason'	\$ 675,000	\$ 154,079	\$ 33,000	\$-
Involuntary without 'Cause'	675,000	154,079	33,000	-
Death	-	154,079	33,000	500,000
Change in Control (with or without adverse employment action)	\$ 675,000	\$ 154,079	\$-	\$-



Thomas R. Brugger

Assuming one of the following events had occurred on December 31, 2010, Mr. Brugger's payments and benefits had an estimated value as follows:

Termination Reason	Change in Control Payment (2) (\$)	Accelerated Vesting of Stock Options (3) (\$)	Value of Health and Welfare Benefits (4) (\$)	Life Insurance Benefit Paid (5) (\$)
Voluntary with 'Good Reason'	\$425,000	\$ 154,079	\$22,000	\$-
Involuntary without 'Cause'	435,000	154,079	22,000	-
Death	-	154,079	22,000	200,000
Change in Control (with or without adverse employment action)	\$435,000	\$ 154,079	\$-	\$-

- (1) The columns disclosing "Salary continuation, Accrued and unpaid PTO, Severance payments, Long-term disability or Excise tax gross-up payments" have been omitted from the table because no named executive officer had any such items within their employment agreements described in those columns outstanding at fiscal year end.
- (2) Represents continuation of salary payments for the payout period provided under each named executive officers then-applicable employment agreement.
- (3) Represents the aggregate value of the executive's unvested stock options that would have vested on an accelerated basis, determined by multiplying the number of accelerating option shares by the fair market value of our common stock (\$4.00, based upon common shares issued on or around December 28, 2010).
- (4) Represents the cost of Customers Bank subsidized benefits for the payout period provided under the named executive officers then applicable employment agreement, based on current estimated costs to provide such coverage.
- (5) Represents continuation of salary payments for the payout period provided under each named executive officers then-applicable employment agreement.
- (6) Represents life insurance payout provided under each named executive officers then-applicable employment agreement.

#### NONQUALIFIED DEFERRED COMPENSATION

Customers Bank did not pay any nonqualified deferred compensation to its named executive officers in 2010, 2009 or 2008.

## DIRECTOR COMPENSATION

## DIRECTOR COMPENSATION TABLE(1)

Customers Bank has compensated its directors for their services and expects to continue this practice. Information relating to the compensation of Customers Bank's directors during 2010 is set forth below.

Name & Principal Position	Fees Earned or Paid in Cash	Stock Awards(2)	All Other Compensation	Total
Bhanu Choudhrie	\$6,000	\$6,000	--	\$12,000
Kenneth B. Mumma, J.D.	\$6,000	\$6,000	\$135,000(3)	\$147,000
Daniel K. Rothermel, J.D.	\$6,000	\$6,000	--	\$12,000
John J. Sickler, CPA	\$6,000	\$6,000	--	\$12,000
T. Lawrence Way, CPA J.D.	\$6,000	\$6,000	--	\$12,000
Steven J. Zuckerman	\$6,000	\$6,000	--	\$12,000
John R. Miller	\$2,500	\$2,500	--	\$5,000

- (1) The columns disclosing non-qualified deferred compensation earnings and non-equity incentive plan compensation have been omitted from the table because no director earned any compensation during 2010 of a type required to be disclosed in those columns.
- (2) Includes shares of Customers Bank Common Stock issued to each board member worth \$500 per meeting based upon the book value of the preceding month. All directors, excluding John R. Miller, received 1,599 shares for 2010. Mr. Miller received 600 shares since his election as a director for service from August 2010 through the end of 2010.
- (3) Represents fees paid to Mr. Mumma under a consulting agreement put in place upon his retirement as Chief Executive Officer in June 2009. See information provided in the Summary Compensation Table above for other compensation earned by Mr. Mumma as chief executive officer during 2009.

In 2010, each director received \$500 for every meeting of the board of directors he attended. No fees were paid in connection with committee meetings. In 2010, the board approved a revision to the director compensation policy. Under the new policy, each director will be entitled to \$1,500 in cash for each month he serves as a director, and an award of Voting Common Stock equal to \$500, calculated based on the book value of such shares on the date of grant, or, in the event the stock issued is listed on a national securities exchange, the closing trading price as reported by such exchange on the date of grant. In the event an individual ceases to be a member of the board of directors other than on the last day of a given month, the individual will be entitled to his monthly director fee only if he has attended a meeting of the board of directors in that month.

## EMPLOYEE BENEFITS

Customers Bank provides health, vision and dental insurance to the named executive officers on terms similar to those provided to other employees generally. Customers Bank also provides car allowances to each of Messrs. Ehst and Brugger, and in 2009, Customers Bank purchased a company car to be used by Mr. Sidhu. In accordance with his employment agreement, currently the premiums on a life insurance policy for Mr. Sidhu are paid by Customers Bank. See "EMPLOYEE BENEFITS - Insurance" on page 133 of this Joint Proxy Statement-Prospectus.

401(k) Retirement Savings and Profit Sharing Plan

Customers Bank has a 401(k) profit sharing plan whereby eligible employees may contribute up to 15% of their salary to such plan. Customers Bank provides a matching contribution equal to 50% of the first 6% of the contribution made by the employee. Employer contributions for the years ended December 31, 2010 and 2009 were approximately \$101 thousand and \$56 thousand respectively.

#### Insurance

All eligible full-time employees of Customers Bank are covered as a group by basic hospitalization, major medical, long-term disability, term life and prescription drug plans. Customers Bank pays the total cost of such plans for employees with the exception of the major medical and the prescription drug plan, in which cost sharing and co-payments are required by the employees.



## Officer Employment Agreements

On June 17, 2009, Customers Bank entered into a three-year employment agreement with Jay Sidhu as Chairman and CEO of Customers Bank. Under the terms of agreement Mr. Sidhu will receive a minimum base salary of \$225,000 per year plus a performance-based incentive bonus and a car allowance of \$1,000 per month. At the end of each year, the term of the agreement is to extend another year unless Mr. Sidhu or Customers Bank gives notice to the contrary. Mr. Sidhu will also be entitled to cash or equity incentive compensation up to the amount of his base salary under an executive incentive plan to be approved by the board of directors. Mr. Sidhu's employment agreement also provides that, for every issuance of shares made by Customers Bank in connection with an acquisition or a raise of capital, Customers Bank must grant to Mr. Sidhu options or warrants to purchase up to 10% of the shares issued in such issuance. Customers Bank's board of directors and Mr. Sidhu intend that future equity compensation grants to management will be submitted for shareholder approval. Customers Bank's board of directors and Mr. Sidhu also intend that, to the extent of future capital raises up to \$200 million, the Stock Option Plan more fully described beginning on page 126 of this Joint Proxy Statement-Prospectus will fulfill the provisions of Mr. Sidhu's employment agreement requiring Customers Bank to issue to Mr. Sidhu options or warrants to acquire up to 10% of the shares issued in connection with acquisitions or raises of capital.

Under the employment agreement, Customers Bank also agreed that its board of directors will develop and implement a nonqualified retirement income plan designed to provide him with a pension, targeted at \$200,000 per year (depending on performance of the investments in the informal funding vehicle) for 15 years commencing upon his retirement at or after age 65, subject to his ability to qualify for a variable life insurance policy to be owned by Customers Bank to fund the plan. The board of directors is to review the plan at the end of the fourth year of his employment and determine whether it is appropriate to increase the target benefit amount in light of his compensation at that time. Under the employment agreement, Mr. Sidhu was to become vested in this retirement benefit after seven years of continuous service with Customers Bank, or upon his termination of employment under circumstances that would result in Customers Bank's obligation to pay him severance compensation. Ultimately, the plan which was developed and approved by the board of directors provided for funding towards a target benefit of \$300,000 per year, and for immediate vesting upon the effective date of the plan. See discussion of the "Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer" on page 135 of this Joint Proxy Statement-Prospectus.

As of April 12, 2010, Customers Bank also entered into a three-year employment agreement with Mr. Ehst, and a two-year employment agreement with Mr. Brugger. Under the terms of these agreements, Messrs. Ehst and Brugger will receive minimum base salaries of \$150,000 and \$145,000, respectively, plus incentive compensation in cash or equity or both and in such amounts as determined by the board of directors in accordance with incentive programs developed for them. Each of Messrs. Ehst and Brugger's employment agreements provide that, for every issuance of shares made by Customers Bank in connection with an acquisition or a raise of capital, Customers Bank must grant to such individual warrants to purchase up to 1.5% of the same type of security as was issued in such issuance.

Each of Messrs. Sidhu, Ehst and Brugger will be entitled to severance compensation under the agreement if he terminates his employment for "Good Reason" (as defined in their respective employment agreements), if his employment is terminated by Customers Bank other than for "Cause" (as defined in their respective employment agreements) during the employment term or on expiration of the employment term. If a "Change in Control" (as defined in their respective employment agreements) has not occurred within twelve months before termination of his employment, then: (1) he will receive the sum of his then current base salary plus the average of his last three years' annual cash bonuses, for the greater of one year<sup>(a)</sup> or the period of time remaining in his employment term, generally payable in equal installments on his normal pay dates, subject to normal tax deductions and withholding; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; (4) Customers Bank will continue to provide health insurance (including dental if applicable) and any life or

disability insurance benefits (“health benefits”) for the shorter of the period (up to three years with respect to Mr. Sidhu) on which his cash severance compensation is measured or the maximum period Customers Bank is then permitted to extend his benefit under the applicable plan or policy or applicable law; and (5) if applicable any “parachute payment” excise tax under Section 4999 of the Code, grossed up to include any additional taxes payable on that benefit. If a Change in Control shall have occurred within twelve months before termination of his employment, then: (1) he will receive cash equal to three times the sum of his then current base salary plus the average of his annual cash bonuses for the immediately preceding three years, payable in a lump sum; (2) any unvested equity awards he has received will vest in full; (iii) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; (3) Customers Bank shall continue to provide health benefits for the shorter of three years or the maximum period Customers Bank is then permitted to extend his benefit under the applicable plan or policy or applicable law; and (4) if applicable any “parachute payment” excise tax under Section 4999 of the Code, grossed up to include any additional taxes payable on that benefit.

CBI will assume Customers Bank’s obligations under these employment agreements.

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- (a) On February 17, 2011, the Compensation Committee of Customers Bank approved amendments to each of Messrs. Sidhu, Ehst and Brugger's employment agreements changing this time period. For Mr. Sidhu, the Compensation Committee extended the term of severance from the greater of one year or the period remaining in his employment term to the greater of three years or the remainder of his employment term. For Messrs. Ehst and Brugger, the term was extended to the greater of two years or the remainder of his employment term. No formal amendments to any of Messrs. Sidhu's, Ehst's or Brugger's employment agreements have been finalized at the time of filing this Join Proxy Statement - Prospectus.

Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer

Pursuant to Mr. Sidhu's employment agreement, Customers Bank has established a supplemental executive retirement plan ("SERP") for Mr. Sidhu. As a result of Customers Bank's acquisition of USA Bank on July 9, 2010, the SERP became effective and the present value of the payments was recorded in the third quarter of 2010.

The SERP is a deferred compensation plan whereby Customers Bank will create a reserve account on its books for Mr. Sidhu. Customers Bank will credit five, annual and uniform amounts to this account that are sufficient to create a hypothetical fund that would provide payments of \$300,000 per year for fifteen years commencing on Mr. Sidhu's sixty-fifth birthday, assuming a rate of return of 7% per year, compounded annually. Additionally, Customers Bank will credit the account with any gains or losses as if Customers Bank had deposited the amounts in certain investment funds selected by Mr. Sidhu. Mr. Sidhu's vested interest in the SERP shall be zero percent (0%) at all times prior to the Effective Date, but his vested interest shall be 100% vested on and after the Effective Date.

Mr. Sidhu's entire interest in the account will be paid to him in fifteen annual installments generally upon the later of (a) his separation from service with Customers Bank, or (b) his sixty-fifth birthday. Any portion of Mr. Sidhu's interest in the account remaining upon his death will be paid to his beneficiary in a single lump sum.

In the event of Mr. Sidhu's death prior to the commencement of payments, \$3,000,000 will be paid to his beneficiary in a single lump sum whether his death occurs before or after the Effective Date.

These obligations under the SERP will be general unsecured obligations by Customers Bank to pay money in the future. Mr. Sidhu will have no rights to any assets or investments held by Customers Bank to meet its obligations under the SERP, except as a general creditor of Customers Bank.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of April 11, 2011, with respect to the beneficial ownership of each director, each beneficial owner known to Customers Bank of more than five percent (5%) of the outstanding Voting Common Stock, executive officers and all directors and executive officers as a group.

Name and Address of Beneficial Owner(4)	Voting Common Stock (1)	Exercisable Stock Options or Warrants to Purchase Voting Common Stock (9)	Percent of Class of Voting Common Stock (2)	Class B Non-Voting Common Stock	Exercisable Stock Options or Warrants to Purchase Class B Non-Voting Common Stock (10)	Percent of Class of Class B Non-Voting Common Stock (2)
Directors and Officers						
Bhanu Choudhrie (13)	2,066,058(6)	97,129(6)	9.03%	418,898(6)	-	5.92%
Kenneth B. Mumma	550,241(5)	12,250(11)	2.35%	-	-	0.00%
Daniel K. Rothermel	56,252	-	0.23%	-	-	0.00%
John J. Sickler	61,729(7)	14,091(8)	0.32%	-	-	0.00%
T. Lawrence Way	402,001	6,806	1.71%	-	-	0.00%
Steven J. Zuckerman	595,241	18,585	2.56%	-	-	0.00%
John R. Miller	25,445	-	0.11%	-	-	0.00%
Jay S. Sidhu	715,716	834,350(3)	6.47%	62,500	-	0.88%
Richard A. Ehst	5,000	-(3)	0.02%	-	-	0.00%
Thomas R. Brugger	50,000	-(3)	0.21%	-	-	0.00%
Warren Taylor	75,000	-(3)	0.31%	-	-	0.00%
Glenn Hedde	63,629	-(3)	0.27%	-	-	0.00%
All directors and executive officers as a group	4,666,312	983,211	23.57%	307,469	-	6.80%
Amberland Properties Limited (13)(14) 54/58 Athold Street	1,606,058	97,129	7.11%	307,469	-	4.34%

Douglas, Isle of Man UK							
Anand V. Khubani 7 Adams Way Towaco, NJ 07082	857,145	29,734	3.70%	-	-	0.00%	
Rodella Assets Inc. (13)(15) 50 Raffles Place Singapore	1,606,058	97,129	7.11%	307,469	-	4.34%	
Commerce Street Financial Partners, LP (13)(16) 1700 Pacific Ave Dallas, TX 75210	1,320,283	71,754	5.81%	508,289	-	7.18%	
Firefly Value Partners, LP(13)(17) 551 Fifth Ave, 36th Floor New York, NY 10176	1,103,694	-	4.61%	1,716,519	95,711	25.60%	
Marble Arch Partners Master Fund L.P.(13)(19) 645 Madison Ave New York, NY 10022	837,943	-	3.50%	1,076,220	95,710	16.56%	
Scoggin Capital Management (12)(18) 660 Madison Ave, 20th Floor New York, NY 10065	789,601	51,678	3.51%	1,277,554	51,681	18.78%	
Brown Finance Group, S.A. Rue de Conseil General 1211 Geneva Switzerland (20)	1,061,443	-	4.43%	1,159,987	-	16.39%	

- (1) Based on information furnished by the respective individual and the share records of the Bank. Shares are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares the power to vote or dispose of the shares, whether or not he or she has any economic interest in the shares. Unless otherwise indicated, the named beneficial owner has sole voting and dispositive power with respect to the shares.
- (2) Beneficial ownership for each listed person as of February 28, 2011 includes shares issuable pursuant to warrants to purchase stock or pursuant to options held by such person which are exercisable within 60 days after December 31, 2010. Beneficial ownership is determined in accordance with the rules of the Commission and generally includes voting or investment power with respect to securities, which voting or investment power may be further described in the footnotes below. Shares subject to warrants or options exercisable within 60 days of February 28, 2011 are deemed outstanding for purposes of computing the percentage of the person or group holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person or group. The amounts listed in this column do not include shares purchasable pursuant to anti-dilution agreements.
- (3) Represents warrants to purchase Voting Common Stock of the Bank granted to Mr. Sidhu pursuant to his employment agreement with the Bank, whereby Mr. Sidhu is entitled to the grant of warrants or stock options representing 10% of all equity issuances by the Bank, subject to certain conditions. See “EMPLOYEE BENEFITS - Officer Employment Agreements” on page 137 of this Joint Proxy Statement-Prospectus. The following options to purchase shares of Customers Bank’s Voting Common Stock or Class B Non-Voting Common Stock were excluded from the disclosures above as they were not exercisable within 60 days of April 11, 2011: for Mr. Sidhu – 1,861,055; Mr. Ehst – 279,158; Mr. Brugger – 279,158; Mr. Taylor – 100,000; and Mr. Hedde – 35,000.
- (4) Unless otherwise indicated, the address for each beneficial owner is c/o New Century Bank d/b/a Customers Bank, 1015 Penn Ave., Wyomissing, Pennsylvania 19610.
- (5) Includes 405,449 shares of Voting Common Stock held jointly with Mr. Mumma’s wife. Mr. Mumma has pledged 408,531 shares as security for an outstanding loan with a financial institution.
- (6) Mr. Choudhrie has an indirect beneficial ownership interest in these securities through his company, Lewisburg Capital Limited.
- (7) Includes 51,783 shares of Voting Common Stock held jointly with Mr. Sickler’s wife.
- (8) Includes 5,000 warrants to purchase Voting Common Stock held jointly with Mr. Sickler’s wife.
- (9) Except as otherwise indicated by footnote, amounts in this column represent warrants issued in connection with such individual’s purchase of Voting Common Stock in Customers Bank’s 2010 and 2009 private offering.
- (10) Except as otherwise indicated by footnote, amounts in this column represent warrants issued in connection with such individual’s purchase of Class B Non-Voting Common Stock in Customers Bank’s 2010 private offering.

- (11) Includes 6,000 options issued to Mr. Mumma, under the 2004 Plan. See “EMPLOYEE BENEFITS - Officer Employment Agreement” beginning on page 137 of this Joint Proxy Statement-Prospectus.
- (12) Shares in this row are directly held by Scoggin Capital Management II LLC, Scoggin International Ltd., and Game Boy Partners LLC, each related to Scoggin Capital Management. Each of these investors participated in the March 2010 private offering and is entitled to special contractual rights.
- (13) Signifies lead investor in the February 2010 private offering. Each such investor is entitled to special contractual rights.
- (14) Thomas P. Cherian may be deemed to have voting and dispositive power over the securities owned by Amberland Properties Limited.
- (15) Sumant Kapur may be deemed to have voting and dispositive power over the securities owned by Rodella Assets Inc.
- (16) Dorey Wiley, Manager of Commerce Street Financial Partners, GP, LLC may be deemed to have voting and dispositive power over the securities owned by Commerce Street Capital.

- (17) Ryan Heslop and Ariel Warszawski, both Managing Members of FVP GP, LLC, the general partner of FVP US-Q, LP and FVP Master Fund, L.P. may be deemed to have voting and dispositive power over the securities owned by FVP US-Q, LP and FVP Master Fund L.P.
- (18) Craig Effron and Curtis Schenker, Managers of Scoggin LLC may be deemed to have voting and dispositive power over the securities owned by Scoggin Capital Management II, LLC and Scoggin International Ltd. Craig Effron and Curtis Schenker, Managers of Game Boy Partners LLC, may be deemed to have voting and dispositive power over the securities owned by Game Boy Partners, LLC.
- (19) Tim Jenkins, Member of Marble Arch Partners Master Fund L.P. may be deemed to have voting and dispositive power over the securities owned by Marble Arch Partners Master Fund L.P.
- (20) Seamus Dawes of Brown Finance Group S.A. may be deemed to have voting and dispositive power over the securities owned by Brown Finance Group S.A.

#### TRANSACTIONS WITH RELATED PARTIES

Customers Bank makes loans to executive officers and directors of Customers Bank in the ordinary course of its business. These loans are currently made on substantially the same terms, including interest rates and collateral, as those prevailing at the time the transaction is originated for comparable transactions with nonaffiliated persons, and do not involve more than the normal risk of collectability or present any other unfavorable features. Federal regulations prohibit Customers Bank from making loans to executive officers and directors at terms more favorable than could be obtained by persons not affiliated with Customers Bank. Customers Bank's policy towards loans to executive officers and directors currently complies with this limitation.

Some current directors, nominees for director and executive officers of Customers Bank and entities or organizations in which they were executive officers or the equivalent or owners of more than 10% of the equity were customers of and had transactions with or involving Customers Bank in the ordinary course of business during the fiscal year ended December 31, 2009. None of these transactions involved amounts in excess of 5% of Customers Bank's consolidated gross revenues during 2009 or \$200,000, nor was Customers Bank indebted to any of the foregoing persons or entities in an aggregate amount in excess of 5% of Customers Bank's total consolidated assets at December 31, 2009. Additional transactions with such persons and entities may be expected to take place in the ordinary course of business in the future.

On June 17, 2009, Customers Bank entered into a Consulting Agreement with Kenneth B. Mumma, its former Chairman and CEO, pursuant to which Customers Bank agreed to engage Mr. Mumma as a consultant until December 31, 2011. During the period of his engagement, Mr. Mumma has agreed to provide from 20 to 40 hours of consulting services per month, for a consulting fee of \$13,500 per month plus reimbursement of expenses incurred by him in performing the services. The agreement also provides non-compete covenants for a period ending one year after the term of the consulting agreement. During 2010, Customers Bank paid an aggregate of \$135,000 in consulting fees to Mr. Mumma under the agreement.

On June 30, 2010, Customers Bank extended a term loan in the principal amount of five million dollars (\$5,000,000) to Atlantic Coast Federal Corporation, which is the former holding company for Atlantic Coast Bank, a federal savings bank with main offices in Jacksonville, Florida. Mr. Sidhu is the Executive Chairman of the Board, and Mr.



Choudhrie is a director, of Atlantic Coast Financial Corporation, the successor to Atlantic Coast Federal Corporation. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features. Customers Bank participated the full amount of the term loan to accredited investors in August 2010. Two of Customers Bank's directors had material interests in this transaction: \$500,000 of the loan was participated to Mr. Zuckerman, and \$2,000,000 of the loan was participated to Emblem Investors LLC, a company for which Mr. Choudhrie is a managing member.

On August 13, 2010, Customers Bank executed a loan participation agreement in the principal amount of up to twenty-five million dollars (\$25,000,000) to Atlantic Coast Bank. This participating interest is based upon the loan activity by certain mortgage warehouse customer activity and will be repaid upon the release of the underlying mortgage collateral. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features. This agreement has been terminated on December 30, 2010.

On December 30, 2010, Customers Bank executed a loan participation agreement with Atlantic Coast Bank for a principal amount up to \$6,250,000. This participating interest is based upon specified Atlantic Coast Bank customers activity and will be repaid to Customers Bank upon the release of the underlying mortgage collateral. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features.

For the year ended December 31, 2010, Customers Bank has paid approximately \$300,000 to Clipper Magazine and its affiliates. Steven Zuckerman, a director of Customers Bank, is the Chief Executive Officer of Clipper Magazine, a subsidiary of Gannett.

Certain of Customers Bank's executive officers and directors purchased securities in private offerings of Customers Bank's securities during 2008, 2009, 2010 and 2011. The below chart indicates the number and types of securities purchased as well as dollar value paid for such securities. The figures for Common Stock and warrants to purchase Common Stock set forth in the chart and accompanying footnotes reflect all adjustments that have been made to date in connection with anti-dilution repricing. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" beginning on page 136 of this Joint Proxy Statement-Prospectus for the current security ownership of each of the below-listed individuals.

Name	Number and Type of Securities	Aggregate Purchase Price
Jay Sidhu, Chairman and CEO	285,716 shares of Voting Common Stock	\$ 1,000,000
	62,500 shares of Class B Non-Voting Common Stock	\$ 250,000
Bhanu Choudhrie, Director (1)	714,287 shares of Voting Common Stock (2)	\$ 2,500,000
	891,771 shares of Voting Common Stock and 307,469 shares of Class B Non-Voting Common Stock (3)	\$ 4,197,332
	460,000 shares of Common Stock and 111,429 shares of Class B Non-Voting Common Stock	\$ 2,000,000
Lawrence Way, Director	10,732 shares of Voting Common Stock (4)	\$ 36,300
	12,228 shares of Voting Common Stock	\$ 42,800
	25 shares of 10% Series A Preferred Stock (7)	\$ 250,000
	224,000 shares of Voting Common Stock	\$ 896,000
	42,000 shares of Voting Common Stock	\$ 168,000
Steven Zuckerman, Director	357,144 shares of Voting Common Stock (5)	\$ 1,250,000
	194,704 shares of Voting Common Stock	\$ 833,333
Daniel Rothermel, Director	56,252 shares of Voting Common Stock	\$ 196,880
Kenneth Mumma, Director (6)	25 shares of 10% Series A Preferred Stock (7)	\$ 250,000
Glenn Hedde	33,629 shares of Voting Common Stock	\$ 117,700
John R. Miller	25,445 shares of Voting Common Stock	\$ 99,999

(1) Mr. Choudhrie has an indirect beneficial ownership interest in these securities as they were purchased through his company, Lewisburg Capital Limited.

(2) In connection with this purchase, Lewisburg Capital Limited also received immediately exercisable warrants to purchase 37,166 shares of Customers Bank's Voting Common Stock at an exercise price of \$3.50 per share. Such warrants expire on June 30, 2016.

(3)

In connection with this purchase, Lewisburg Capital Limited also received immediately exercisable warrants to purchase 59,963 shares of Customers Bank's Voting Common Stock at an exercise price of \$3.50 per share. Such warrants expire on February 17, 2017.

- (4) In connection with this purchase, Mr. Way also received immediately exercisable warrants to purchase 556 shares of Customers Bank's Voting Common Stock at an exercise price of \$3.50 per share. Such warrants expire on June 30, 2016.
- (5) In connection with this purchase, Mr. Zuckerman also received immediately exercisable warrants to purchase 18,585 shares of Customers Bank's Voting Common Stock at an exercise price of \$3.50 per share. Such warrants expire on June 30, 2016.
- (6) Mr. Mumma purchased such shares jointly with his wife.
- (7) In June 2009, all outstanding shares of 10% Series A Preferred Stock were redeemed for shares of Voting Common Stock of Customers Bank and warrants to purchase Voting Common Stock of Customers Bank.

Customers Bank has a Code of Conduct and Professional Ethics, applicable to its directors, officers and employees, including its Chief Executive Officer, Chief Financial Officer and all of its other executives pursuant to which all directors, officers and employees must promptly disclose to us, any material transactions or relationships that reasonably could be expected to give rise to an actual or apparent conflict of interest with Customers Bank. In approving or rejecting the proposed agreement, the board of directors must consider the relevant facts and circumstances available and deemed relevant, including, but not limited to the risks, costs and benefits to Customers Bank, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. The board of directors may only approve those agreements that, in light of known circumstances, are in, or are not inconsistent with, the Customers Bank's best interests, as the board of directors determines in the good faith exercise of its discretion. Customers Bank intends to adopt a formal policy with respect to related party transactions in 2011.

## RECENT SALES OF UNREGISTERED SECURITIES

Below is a chart that provides information relating to all unregistered offers of securities by Customers Bank in the past three fiscal years. The number of securities referenced are as of the date of issuance in the applicable offering. The securities in such offerings were offered and sold in reliance on an exemption under 3(a)(5) of the Securities Act for securities issued by a bank.

OFFERING	TYPES AND NUMBERS OF SECURITIES SOLD	AGGREGATE PURCHASE PRICE PAID OR OTHER CONSIDERATION GIVEN FOR SECURITIES	DATE OF COMPLETION OF OFFERING	TYPES OF INVESTORS
2011 1st Quarter Private Offer	2,638,750 shares of Voting Common Stock  1,527,929 shares of Class B Non-Voting Common Stock	\$16,130,875	March 31, 2011	Institutional and Accredited Investors
2010 December Private Offer	2,084,841 shares of Voting Common Stock  147,800 shares of Class B Non-Voting Common Stock	\$8,788,744	December 28, 2010	Institutional and Accredited Investors
2010 July Private Offer	25,000 shares of Voting Common Stock  290,000 shares of Class B Non-Voting Common Stock	\$1,067,500	July 14, 2010	Institutional and Accredited Investors
2010 March Private Offer	761,596 shares of Voting Common Stock  1,189,202 shares of Class B Non-Voting Common Stock  48,104 warrants to purchase Voting Common Stock  48,107 warrants to purchase Class B Non-Voting Common	\$7,335,003	March 29, 2010	Institutional and Accredited Investors

Stock				
2010 February Private Offer	6,529,550 shares of Voting Common Stock	\$43,134,433	February 17, 2010	Institutional and Accredited Investors
	3,548,589 shares of Class B Non-Voting Common Stock			
	205,779 warrants to purchase Voting Common Stock			
	156,532 warrants to purchase Class B Non-Voting Common Stock			
2009 Private Offer	999,559 shares of Voting Common Stock	\$17,106,300	July 31, 2009	Institutional and Accredited Investors
	683,330 warrants to purchase Voting Common Stock			
2008 Private Offer	98 shares of 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock (1)	\$980,000	December 18, 2008	Accredited Investors

(1) In conjunction with Customers Bank's 2009 private offering, all shares of 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock issued in this offering were exchanged for 178,164 shares of Voting Common Stock of Customers Bank at an average per share price of \$5.50 per share, and 24,500 warrants to purchase Voting Common Stock of Customers Bank at an exercise price of \$5.50 per share.

### CUSTOMERS INTERIM BANK

If the reorganization is approved by the shareholders of Customers Bank and Customers Bank receives all necessary regulatory approvals, CBI will incorporate a new bank, called Customers Interim Bank, as a wholly-owned merger subsidiary of CBI. Prior to completion of the reorganization, the new bank will not conduct any banking business or any other business. Prior to completion of the reorganization, it will have no employees, no liabilities, no operations, and no assets except for a nominal capital contribution required by law, which is discussed below. It will be a “shell” corporation, and will be incorporated for the sole purpose of assisting in the reorganization.

CBI will capitalize the new bank with \$155,000 that CBI will borrow from a correspondent bank, and it will have corporate officers and directors for its temporary existence. In the reorganization as currently structured, Customers Bank will merge into this merger subsidiary, which will then be renamed, “Customers Bank,” and will operate under articles of incorporation and bylaws that are identical to the present articles of incorporation and bylaws of Customers Bank. Once the reorganization is completed, the resulting institution will continue the business and franchise of Customers Bank under the name “Customers Bank” and will succeed to all of Customers Bank’s assets and liabilities. Upon completion of the reorganization, the resulting institution will have the same employees as Customers Bank and will succeed to the entire capital of Customers Bank. After completion of the reorganization, the resulting institution will pay a special dividend to CBI in order for CBI to pay off the loan from the correspondent bank.

### MARKET PRICE OF COMMON STOCK AND DIVIDENDS – CUSTOMERS BANK

#### Trading Market for Voting Common Stock

There is no established public trading market for the Voting Common Stock or Class B Non-Voting Common Stock of either CBI or Customers Bank. Neither Customers Bank’s Voting Common Stock nor its Class B Non-Voting Common Stock is actively traded nor listed for trading on any securities exchange. Neither CBI nor Customers Bank anticipates that its shares will be listed on any stock exchange or quoted on any electronic bulletin board or system. Furthermore, there are no brokerage firms that act as a market maker in Customers Bank’s Voting Common Stock or Class B Non-Voting Common Stock. Consequently, information on current stock trading prices is not readily available. Customers Bank’s transfer agent is StockTrans, but StockTrans does not make a market in Customers Bank’s securities, nor does it attempt to negotiate prices for trades of such securities. An active trading market in the Voting Common Stock and Class B Non-Voting Common Stock of either CBI or Customers Bank may not develop within the foreseeable future.

#### Market Price of Voting Common Stock

As of April 11, 2011, there were 384 shareholders of record, 22,525,825 outstanding shares of Customers Bank’s Voting Common Stock, 6,834,895 outstanding shares of Customers Bank’s Non-Voting Common Stock, 1,653,834 outstanding warrants and 2,606,222 options to purchase Voting Common Stock, 131,500 options to purchase Class B Non-Voting Common Stock of Customers Bank and 106,876 restricted stock units to purchase Voting Common Stock.

The below chart shows the high and low sale prices known by management to have occurred, or bid quotations on the Pink Sheets, of Customers Bank for the periods indicated.

Quarter ended	High (1)	Low (1)
March 31, 2011	\$4.00	\$4.00

December 31, 2010	\$4.00	\$3.50
September 30, 2010	\$3.93	\$3.50
June 30, 2010	\$3.76	\$3.50
March 31, 2010	\$5.50	\$3.76
December 31, 2009	\$5.25	\$4.00
September 30, 2009	\$5.00	\$5.00
June 30, 2009	\$3.55	\$3.50
March 31, 2009	\$4.00	\$2.00

(1) These ranges are limited only to those transactions known by management to have occurred, based primarily on individual trades of which management may have become aware, or quotations on the Pink Sheets. There may, in fact, have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

#### Dividends on Voting Common Stock

Effective December 15, 1999, Customers Bank's board of directors declared a 25% stock split effected in the nature of a stock dividend. Customers Bank has not paid any cash dividends on Customers Bank's shares. Presently, Customers Bank is not authorized to pay cash dividends on its shares.

Dividend payments made by Customers Bank to its shareholders are subject to the Pennsylvania Banking Code, the Federal Deposit Insurance Act, and the regulations of the Federal Reserve Board.

The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings and that, prior to the declaration of any dividend, if the surplus of a bank is less than the amount of its capital, the bank shall, until surplus is equal to such amount, transfer to surplus an amount which is at least ten percent of the net earnings of such bank for the period since the end of the last fiscal year or for any shorter period since the declaration of a dividend. If the surplus of a bank is less than fifty percent of the amount of capital, no dividend may be declared or paid without the prior approval of the Pennsylvania Banking Department until such surplus is equal to fifty percent of such bank's capital.

Under the Federal Reserve Act, if losses have at any time been sustained by a bank equal to or in excess of its undivided profits then on hand, no dividend shall be made; no dividends shall ever be made in an amount greater than a bank's net profit less losses and bad debts. Cash dividends must be approved by the Federal Reserve Board if the total of all cash dividends declared by a bank in any calendar year, including the proposed cash dividend, exceeds the total of such bank's net profits for that year plus its retained net profits from the preceding two years less any required transfers to surplus or a fund for the retirement of preferred stock, if any. The Federal Reserve Board and the Pennsylvania Banking Department each has the authority under the Federal Reserve Act to prohibit the payment of cash dividends by a bank when it determines such payment to be an "unsafe or unsound banking practice" under the then existing circumstances.

The Federal Deposit Insurance Act generally prohibits all payments of dividends by any bank that is in default of any assessment of the FDIC.

The Federal Reserve Board and the FDIC have formal and informal policies, which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings, with some exceptions. The Federal banking laws further limit the ability of banks to pay dividends if they are not classified as well capitalized or adequately capitalized.

Customers Bank does not have any accumulated net earnings, and so, under the foregoing restrictions, Customers Bank is not presently permitted to pay dividends.

Further, under a Memorandum of Understanding ("MOU") among the Federal Reserve Board, the Pennsylvania Banking Department and Customers Bank, Customers Bank may not declare or pay any dividends that would cause its capital ratios to fall below the higher of the minimum levels for a "well capitalized" classification under Prompt Corrective Action standards pursuant to the Federal Deposit Insurance Act, or the internal ratios set in Customers Bank's capital plan without the prior written approval of the Pennsylvania Department of Banking.

#### Dividend Policy

CBI intends to follow a policy of retaining earnings, if any, to increase its net worth and reserves over the next few years. As discussed above, Customers Bank has not historically declared or paid dividends on its Voting Common



Stock and it does not expect to do so in the near future. Any future determination relating to Customers Bank's dividend policy will be made at the discretion of Customers Bank's board of directors and will depend on a number of factors, including Customers Bank's earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, Customers Bank's ability to service any equity or debt obligations senior to Voting Common Stock, and other factors deemed relevant by Customers Bank's board of directors. Since CBI will be the sole shareholder of Customers Bank upon the closing of the reorganization, and will derive substantially all of its income from Customers Bank, CBI's ability to declare dividends will be restricted both by Customers Bank's ability to declare dividends, and by Federal Reserve Board and Pennsylvania Department of Banking regulations applicable to bank holding companies.

SUMMARY SELECTED UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

The below unaudited pro forma condensed combined balance sheet at December 31, 2010 and unaudited pro forma condensed combined statements of income for the year ended December 31, 2010 present the impact of the reorganization and the merger on Customers Bank, CBI and BBI. This December 31, 2010 unaudited pro forma condensed financial information was calculated using the unaudited balance sheets at December 31, 2010 and the unaudited statements of income for the year ended December 31, 2010 for each of Customers Bank and BBI.

CBI has not yet formed Customers Interim Bank or funded its necessary capital because those steps require the prior approvals of federal and state bank regulatory authorities. Those approvals are expected to be obtained prior to completion of the reorganization and merger. As a consequence, the stand-alone balance sheet information for CBI shown below is pro forma, on a consolidated basis with Customers Interim Bank, as of immediately prior to the completion of the reorganization.

The selected unaudited pro forma condensed financial information is presented for illustrative purposes only, and does not indicate either future results of operations or financial condition. The selected unaudited pro forma condensed financial information is based upon assumptions and adjustments that Customers Bank believes are reasonable. No assumptions have been applied to the selected pro forma condensed financial information regarding possible revenue enhancements, expense efficiencies or asset dispositions. The selected unaudited pro forma condensed financial information should be read in conjunction with Customers Bank's financial statements and related notes and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CUSTOMERS BANK," beginning on page 150 of this Joint Proxy Statement-Prospectus.

## SUMMARY SELECTED UNAUDITED PRO FORMA CONDENSED BALANCE SHEET AS OF DECEMBER 31, 2010

(dollars in thousands)

	Customers Bank	CBI Pro Forma Pre-Merger		Combined CBI Proforma	Berkshire Bancorp, Inc.	Proforma Adjustments		Pro Forma Combined
Cash and cash equivalents	\$ 238,724	\$ 155	(1)	\$ 238,879	\$ 13,508	\$ (3,136 )	(5)	\$ 249,251
Investment securities available for sale, at fair value	205,828			205,828	1,657			207,485
Loans held for sale	199,970			199,970	574			200,544
Loans receivable, net	498,958			498,958	105,781	(4,087 )	(6)	600,652
Loans receivable covered under loss sharing agreements with the FDIC	164,885			164,885	-			164,885
FDIC loss sharing receivable	16,702			16,702	-			16,702
Bank premises and equipment, net	5,302			5,302	3,870			9,172
Other real estate owned	7,248			7,248	4,936			12,184
Bank owned life issuance	25,649			25,649	2,431			28,080
Accrued interest receivable and other assets	11,141			11,141	2,524			13,665
Goodwill and intangible assets	-			-		5,417	(6)	5,417
<b>Total assets</b>	<b>\$ 1,374,407</b>	<b>\$ 155</b>		<b>\$ 1,374,562</b>	<b>\$ 135,281</b>	<b>\$ (1,806 )</b>		<b>\$ 1,508,037</b>
Deposits	\$ 1,245,690	\$ -		\$ 1,245,690	\$ 123,253	\$ 790	(6)	\$ 1,369,733
Borrowings	11,000	155	(1)	11,155	764	50	(6)	11,969
Subordinated debt	2,000			2,000	-			2,000
Accrued interest payable and other liabilities	10,577			10,577	732	79	(5)	11,289
						(99 )	(5)	
<b>Total Liabilities</b>	<b>1,269,267</b>	<b>155</b>		<b>1,269,422</b>	<b>124,749</b>	<b>820</b>		<b>1,394,991</b>
Preferred Stock	-			-	2,931	(3,037 )	(5)	-
						106	(5)	
Common Stock	25,194	(16,796)	(2)	8,398	4,051	631	(3)	9,029
						(4,051 )	(4)	

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Surplus	71,336	16,796 (2)	88,132	11,343	7,274 (3)	95,406
					(11,343)(4)	
Retained Earnings (accumulated deficit)	10,506		10,506	(7,805 )	7,990 (4)	10,506
					(106 )(5)	
					(79 )(5)	
Accumulated Other Comprehensive (Loss) Income	(1,896 )		(1,896 )	12	(12 )(4)	(1,896 )
Total Stockholders' equity	105,140	-	105,140	10,532	(2,626 )	113,046
Total liabilities and stockholders' equity	\$ 1,374,407	\$ 155	\$ 1,374,562	\$ 135,281	\$ (1,806 )	\$ 1,508,037

NOTES TO UNAUDITED PRO FORMA COMBINED  
FINANCIAL INFORMATION

Basis of Presentation

The unaudited pro forma combined financial statements have been prepared under the acquisition method of accounting. The unaudited pro forma combined statements of income for the year ended December 31, 2010 are presented as if the merger had occurred at the beginning of the applicable period. The unaudited pro forma combined balance sheet is presented as if the merger had occurred as of December 31, 2010. This information is not intended to reflect the actual results that would have been achieved had the merger actually occurred on those dates. No consideration was given in the unaudited pro forma combined financial statements to cost savings or fee enhancements for the combined organization.

- (1) Funds to be borrowed by CBI to fund the minimum required capital of Customers Interim Bank. If additional capital is required by the applicable banking regulators, this amount could increase.
- (2) Reclassification of par value for the anticipated issuance in the reorganization of 8,398,014 shares of CBI Voting Common Stock at \$1.00 par value in exchange for 25,194,041 shares of Customers Bank's Voting Common Stock outstanding at December 31, 2010.
- (3) Pursuant to the merger agreement, each share of BBI common stock outstanding immediately prior to the merger is converted into .1559 shares of CBI Voting Common Stock at December 31, 2010, as consideration for the merger. This consideration is calculated based on Customers Bank book value per share of \$4.17 at December 31, 2010, and takes into account the three-for-one exchange ratio of Customers Bank shares to CBI shares in the reorganization.

	December 31, 2010
NCB- Valuation	\$ 4.17
BBI - Valuation	\$ 1.95
Exchange ratio	0.4676
BBI shares outstanding at December 31, 2010	4,051,063
Customers Bank shares to be converted to CBI shares for the merger	1,894,382
CBI shares to be issued in the merger	631,461
Merger consideration	\$ 7,905,652

Customers Bank also assumed 774,571 warrants to purchase BBI common stock, which converted into approximately 362,210 warrants with a weighted average exercise price of \$12.66 per share to purchase Customers Bank Voting Common Stock or 120,737 warrants with a weighted average exercise price of \$37.99 to purchase CBI Voting Common Stock.

- (4) Elimination of BBI's accumulated other comprehensive income and historical accumulated deficit.
- (5) Retirement of BBI Series A and Series B Preferred Stock and related dividends accrued through December 31, 2010 held by the U.S. Treasury under TARP. Dividends were accrued for the period July 1, 2010 through December 31, 2010 at their dividend rates of 5% for Series A shares and 9% for Series B shares. Dividends not distributed at December 31, 2010 were \$99,179. The remaining unaccrued discount on the shares of Series A & B Preferred Stock of approximately \$106,000 was recognized for December 31, 2010.



- (6) The \$5.4 million excess of the fair value of shares of CBI's Voting Common Stock over the carrying amount of BBI's net assets, adjusted for fair value at December 31, 2010 of \$5.5 million has been allocated to goodwill and other intangibles. The allocation of the purchase price is subject to adjustment upon a post-merger detailed review of the net assets to be acquired and their fair values and intangibles will be quantified, if identified. The following is a summary of the goodwill and other intangibles computation (in thousands):

	December 31, 2010
Purchase price	\$7,906
Cash contribution by Customers Bank for repayment of TARP	3,037
Total purchase price	10,943
Less: BBI Capital at December 31, 2010	10,453
Fair Value adjustment at December 31, 2010:	
Loans receivable (discount) (7)	(4,087 )
Deposits premium	(790 )
Borrowings premium	(50 )
Net assets, adjusted for estimated fair value at December 31, 2010	5,526
Goodwill and other intangibles	\$5,417

- (7) Adjustments to reflect the fair value of loans include:

- a. Adjustment of \$1.5 million to reflect the removal of the allowance for loan losses in connection with applying acquisition accounting under ASC 805 Business Combination.
- b. Adjustment of \$4.7 million for loans within the scope of Accounting Standard Code (ASC) 310-30 Receivables, Loans and Debt Securities Acquired with Deteriorated Credit Quality. As result of a due diligence analysis by management of all criticized loans totaling \$17.8 million of loans were determined to be within the scope of and evaluated under ASC 310-30. This review considered payment history, relevant collateral values, debt service ratios and other factors to identify loans which evidenced deterioration of credit quality since origination and which management determined that it was probable, at acquisition, that the collection of all contractually required payments receivable would not be possible. The estimated fair value of such loans is \$13.1 million, with a nonaccretable difference of \$4.7 million.

The fair value of loans falling within the scope of ASC 310-30 was determined in accordance with guidelines of ASC 310. Assumptions utilized in the above calculations included an adjustment to collateral value after consideration of available appraisal documentation and the expected cash flows available for future reduction in debt payment.

- Adjustment of \$1.5 million for all remaining loans determined not to be within the scope of ASC 310-30. Loans which are not within the scope of ASC 310-30 totaled \$89.0 million. The credit quality adjustment will be recognized using the effective yield method over the life of the loans. In determining the fair value of the loans which are not within the scope of ASC 310-30, the acquired loan portfolio was evaluated based on risk characteristics and other credit and market criteria to determine a credit quality adjustment to the fair value of the loan acquired. The acquired loan balance was reduced by the aggregate amount of the credit quality adjustment in determining the fair value of the loans.





SUMMARY SELECTED UNAUDITED PRO FORMA CONDENSED INCOME STATEMENT FOR THE YEAR  
ENDED DECEMBER 31, 2010

(Dollars in thousands except per share data)

Customers Bancorp, Inc.  
Proforma Income Statement  
For the year ended December 31, 2010

	Customers Bank	CBI Pro Forma Pre-Merger	Combined CBI Proforma	Berkshire Bancorp, Inc.	Proforma Adjustments (B)	Pro Forma Combined
Interest income:						
Loans receivable, including fees	\$ 29,021	\$ -	\$ 29,021	\$ 6,410	\$ 375	(D) \$ 35,806
Investment securities, taxable	1,382	-	1,382	360	4	(C) 1,746
Investment securities, non-taxable	110	-	110	-	-	110
Other	394	-	394	42	-	436
Total interest income	30,907	-	30,907	6,812	379	38,098
Interest expense:						
Deposits	11,112	-	11,112	1,937	(591 )	(E) 12,458
Borrowed funds	434	4	(A) 438	119	(25 )	(F) 532
Total interest expense	11,546	4	11,550	2,056	(616 )	12,990
Net interest income	19,361	(4 )	19,357	4,756	995	25,108
Provision for loan losses	10,397	-	10,397	672	-	11,069
Net interest income after provision for loan losses	8,964	(4 )	8,960	4,084	995	14,039
Non-interest income:						
Service fees	643	-	643	148	-	791
Mortgage warehouse transactional fees	2,631	-	2,631	-	-	2,631
Bank owned life insurance	228	-	228	127	-	355
	1,114	-	1,114	62	-	1,176

Gain on sales of investment securities							
Loss on the sale of OREO	-	-	-	(60)	)	-	(60)
Bargain purchase gains on bank acquisitions	40,254	-	40,254	-	-	-	40,254
Gain on sales of loans	98	-	98	570	-	-	668
Other	702	-	702	70	-	-	772
Total non-interest income	45,670	-	45,670	917	-	-	46,587
Non-interest expenses:							
Salaries and employee benefits	14,031	-	14,031	2,248	-	-	16,279
Occupancy	1,897	-	1,897	1,114	-	-	3,011
Technology, communication and bank operations	2,431	-	2,431	481	-	-	2,912
Advertising and promotion	1,007	-	1,007	28	-	-	1,035
Professional services	2,833	-	2,833	524	-	-	3,357
FDIC assessments, taxes, and regulatory fees	1,613	-	1,613	270	-	-	1,883
Impairment charges on other real estate owned	702	-	702	104	-	-	806
Impairment charge on goodwill	-	-	-	418	-	-	418
Loan workout and other real estate owned	682	-	682	456	-	-	1,138
Other	972	-	972	630	-	-	1,602
Total non-interest expenses	26,168	-	26,168	6,273	-	-	32,441
(Loss) income before taxes	28,466	(4)	28,462	(1,272)	)	995	28,185
Income tax expense (benefit)	4,731	-	4,731	-	-	338	(G) 5,069
Net income (loss)	23,735	(4)	23,731	(1,272)	)	657	23,116
	-	-	-	(186)	)	(205)	(I) (391)

Preferred stock  
dividends and  
discount  
accretion

Net income  
(loss) attributable  
to  
common  
stockholders

\$ 23,735	\$ (4 )	\$ 23,731	\$ (1,458 )	\$ 452	\$ 22,725
-----------	---------	-----------	-------------	--------	-----------

Basic (loss)

income per share

\$ 1.26	-	\$ 3.77	\$ (0.37 )	-	\$ 3.29
---------	---	---------	------------	---	---------

Weighted  
average shares -

Basic

18,909,014	(12,606,009) (H)	6,303,005	3,927,844	(3,315,624) (H)	6,915,225
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Diluted (loss)

income per share

\$ 1.23	-	\$ 3.68	\$ (0.37 )	-	\$ 3.23
---------	---	---------	------------	---	---------

Weighted  
average shares -

Diluted

19,347,040	(12,898,027) (H)	6,449,013	3,927,844	(3,315,624) (H)	7,061,233
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NOTES TO UNAUDITED PRO FORMA COMBINED  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2010

Under purchase accounting, BBI's assets and liabilities were required to be adjusted to their estimated fair values. The following are the pro forma adjustments to record the amortization/accretion of these fair value adjustments for the respective periods.

A. Interest expense recorded for the funds borrowed by CBI at annual rate of 3.0%.

B. The pro forma income statement acquisition adjustments for loans, investments, time deposits and FHLB advances reflects the amortization/accretion of the respective balance sheet fair value adjustment utilizing various methods over the estimated lives of the related assets or liabilities.

C. All investments were recorded as available for sale and at fair value. The adjustment reflects the amortization of the available for sale premium which will be prospectively amortized based upon an expected life of 3 years using a method that approximates the level yield method.

D. The fair values of loans are based on current interest rates of similar loans will be recognized using the level yield amortization method based upon the expected life of the loans of 2 years using a method that approximates the level yield method.

E. The fair values of interest bearing time deposit are based on current interest rates of similar instruments will be recognized using the level yield amortization method based upon the expected life of the time deposits of 1.75 years using a method that approximates the level yield method.

F. The fair value of FHLB advances is based on current interest rates of similar instruments will be recognized using the level yield amortization method based upon the expected life of the FHLB advances of 1.5 years using a method that approximates the level yield method.

G. Adjustment to reflect the net deferred tax at a rate of 34% related to fair value adjustments on the balance sheet and a statutory tax rate of 34% for book tax expense.

H. The proforma CBI weighted average shares outstanding were computed by exchanging 3 shares of Customers Bank stock for one share of CBI common stock. The proforma combined weighted average shares was computed by multiplying the BBI weighted average shares by the exchange ratio of 0.4676 and divided by 3 to convert the BBI shares into CBI shares.

I. Dividends were accrued for the period January 1, 2010 through December 31, 2010 at their dividend rates of 5% for Series A and 9% for Series B. The remaining discount on the preferred shares of approximately \$106,000 was recognized.

## CUSTOMERS BANK - SELECTED FINANCIAL DATA

The following selected financial data is derived from Customers Bank's audited financial statements as of and for the five years ended December 31, 2010. The following financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this report.

## Financial Highlights

Dollar amounts in thousands, except per share data

	Years ended December 31,				
	2010 (1)	2009	2008	2007	2006
<b>For the Period</b>					
Interest income	\$ 30,907	\$ 13,486	\$ 15,502	\$ 17,659	\$ 13,917
Interest expense	11,546	6,336	8,138	10,593	7,461
Net interest income	19,361	7,150	7,364	7,066	6,456
Provision for loan losses	10,397	11,778	611	444	416
Bargain purchase gains on bank acquisitions	40,254	—	—	—	—
Total non-interest income (loss)	45,670	1,074	(350)	356	479
Salary and employee benefits	14,031	4,267	3,651	3,450	2,819
Total non-interest expense	26,168	9,681	7,654	6,908	5,588
Income (loss) before taxes	28,466	(13,235)	(1,251)	70	931
Income tax expense (benefit)	4,731	—	(426)	(160)	275
Net income (loss)	\$ 23,735	\$ (13,235)	\$ (825)	\$ 230	\$ 656
Basic earnings (loss) per share	\$ 1.26	\$ (3.66)	\$ (0.41)	\$ 0.11	\$ 0.33
Diluted earnings (loss) per share	\$ 1.23	\$ (3.66)	\$ (0.41)	\$ 0.11	\$ 0.32
<b>At Period End</b>					
Total assets	\$ 1,374,407	\$ 349,760	\$ 274,038	\$ 272,004	\$ 234,407
Loans held for sale	199,970	—	—	—	—
Investment securities, available for sale	205,828	44,588	32,061	40,779	46,588
Loans not covered under FDIC loss sharing agreements (2)	514,037	220,266	220,876	212,109	176,147
Allowance for loan losses	15,129	10,032	2,876	2,460	2,029
Loans covered under FDIC loss sharing agreements	164,885	—	—	—	—
FDIC loss sharing receivable (2)	16,702	—	—	—	—
Deposits	1,245,690	313,927	237,842	220,345	182,433
Stockholders' equity	105,140	21,503	16,849	16,830	16,239
Tangible common equity (2)	\$ 105,140	\$ 21,503	\$ 15,869	\$ 16,830	\$ 16,239
<b>Selected Ratios &amp; Share Data</b>					
Return on average assets	3.40%	(4.69)%	(0.30)%	0.09%	0.31%
Return on average equity	41.29%	(65.35)%	(4.98)%	1.40%	4.17%
Book value per share	\$ 4.17	\$ 3.89	\$ 8.34	\$ 8.33	\$ 8.18
Tangible book value per common share (3)	\$ 4.17	\$ 3.89	\$ 7.85	\$ 8.33	\$ 8.18
Common shares outstanding	25,194,041	5,522,706	2,021,078	2,021,078	1,984,370

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Net interest margin	2.70	%	2.62%	2.82%	2.83%	2.85%
Equity to assets	7.65%		6.14%	6.15%	6.19%	6.93%
Tangible common equity to tangible assets (3)	7.65%		6.72%	6.15%	6.19%	6.93%
Tier 1 leverage ratio	8.67%		6.68%	6.21%	6.22%	7.20%
Tier 1 risk-based capital ratio	19.65%		9.76%	7.87%	8.03%	9.92%
Total risk-based capital ratio	21.14%		11.77%	10.50%	10.62%	12.36%
<b>Asset Quality</b>						
Non-performing, non-covered loans (2)	\$ 27,023		\$ 19,150	\$ 7,175	\$ 2,069	\$ 742
Non-performing, non-covered loans to total non-covered loans (2)	5.26	%	8.32%	3.21%	1.63%	0.42%
Other real estate owned - non-covered (2)	\$ 1,906		\$ 1,155	1,519	-	\$ -
Non-performing, non-covered assets (2)	\$ 28,929		\$ 20,305	\$ 8,694	\$ 2,069	\$ 742
Non-performing, non-covered assets to total non-covered assets (2)	2.40	%	5.81%	3.17%	1.28%	0.32%
Allowance for loan losses to total non-covered loans	2.94	%	4.36%	1.29%	1.15%	1.15%
Allowance for loan losses to non-performing, non-covered loans	55.99	%	52.39%	40.08%	118.90	% 273.45
Net charge offs	\$ 5,250		\$ 4,622	\$ 195	\$ 13	\$ 2
Net charge offs to average non-covered loans	1.00	%	2.05%	0.09%	0.01%	0.00%
Covered non-performing loans (2)	\$ 40,598		—	—	—	—
Covered other real estate owned (2)	\$ 5,342		—	—	—	—
Covered non-performing assets (2)	\$ 45,940		—	—	—	—

(1) Customers Bank acquired two banks in FDIC assisted transactions during the third quarter of 2010.

(2) Certain loans and other real estate owned (described as “covered”) acquired in the two FDIC assisted transactions are subject to loss sharing agreements between Customers Bank and the FDIC. If certain provisions within the loss sharing agreements are maintained, the FDIC will reimburse Customers Bank for 80% of the unpaid principal balance and certain expenses. A loss sharing receivable was recorded based upon the credit evaluation of the acquired loan portfolio and the estimated periods for repayments. Loans receivable and assets that are not subject to the loss sharing agreement are described as “non covered” within the ratios to provide comparability to previous periods presented.

(3) Our summary consolidated financial data contains information determined by methods other than in accordance with GAAP. These measures include tangible common equity and tangible book value per common share. Our management uses this non-GAAP measure to present historical periods comparable to current period presentation. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. As of December 31, 2008, tangible common equity equals total stockholders’ equity less preferred stock balances of \$980 thousand. Tangible book value per common share equals tangible common equity divided by common shares outstanding for the year ended December 31, 2008. The preferred shares outstanding were converted in June 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
OF CUSTOMERS BANK

Critical Accounting Policies

Customers Bank has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of its financial statements. Customers Bank's significant accounting policies are described in footnote 2 to its audited financial statements.

Certain accounting policies involve significant judgments and assumptions by Customers Bank that have a material impact on the carrying value of certain assets and liabilities. Customers Bank 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.

The following is a summary of the policies Customers Bank recognizes as involving critical accounting estimates: Allowance for Loan Losses, Stock-Based Compensation, Unrealized Gains and Losses on Available for Sale Securities and Deferred Income Taxes.

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

**Stock-Based Compensation.** Customers Bank recognizes compensation expense for stock options and their management stock purchase plans (collectively, stock based compensation plans) in accordance with FASB ASC 718 Compensation - Stock Compensation. Expense related to stock based compensation plans granted will generally be measured based on the fair value of the option at the grant date, with compensation expense recognized over the service period, which is usually the vesting period. Customers Bank will utilize the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. Customers Bank's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested.

**Unrealized Gains and Losses on Securities Available for Sale.** Customers Bank receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Debt securities available for sale are mostly comprised of U.S. government agency securities. Customers Bank uses various indicators in determining whether a security is other-than-temporarily

impaired, including for equity securities, if the market value is below its cost for an extended period of time with low expectation of recovery or, for debt securities, when it is probable that the contractual interest and principal will not be collected. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer. The unrealized losses associated with securities that management does not intend to sell, and more likely than not that Customers Bank will be required to sell prior to maturity or market price recovery, are not considered to be other than temporary as of December 31, 2010, because the unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer.



**Fair Value.** The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. The valuation methods and inputs consider factors such as types of underlying assets or liabilities, rates of estimated credit losses, interest rate or discount rate and collateral. The best estimate of fair value involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor refinancing.

**Acquisition Accounting.** USGAAP requires the use of fair values in determining the carrying values of certain assets and liabilities, as well as for specific disclosures. The most significant uses of fair values include impaired loans and foreclosed property and the net assets acquired in business combinations. Assets acquired and liabilities assumed in our FDIC-assisted acquisitions are recorded at their fair values. The fair value of a loan portfolio acquired in a business combination requires greater levels of management estimates and judgment than the remainder of purchased assets or assumed liabilities. The credit risks inherent and evidenced in the FDIC-assisted transactions resulted in substantially all loans purchased in the transaction being purchased with a credit discount. On the date of acquisition, when the loans have evidence of credit deterioration since their origination and we believe it is probable that we will not collect all contractually required principal and interest payments, we refer to the difference between contractually required payments and the cash flows expected to be collected as the non-accretable discount. We must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges and adjusted accretable discount, which will have a positive effect on interest income. Management also uses this method to handle acquired loans without evidence of credit deterioration.

Because we record loans acquired in connection with FDIC-assisted acquisitions at fair value, we record no allowance for loan losses related to the acquired covered loans on the acquisition date, given that the fair value of the loans acquired incorporates assumptions regarding credit risk. The acquired loans are recorded at fair value in accordance with the fair value methodology, exclusive of the loss share agreements with the FDIC.

The acquired covered loans are subject to the accounting prescribed by FASB ASC Topic 310 Receivables, and subsequent changes to the basis of the loss share agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the loss share agreements, with the offset recorded through the consolidated statement of operations. Increases in the credit quality or cash flows of loans (reflected as an adjustment to the discount and accreted into income over the remaining life of the loans) decrease the basis of the loss share agreements. That decrease is accreted into income over either the same period or the life of the loss share agreements, whichever is shorter. Loss assumptions used in the basis of the covered loans are consistent with the loss assumptions used to measure the FDIC receivable. Fair value accounting incorporates into the fair value of the FDIC receivable an element of the time value of money, which is accreted back into income over the life of the loss share agreements.

**FDIC Receivable for Loss Share Agreements.** The majority of the loans and other real estate assets acquired are covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those assets. We estimated the amount that we will receive from the FDIC under the loss share agreements that will result from losses incurred as we dispose of covered loans and other real estate assets, and we recorded the estimate as a receivable from the FDIC.

The FDIC loss sharing receivable is measured separately from the related covered assets because it is not contractually embedded in the assets and is not transferable if we sell the assets. We estimated the fair value of the FDIC loss sharing receivable using the present value of cash flows related to the loss share agreements based on the expected reimbursements for losses and the applicable loss share percentages. We review and update the fair value of the FDIC receivable prospectively as loss estimates related to covered loans and other real estate owned change. Subsequent decreases in the amount expected to be collected result in a provision for loan and lease losses, an increase in the allowance for loan and lease losses, and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent increases in the amount expected to be collected results in the reversal of any previously-recorded provision for loan and lease losses and related allowance for loan and lease losses and adjustments to the FDIC receivable, or prospective adjustment to the accretable discount if no provision for loan and lease losses had been recorded. The ultimate realization of the FDIC loss sharing receivable depends on the performance of the underlying covered assets, the passage of time and claims paid by the FDIC. The accretion of the FDIC receivable discount is recorded into noninterest income using the level yield method over the estimated life of the receivable. In November 2010, Customers Bank received their first reimbursement under the USA Bank Loss Sharing Agreement.

Deferred Income Taxes. Customers Bank provides for deferred income taxes on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry-forwards and their tax basis. The valuation allowance previously applied to the net deferred tax assets was reversed when, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

## Overview

The following discussion and analysis presents material factors affecting Customers Bank's financial condition as of December 31, 2010 and 2009, and results of operations for each of the three years in the period ended December 31, 2010. This discussion and analysis should be read in conjunction with Customers Bank's financial statements, notes thereto and other financial information appearing elsewhere in this report.

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

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

The external environment in 2010 was very challenging as the economy struggles through a recession. Many business customers in our market experienced a loss of revenues and there was an increase in bankruptcies. Many overleveraged real estate customers were forced to take action to improve their cash flow due to high vacancy rates and a reduction in rents due to the reduced demand for space during the downturn. Unemployment increased throughout 2010 as companies reduced expenses to manage through the challenging times. These conditions produced stress in the asset quality of the loan portfolio primarily the commercial real estate portfolio. There continues to be uncertainty in the external environment in 2011 and it is likely that these challenging conditions will continue in the next few years.

Customers Bank began a new initiative in mortgage warehouse lending in 2009. In this business, Customers Bank provides financing to mortgage companies from the time of the home purchase or refinancing of a mortgage loan through the sale of the loan into the secondary market. Most of the loans are FHA/VA loans or conforming loans which are sold through Fannie Mae and Freddie Mac. The strategy is to stay focused on providing the financing in the lowest risk segments in this business. Most of the revenue is derived from the interest income earned on the mortgage warehouse loans but the business also generates fee income and deposits. Customers Bank expects growth in this business in 2011, however, not at the same rate of 2010 due to the continually changing interest rate environment. Mortgage warehouse lending has approximately \$386.0 million or 41% of total loans, including loans held for sale, at December 31, 2010. This prediction about continued growth is a forward-looking statement and is subject to a number of contingencies, including an assumption that the recession may have reached bottom, and to Customers Bank's estimation that borrowers will increase their borrowing activity in the coming months. If the economy falters or remains stagnant, or if businesses delay their borrowings, it is possible that Customers Bank's

continued growth in this business will not occur. Further, given the unprecedented low level of interest rates, there is no guarantee that the demand and profitability in this type of lending will continue. If interest rates rise, refinancing activity will most likely decline. The decline in volumes could put pressure on spreads and fee income margins.

In addition to earning interest on its loans and investments, Customers Bank earns income through other sources, such as fees and other charges to its customers and bank owned life insurance ("BOLI"). Customers Bank describes the various components of this non-interest income, as well as its non-interest expense, in the following discussion.

In the second half of 2009, Customers Bank introduced many new initiatives to increase the deposits of Customers Bank and continued this strategy through 2010. Sales management practices were introduced along with new marketing and pricing strategies. As a result of these changes, total deposits increased in the second half of the year by over 70% annualized with most of the growth coming from retail money market accounts and retail CDs. A new relationship checking account was introduced during the year. The new account features coupled with improved sales performance have caused a change in the trends. Net checking account totals began to increase in the second half of the year after declining in previous years. It is anticipated that this growth will continue for a period of time. It is anticipated that the combination of the changes in management along with the increase in branch locations in 2010 will lead to a continued strong growth in loans and deposits in 2011. It is possible that competition for loans and deposits will increase in future periods as we continue to engage our market with all products offered by Customers Bank. It is also likely that interest rates will move higher. If there is a material change in the external environment or management cannot successfully execute its plans, deposit growth may be more difficult than expected.



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	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost	Average balance	Interest income or expense	Average yield or cost
(dollars in thousands)									
<b>Interest earning assets</b>									
Interest earning deposits	\$ 128,133	\$ 303	0.24%	\$ 11,578	\$ 6	0.05%	\$ 732	\$ 11	1.50%
Federal funds sold	11,176	20	0.18%	2,411	7	0.29%	827	15	1.81%
Investment securities, taxable	49,569	1,382	2.79%	27,375	1,107	4.04%	26,101	1,349	5.17%
Investment securities, non taxable (B)	2,516	167	6.65%	4,507	255	5.65%	9,990	553	5.54%
Loans (A)(B)	523,753	29,068	5.55%	225,436	12,142	5.39%	220,906	13,644	6.18%
Restricted stock	3,219	71	2.21%	1,845	33	1.79%	2,332	70	3.00%
Total interest earning assets	\$ 718,366	\$ 31,011	4.31%	\$ 273,152	\$ 13,550	4.96%	\$ 260,888	\$ 15,642	5.99%
<b>Interest-bearing liabilities</b>									
Interest checking	\$ 12,009	\$ 68	0.57%	\$ 10,186	\$ 89	0.87%	\$ 8,529	\$ 152	1.78%
Money market	190,972	3,609	1.87%	35,372	461	1.30%	42,267	1,002	2.37%
Savings	11,222	76	0.68%	11,218	98	0.87%	10,458	186	1.78%
Certificates of deposit	369,757	7,359	1.99%	168,996	5,081	3.01%	135,907	5,492	4.04%
Total interest bearing deposits	583,960	11,112	1.90%	225,772	5,729	2.54%	197,161	6,832	3.46%
Borrowings	13,582	434	3.20%	17,233	607	3.52%	35,757	1,306	3.65%
Total interest-bearing liabilities	597,542	11,546	1.93%	243,005	6,336	2.61%	232,918	8,138	3.49%
Non-interest-bearing deposits	50,708	—	—	17,715	—	—	21,741	—	—
Total deposits & borrowings	\$ 648,250	\$ 11,546	1.78%	\$ 260,720	\$ 6,336	2.43%	\$ 254,659	\$ 8,138	3.19%
Net interest earnings(B)		19,465			7,214			7,504	
Tax equivalent adjustment		104			64			140	
Net interest earnings		\$ 19,361			\$ 7,150			\$ 7,364	
Interest spread			2.53%			2.50%			2.73%
Net interest margin			2.70%			2.62%			2.82%
Net interest margin tax equivalent (B)			2.71%			2.64%			2.88%

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

(B) Full tax equivalent basis, using a 34% statutory tax rate to approximate interest income as a taxable asset.

Net interest income was \$19.4 million for the year ended December 31, 2010, compared to \$7.1 million for the same period of 2009, an increase of \$12.3 million or 170%. Interest income on loans, investment securities and interest earning deposit was \$31.0 million in 2010 compared to \$13.6 million in 2009, an increase of \$17.5 million or 129%. The yield on interest earning assets decreased to 4.31% in 2010 from 4.96% in 2009. Interest expense on deposits and borrowed funds was \$11.5 million in 2010, an increase of \$5.2 million or 82%, from \$6.3 million in 2009. The increase in interest income reflects the increase in average earning assets of \$445.2 million primarily from the acquisitions of two banks in the second half of 2010 that contributed interest earning assets of approximately \$180 million, the purchase of \$105.8 million manufactured housing loan portfolio on August 6, 2010, and an increase in interest bearing cash from the new branches opened in 2010. The increase in interest expense is due to an increase in average interest bearing liabilities of \$356.5 million of which approximately \$77 million is related to the two 2010 bank acquisitions and an increase of \$281.7 million in interest bearing liabilities from new branches and organic growth. The cost of funds decreased to 1.78% in 2010 from 2.43% in 2009 due to changes in the interest rates charged on time deposit accounts.

The key measure of Customers Bank's net interest income is its net interest margin. Customers Bank's net interest margin increased slightly to 2.71% in 2010 from 2.64% in 2009. This slight increase was primarily attributable to an increase in loans with higher yields that the historical portfolio offset by the volume of interest bearing cash earning 25bp rather than higher earning assets. Deposit costs are close to a floor as short-term market interest rates hovered around 0% throughout the year.

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

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to change in		Total	Increase (decrease) due to change in		Total
	Rate	Volume		Rate	Volume	
(dollars in thousands)						
<b>Interest income</b>						
Interest earning deposits	\$ 22	\$ 275	\$ 297	\$ (20)	\$ 15	\$ (5)
Federal funds sold	(3)	16	13	(20)	12	(8)
Investment securities, Taxable	(342)	617	275	(306)	64	(242)
Investment securities, non taxable	45	(133)	(88)	11	(233)	(222)
Loans	361	16,565	16,926	(1,777)	275	(1,502)
Restricted stock	8	30	38	(24)	(13)	(37)
Total interest income	\$ 91	\$ 17,370	\$ 17,461	\$ (2,136)	\$ 120	\$ (2,016)
<b>Interest-expense</b>						
Interest checking	\$ (31)	\$ 10	\$ (21)	\$ (88)	\$ 25	\$ (63)
Money market	202	2,946	3,148	(397)	(144)	(541)
Savings	(21)	(1)	(22)	(101)	13	(88)
Certificates of deposit	(1,724)	4,002	2,278	(1,578)	1,167	(411)
Total interest bearing deposits	(1,574)	6,957	5,383	(2,164)	1,061	(1,103)
Borrowings	(55)	(118)	(173)	(45)	(654)	(699)
Total interest expense	(1,629)	6,839	5,210	(2,209)	407	(1,802)
Net interest income	\$ 1,720	\$ 10,531	\$ 12,251	\$ 73	\$ (287)	\$ (214)

#### Years ended December 31, 2009 and 2008

Net interest income was \$7.2 million for the year ended December 31, 2009, compared to \$7.4 million for the same period of 2008, a decrease of \$0.2 million, or 3%. Interest income on loans, investments and interest earning deposits was \$13.6 million in 2009 compared to \$15.6 million in 2008, a decrease of \$2.0 million or 13%. Meanwhile, interest expense on deposits and borrowed funds was \$6.3 million in 2009, down \$1.8 million, or 22%, from \$8.1 million in 2008. The decrease in interest income and interest expense reflects the declining market interest rates in 2008. Two benchmark rates, the prime rate and the Fed Funds rate, decreased 4.00% during 2008. In addition to average interest rates decreasing in 2009 compared to 2008, Customers Bank experienced an increase in non-accrual loans which also decreased yields on loans. Yield on assets decreased to 4.96% in 2009 from 5.99% in 2008 while the cost of funds decreased to 2.43% in 2009 from 3.19% in 2008. Average interest earning assets increased to \$273.2 million in 2009 from \$260.9 million in 2008.

The key measure of Customers Bank's net interest income is its net interest margin. Customers Bank's net interest margin decreased to 2.64% in 2009 from 2.87% in 2008. This decrease is primarily attributable to lower yields on



loans being offset by lower costs on time deposits and borrowings and to the mix of assets and liabilities.

## PROVISION FOR LOAN LOSSES

Year ended December 31, 2010 and 2009

Customers Bank establishes an allowance for loan losses through a provision for loan losses charged as an expense on the statement of operations. The non-covered loan portfolio, consisting of loans that are not covered by loss share agreements with the FDIC, is reviewed and evaluated on a quarterly basis to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses.

During 2010, the provision for loan losses was \$10.4 million a slight decrease of \$1.4 million from \$11.8 million in 2009. This slight decrease was primarily due to a stabilization of the elevated volumes of non-performing non-covered loans in the second half of 2010. Real estate values in our market area have decreased during 2010 related to the significant economic downturn faced by the national and regional economies in 2010.

As is typical with community banks, Customers Bank has a high concentration (93.1%) of its loans secured by real estate. Construction and Commercial real estate represent 30.9% of the total loan portfolio (by collateral type) a significant decrease from 2009 due to loan mix changes. Construction loans decreased to \$13.4 million from the historical Customers Bank portfolio or 2.6% of the total loan portfolio, a decrease from 9.5% in 2009. In 2010, Customers Bank's loan portfolio mix changed to 44.7% of the total loan portfolio are being comprised of loans to provide liquidity to mortgage originators under mortgage warehouse lines of credit and 11.9% of manufactured housing loans in 2010 when these two portfolio segments were 7.5% of the total loan portfolio in 2009. It is in the construction and commercial real estate secured portion of the loan portfolio that Customers Bank is experiencing the most difficulty with in delinquent and non-accrual loans. Although we believe that we have identified and appropriately allocated reserves against the riskiest of our loans in the construction and commercial real estate, the possibility of further deterioration before the real estate market turns presents the need for potential increased allocations of the allowance for loan losses in that area in the future.

We have several large relationships that represent a disproportionate percentage of the loan portfolio. This "chunkiness" in the portfolio can be seen in the disproportionate impact that large borrowers have on the delinquent and non-accrual loan balances. Although the delinquent and non-accrual loan percentages of the portfolio have risen over the past two years, a relatively limited number of borrowers are driving those numbers rather than a broad trend of delinquency across our borrowers as a whole.

For the year ended December 31, 2010, we had significant credit relationships with outstanding balances. The concentration of these credit relationships causes the "chunkiness" of our loan portfolio, however, no individual credit relationship concentration are greater than 3% of total loans at December 31, 2010. We monitor these credit relationships on an ongoing basis to evaluate that the collateral and the cash flow estimates used to determine these specific reserves are appropriate and reflect the current circumstances of the borrowers. These ongoing monitoring activities include obtaining updated financial information on a more frequent and formalized basis, evaluation of the underlying collateral to determine if the assumptions used to determine the valuation are appropriate, site visits to properties, if determined to be necessary and other factors significant to the underlying collateral of these loans.

Other than the concentrations already addressed in construction and commercial real estate, Customers Bank has no large exposures in other risky industries such as restaurants, home heating oil businesses or other industries that are typical viewed as high risk.

The majority of Customers Bank's borrowers are small, local businesses and individuals with investments in residential or commercial real estate. The typical borrower provides self-prepared or accountant assisted financial

statements and tax returns that are not audited and therefore are less reliable than information that would be obtained from more sophisticated borrowers. The cost of audited financial statements would be prohibitive for many of our small borrowers. The absence of objectively verified financial information is a challenge to all community banks and represents a layer of risk that must be considered in judging the adequacy of the allowance for loan losses.

Customers Bank believes that the allowance for loan losses is at a level considered adequate to provide for losses that can be reasonably anticipated. Net charge-offs were \$5.3 million and \$4.6 million, respectively, for the years ended December 31, 2010 and 2009.

Years ended December 31, 2009 and 2008

For the year ended, December 31, 2009, the provision for loan losses was \$11.8 million, up \$11.2 million from \$611,000 in 2008. This increase was primarily due to a significant increase in non-performing loans and charge-offs and the declining value of real estate in our market area, all of which were related to the significant economic downturn faced by the national and regional economies in 2009.

See Credit Risk and Asset Quality sections for further information regarding Customers Bank's provision for loan losses, allowance for loan losses and net charge-offs generally, and additional discussion of Customers Bank's non-performing loans.

### NON-INTEREST INCOME

The below chart shows Customers Bank's results in the various components of non-interest income for each of the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31,		
	2010	2009	2008
	(dollars in thousands)		
Service fees	\$ 643	\$ 458	\$ 637
Mortgage warehouse transaction fees	2,631	70	—
Bank owned life insurance	228	229	218
Gain (loss) on sales of investment securities	1,114	236	(361)
Impairment charge on investment securities	—	(15)	(940)
Bargain purchase gain on bank acquisitions	40,254	—	—
Other	800	96	96
Total non-interest income (loss)	\$ 45,670	\$ 1,074	\$ (350)

Years ended December 31, 2010 and 2009

In July 2010 and September 2010, we acquired two banks in FDIC assisted transactions and recorded a bargain purchase gain of \$40.3 million. Excluding the bargain purchase gain on bank acquisitions, non-interest income increased \$4.3 million from \$1.1 million to \$5.4 million. The increase is primarily related to the transactional fees earned by the mortgage warehouse division of \$2.6 million. The mortgage warehouse division was started in the second half of 2009. Also, the gains of \$1.1 million on the sales of investment securities recognized in 2010 increased compared to a gain of \$236 in 2009.

Service fees, including mortgage warehouse fees, represent the largest component of non-interest income and were \$3.3 million in 2010, an increase of \$2.7 million from \$528,000 in 2009 primarily due to an increase in loan fee income and the growth in the mortgage warehouse division in 2010. Late fees on loans were \$89,000 in 2010.

Customers Bank sold investment securities in 2010 for a gain of \$1.1 million, compared to a gain of \$236,000 in 2009. The gain in 2010 was primarily due to the sales of \$56.2 million of mortgage backed securities.

Other non-interest income included \$520,000 of increases in the FDIC loss sharing receivable recorded for the two FDIC assisted transactions and \$98,000 gain on the sale of an SBA loan. The non-interest loss of \$350,000 was generated from the loss on the sales of investment securities of \$361,000 and impairment charges on FHLMC stock of \$940,000 in 2008.

Years ended December 31, 2009 and 2008

In 2009, non-interest income was \$1.1 million an increase of \$123,000 when compared to non-interest income of \$951,000 in 2008 when excluding the \$940,000 impairment charges on investment securities and the \$361,000 loss on sales of investment securities.

Service fees were \$458,000 in 2009 a decrease of \$179,000 or 28%, from \$637,000 in 2008. The decrease in service fees is primarily due to a change in accounting for loan fees. Customers Bank is now using cash basis instead of accrual basis accounting for late fees for loans. Given the inherent uncertainty in the collectability of certain late fees for commercial loans, Customers Bank decided to record these fees when collected. This change does not materially impact financial statement amounts for the year ended December 31, 2009.

Customers Bank had an impairment charge of \$940,000 on a corporate bond and Freddie Mac preferred stock in 2008. The impairment charge on investment securities in 2009 were on a corporate bond and Freddie Mac preferred stock. Management believed the loss on this security was other-than-temporary due to Customers Bankruptcy of Lehman Brothers Holdings Inc. and the U.S. government take-over of Freddie Mac.

## NON-INTEREST EXPENSE

The below chart shows Customers Bank's results in the various components of non-interest expense for each of the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31,		
	2010	2009	2008
	(dollars in thousands)		
Salaries and employee benefits	\$ 14,031	\$ 4,267	\$ 3,651
Occupancy	1,897	1,261	1,280
Technology, communication and bank operations	2,431	1,000	901
Advertising and promotion	1,007	191	231
Professional services	2,833	510	365
FDIC assessments, taxes, and regulatory fees	1,613	892	445
Impairment charges on other real estate owned	702	381	100
Loan workout and other real estate owned	682	531	152
Other	972	648	529
Total non-interest expenses	\$ 26,168	\$ 9,681	\$ 7,654

## Years ended December 31, 2010 and 2009

Non-interest expense increased \$16.5 million from \$9.7 million in 2009 to \$26.2 million in 2010. Salaries and employee benefits represent the largest component of non-interest expense and were \$14.0 million in 2010 compared to \$4.3 million in 2009, an increase of \$9.8 million. The total number of employees doubled in 2010. At December 31, 2009, we had sixty-two employees and grew to 133 employees at December 31, 2010 adding \$4.7 million in salaries and benefits in 2010. The additional employees were added to continue to build the infrastructure of the Bank and support the growth strategy of the management team added in 2009. Also, fifteen employees were added from the two banks that we acquired in 2010. In addition, the management stock purchase plan, incentive compensation items either through bonus or stock-based compensation and the supplemental executive retirement plan for Customers Bank's Chief Executive Officer came into effect in 2010. The management stock purchase plan and the SERP became vested and was effective at the completion of the acquisition of USA Bank in July 2010 and \$1.8 million and \$2.5 million, respectively, were recorded for each plan during the third quarter of 2010.

Occupancy expense increased \$636,000 as a result of opening 4 new branches in three states, Pennsylvania, New Jersey and New York. Technology, communications and bank operations expense was \$2.4 million in 2010, an increase of \$1.4 million or 143.1% over \$1.0 million in 2009 due to the expansion of the Bank and employing technology to services customers in a proactive manner. Customers Bank's advertising and promotion expense increased \$816,000 in 2010 to \$1.0 million for the promotion of the new Bank strategy and mission and to support an increased market area.

Expenses related to professional services increased 455.5% or \$2.3 million to \$2.8 million from \$510,000 in 2009. This increase was primarily attributable to legal expenses related to regulatory filings, the two FDIC assisted acquisitions and litigation related to one of the Bank's vendors. Consulting fees increased to \$507,000 in 2010 from \$193,000 in 2009 to add the specialty knowledge and experience to support management in the growth of the Bank.

FDIC assessments, taxes and regulatory fees increased 80.8% or \$721,000 to \$1.6 million in 2010 from \$892,000 in 2009. This increase is attributable to a broader deposit base and increases in premiums.

Impairment charges on other real estate owned increased \$321,000 to \$702,000 in 2010 from \$381,000 in 2009. This increase is primarily attributable to deteriorating market values on real estate and increased other real estate owned. Loan workout and other real estate owned expenses increased 28% or \$151,000 to \$682,000 in 2010 from \$531,000 in 2009. This increase is attributable to an increase of expenses related to preparing properties for sale and increase of other real estate properties from the two bank acquisitions in 2010. A portion of the expenses on the other real estate owned covered under the FDIC loss sharing agreements are reimbursable from the FDIC, however, the remaining 20% of the expense is absorbed by the Bank. At December 31, 2010, there were eighteen properties that we have acquired either through acquisition or foreclosure of loans with a book value of \$7.2 million. In addition, loan workout expenses increase due to additional problem assets from the acquisitions of two failed banks in 2010 and a portion of the expenses incurred are reimbursable from the FDIC.

Other expenses increased 50.0% or \$324,000 to \$972,000 in 2010 from \$648,000 in 2009. This increase was primarily attributable to increases in appraisal expenses in connection expansion costs, director fees, and other miscellaneous expenses.

Years ended December 31, 2009 and 2008

The 26.5% or \$2.0 million increase in total non-interest expense, from \$7.7 million in 2008 to \$9.7 million in 2009, was largely due to an increase in FDIC assessments and legal fees incurred in 2009. Salaries and employee benefits were \$4.3 million in 2009 compared to \$3.7 million in 2008, an increase of 16.8% or \$616,000. This increase was primarily driven by staff increases in 2009 related to building an infrastructure for planned growth.

Customers Bank's occupancy expense remained level at \$1.3 million in both 2009 and 2008. Technology, communications and bank operations expense was \$1.0 million in 2009, an increase of \$99,000 or 11.0% over the \$901,000 in 2008. Customers Bank's advertising and promotion expense remained stable at \$0.2 million in both 2009 and 2008.

Expenses related to professional services increased 39.7% or \$145,000 to \$510,000 from \$365,000 in 2008. This increase was primarily attributable to legal expenses related to regulatory filings, loan workouts and consulting fees. FDIC assessments, taxes and regulatory fees increased 100.4% or \$447,000 to \$892,000 in 2009 from \$445,000 in 2008. This increase is attributable to the FDIC special assessment and increases in premiums.

Impairment and losses on other real estate owned increased \$281,000 to \$381,000 in 2009 from \$100,000 in 2008. This increase is primarily attributable to deteriorating market values on real estate. Loan workout and other real estate owned expenses increased 249.3% or \$379,000 to \$531,000 in 2009 from \$152,000 in 2008. This increase is attributable to an increase of expenses related to preparing properties for sale and the monitoring of the problem loans that increased in 2009.

Other expenses increased 22% or \$119,000 to \$648,000 in 2009 from \$529,000 in 2008. This increase was primarily attributable to increases in director fees and other miscellaneous expenses.

## INCOME TAXES

Years ended December 31, 2010 and 2009

The income tax provision is \$4.7 million for the year ended December 31, 2010. The income tax provision reflects a provision for approximately \$11.3 million offset by an \$6.6 million adjustment to reverse the deferred tax valuation allowance previously recorded on the net deferred tax asset through the second quarter of 2010. Due to the acquisitions of USA Bank and ISN Bank, it is more likely than not that our net deferred tax asset will be realized, accordingly, the valuation allowances recorded in 2010 and in the previous years were reversed. Management periodically evaluates the recoverability of its deferred tax assets to determine if the valuation allowance should be adjusted. Income tax expense also increase due to the expansion into various jurisdictions.

Years ended December 31, 2009 and 2008

Customers Bank recognized no income tax benefit in 2009, compared to an income tax benefit of \$0.4 million in 2008. A portion of Customers Bank's net losses in 2008 were carried back to prior years creating a tax benefit in 2008. There was no additional income from prior years to create a tax benefit in 2009.



## FINANCIAL CONDITION

## GENERAL

Customers Bank's total assets were \$1.37 billion at December 31, 2010. This represents a 293.0% increase from \$349.8 million at December 31, 2009. The main components of this change were an increase in cash and cash equivalents, loans, and investment securities volume. Customers Bank's total liabilities were \$1.27 billion at December 31, 2010, up 286.7% from \$328.3 million at December 31, 2009. The main component of this change was due to increased deposits, offset by a decrease in other borrowings.

On July 9, 2010 and September 17, 2010, Customers Bank acquired the former USA Bank and ISN Bank in FDIC assisted transactions that resulted in two additional branches and expanded the Customers Bank brand into New York and New Jersey to continue the growth into these markets.

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

	December 31,	
	2010	2009
	(dollars in thousands)	
Cash and cash equivalents	\$ 238,724	\$ 68,807
Loans held for sale	199,970	---
Total investment securities, available for sale	205,828	44,588
Total loans receivable, not covered under FDIC loss sharing agreements	514,087	230,298
Total loans receivable covered under FDIC loss sharing agreements	164,885	---
Total loans receivable, net of the allowance for loan losses	663,843	220,266
Total assets	1,374,407	349,760
Earning assets	1,301,969	341,548
Total deposits	1,245,690	313,927
Total borrowings	13,000	13,000
Total liabilities	1,269,267	328,257
Total stockholders' equity	105,140	21,503

The following table sets forth a summary of assets acquired and liabilities assumed from the former USA Bank and ISN Bank at their respective acquisition dates (in thousands):

Total loans receivable, not covered under FDIC loss sharing agreements	\$ 1,440
Total loans receivable, covered under FDIC loss sharing agreements	174,660
FDIC loss sharing receivables	28,337
Other real estate owned covered under FDIC loss sharing agreements	4,640
Total deposits	\$ 251,239

## CASH AND DUE FROM BANKS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection. These balances totaled \$6.4 million at December 31, 2010. This represents a \$2.2 million increase from \$4.2 million at December 31, 2009. These balances vary from day to day, primarily due to variations in customers' deposits with Customers Bank.

## INTEREST-EARNING DEPOSITS WITH BANKS

Customers Bank's interest earning deposits consist mainly of deposits at the Federal Home Loan Bank of Pittsburgh. These deposits totaled \$225.6 million at December 31, 2010, which is a \$166.7 million increase from \$59.0 million at December 31, 2009. This balance varies from day to day, depending on several factors, such as variations in customers' deposits with Customers Bank and the payment of checks drawn on customers' accounts. The growth of interest earning deposits is primarily attributable to growth of the branch network and organic deposit growth, proceeds from the capital offerings in 2010, offset by Customers Bank's growth of assets.

#### FEDERAL FUNDS SOLD

Federal funds sold consist of overnight interbank lending through Atlantic Central Bankers Bank. These funds totaled \$6.7 million at December 31, 2010, representing an increase of \$1.0 million from the \$5.7 million at December 31, 2009. This balance varies day-to-day, based upon the short-term fluctuations in the net cash position of Customers Bank.

## INVESTMENT SECURITIES

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

Management determines the appropriate classification of securities at the time of purchase. In accordance with ASC 320 Investments—Debt and Equity Securities, investment securities are classified as: (a) investment securities held to maturity (“HTM”), which are classified as such based on management's intent and ability to hold the securities to maturity; (b) trading account securities, which are bought and held principally for the purpose of selling them in the near term; and (c) securities available for sale (“AFS”), which include those securities that may be sold in response to changes in interest rates, changes in pre-payment assumptions, the need to increase regulatory capital or other similar requirements. Customers Bank does not necessarily intend to sell its AFS securities, but has classified them as AFS to provide flexibility to respond to liquidity needs.

At December 31, 2010, \$205.8 million of Customers Bank's investment securities were classified as AFS. This represents an increase of 361.6% from \$44.6 million at December 31, 2009. The increase was largely due to the purchases of investment securities, offset by normal maturities, calls, principal repayments, and sales. Unrealized gains and losses on AFS securities, although excluded from the results of operations, are reported as a separate component of stockholders' equity, net of the related tax effect. At December 31, 2010, Customers Bank held no investment securities that were classified as HTM.

The investment securities portfolio's composition changes periodically as a result of restructuring transactions, taken primarily to manage liquidity, capital and interest rate risk. Customers Bank had a concentration greater than 10% of stockholders' equity in Fannie Mae (\$25.5 million), Ginnie Mae (\$38.5 million) and Freddie Mac (\$139.1 million) at December 31, 2010.

The following three tables set forth information regarding the stated maturity, average yield, and compositions, of our investment securities portfolio as of the dates indicated. The first two tables do not include amortization or anticipated prepayments on mortgage-backed securities; callable securities are included at their stated maturity dates.

	December 31, 2010		December 31, 2009	
	Fair Value	Weighted Average Yield (dollars in thousands)	Fair Value	Weighted Average Yield
Due after one year through five years	\$ 198	0.91%	\$ 452	4.65%
Due after five years through ten years	3,334	2.91	—	—
Due after ten years	—	—	3,894	6.28
	3,532	2.77	4,346	6.14
Mortgage-backed securities	201,574	2.49	39,403	3.91
Asset-backed securities	722	1.45	839	1.37
	\$ 205,828	2.48%	\$ 44,588	4.04%

	December 31,	
	2010	2009
US Treasury and government agency	\$ 1,681	\$ 452
Mortgage-backed securities	201,574	39,403
Asset-backed securities	722	839
Municipal securities	1,851	3,894
	\$ 205,828	\$ 44,588

At December 31, 2010, Customers Bank held \$2.6 million in securities that were impaired based on having a fair value lower than amortized cost for at least twelve consecutive months. Customers Bank considers these securities to be temporarily impaired primarily due to interest rate changes and a lack of liquidity in the market. Customers Bank does not intend to sell and it is not more likely than not that Customers Bank will be required to sell the securities prior to maturity or market price recovery. Management believes that there is no other than temporary impairment of these securities as of December 31, 2010. \$2.0 million and \$9.0 million of investment securities were pledged at December 31, 2010 and 2009, respectfully. Securities are pledged to the Federal Home Loan Bank of Pittsburgh to be used as collateral for borrowing purposes and to the Federal Reserve for contingency liquidity planning purposes.

## LOANS

Our existing lending relationships are primarily with small businesses and individual consumers in Bucks, Berks, Montgomery, Chester and Delaware Counties and southeast New York and central New Jersey and to a lesser extent in surrounding markets. Our loan portfolio is primarily comprised of commercial real estate, construction and development, and commercial and industrial loans. We plan to continue our focus on small business loans, the management team plans to realign our commercial lending efforts, establish a specialty lending business and expand our consumer lending products, as outlined below:

### Commercial Lending

Customers Bank's commercial lending will be segregated into certain types of risk: Commercial Real Estate, Commercial and Industrial and Construction Loans. This distinction is designed to allow for greater resource deployment, higher standards of risk management, superior asset quality, lower interest rate risk and higher productivity levels. The Business Banking lending group will focus on companies with annual revenues ranging from \$5.0 million to \$20.0 million, which typically have credit requirements between \$0.5 million and \$2.0 million. The Small Business Banking platform will originate loans including Small Business Administration loans through the branch network sales force and a team of dedicated Small Business relationship managers. The support administration of the platform for this group will be centralized and include risk management, product management, marketing, performance tracking and overall strategy. Credit and sales training has been established for our sales force, ensuring we have small business experts in place providing appropriate financial solutions to the small business owners in our communities. This segregated approach is intended to focus on industries that offer us high asset quality and are deposit rich to drive profitability.

### Specialty Lending

Our long-term financial plan also includes the addition of certain lower-risk specialty lending businesses, such as first mortgages, home equity, manufactured housing and mortgage warehouse lending. However, due to our anticipated growth in deposits and slower growth in lending due to our more stringent underwriting requirements and our view that it would not be prudent to rapidly grow loan portfolios in relatively small geographical areas, we believe that diversification of our credit risk across asset classes and geographies is the prudent approach to take during our growth stage. Furthermore, there is an opportunity to start specialty lending businesses with no legacy issues at attractive spreads. Many of the large banks have exited these businesses after experiencing capital issues or high credit losses. This provides the opportunity for us to hire experienced management teams in lower risk areas.

We established the mortgage warehouse lending business in 2009 which provides financing to mortgage bankers for residential mortgage originations from loan closing until sale in the secondary market. Many providers of liquidity in this segment exited the business last year during the period of excessive market turmoil. Despite a recently more stabilized market environment, lending in this area has not returned. We believe the market will yield an opportunity to provide liquidity to this division at attractive spreads. There is also opportunity to attract escrow deposits and to generate fee income in this business. It is anticipated that we will bring in deposit funding equal to 10% to 30% of the

loans generated over time.

Mortgage warehouse loans were purchased by Customers Bank from third party mortgage originators. Customers Bank anticipates selling the loans to mortgage originators for securitization in the short term.

#### Consumer Lending

We plan to expand our product offerings in real estate secured consumer lending, but will not offer indirect automobile loans, unsecured loans or credit cards. Initially, we intend to provide home equity and residential mortgage loans to customers. Underwriting standards for home equity lending will be conservative, focusing on FICO scores 720 and higher, and lending will be offered to solidify customer relationships and grow relationship revenues in the long term. Residential loans will be originated for sale, which will become a source of fee revenue for Customers Bank. In the long term, Customers Bank intends to assess other consumer lending segments that adhere to our critical success factors. This lending is important in our efforts to grow total relationship revenues for our consumer households.

Our existing lending relationships are primarily with small businesses and individual consumers primarily in Bucks, Berks, Chester, Delaware and Montgomery Counties, Pennsylvania; Camden County, New Jersey; and Westchester County, New York and to a lesser extent in the surrounding markets. Our loan portfolio is primarily comprised of commercial real estate, construction and development, and commercial and industrial loans. In July and September 2010, Customers Bank purchased an aggregate portfolio of approximately \$171.1 million of which substantially all the loans are covered under loss sharing arrangements with the FDIC (referred to as “covered loans” within the discussion).

Loans receivable outstanding (net of the allowance for loan losses) that are not covered under FDIC loss sharing arrangements (referred to as “non-covered” within the discussion) grew to \$499.0 million at December 31, 2010, an increase of \$278.7 million, or 127.0%, from \$220.3 million at December 31, 2009. The growth of the loan portfolio was centered around the increase in mortgage warehouse loans totaling \$186.1 million and manufactured housing loans totaling \$102.9 million at December 31, 2010. In August 2010, Customers Bank purchased a pool of manufactured housing loans with an outstanding principal balance of \$105.4 million with 10% of the purchase price held back in a deposit account (Holdback Deposit). The Holdback Deposit is for loans within the purchased portfolio under agreed upon terms, such as repossessions or missed principal payments. For further information on our loans, see Note 5 of Customers Bank’s 2010 Annual Financial Statements beginning on page Customers F-2 of this Joint Proxy Statement-Prospectus. Covered loans were \$164.9 million at December 31, 2010.

The composition of net loans receivable at December 31, 2010 and 2009 is as follows:

	2010	2009
	(in thousands)	
Commercial construction	\$ 38,280	\$ —
Commercial real estate	75,245	—
Commercial and industrial	22,876	—
Residential real estate	23,822	—
Manufactured housing	4,662	—
Total loans receivable covered under FDIC loss sharing agreements	164,885	—
Commercial construction	13,387	21,742
Commercial real estate	144,849	133,433
Commercial and industrial	35,942	25,290
Mortgage warehouse	186,113	16,435
Manufactured housing	102,924	—
Residential real estate	28,964	27,422
Consumer	1,581	5,524
Total loans receivable	513,760	229,846
Unearned origination costs, net	327	452
Allowance for loan losses	(15,129)	(10,032)
Total loans receivable not covered under FDIC loss share agreements, net	498,958	220,266
Loans receivable, net	\$ 663,843	\$ 220,266

The following table sets forth certain categories of loans as of December 31, 2010, in terms of contractual maturity date:

	Within one year	After one but within five years	After five years	Total
	(in thousands)			
<b>Types of Loans:</b>				
Commercial construction	\$ 46,483	\$ 3,617	\$ 1,567	\$ 51,667
Commercial real estate	38,751	108,828	72,515	220,094
Commercial and industrial	19,730	7,420	31,668	58,818
<b>Total</b>	<b>\$ 104,964</b>	<b>\$ 119,865</b>	<b>\$ 105,750</b>	<b>\$ 330,579</b>
<b>Amount of such loans with:</b>				
Predetermined rates	\$ 59,267	\$ 101,637	\$ 24,653	\$ 185,557
Floating or adjustable rates	45,697	18,228	81,097	145,022
<b>Total</b>	<b>\$ 104,964</b>	<b>\$ 119,865</b>	<b>\$ 105,750</b>	<b>\$ 330,579</b>

\* Includes covered and non-covered loans.

### CREDIT RISK

Customers Bank 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 by management. Management also attempts to anticipate and allow for credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged as they are incurred, and to which provisions are added periodically as Management and the board of directors deem appropriate.

The provision for loan losses was \$10.4 million, \$11.8 million, and \$611,000 for the years ended December 31, 2010, 2009, and 2008, respectively. The allowance for loan losses was \$15.1 million, or 2.94% of total non-covered loans, at December 31, 2010 and \$10.0 million or 4.96%, of total non-covered loans at December 31, 2009. Net charge-offs were \$5.3 million for the year ended December 31, 2010, an increase of \$628,000 compared to the \$4.6 million for the year ending December 31, 2009. In addition, we have approximately \$164.9 million in loans that are covered under loss share arrangements with the FDIC.

The \$1.4 million decrease in the provision for loan losses for 2010 was primarily attributable to delinquent, non-performing and impaired loans stay relatively flat in the second half of 2010 during the deteriorating real estate market. This methodology determines the fair value on impaired loans and utilizes Customers Bank's historical loss experience to project losses in the foreseeable future for performing loans. See "Asset Quality" beginning on page 166 in this Joint Proxy Statement-Prospectus.





The below chart depicts Customers Bank's allowance for loan losses for the periods indicated.

	2010	2009	December 31, 2008 (in thousands)	2007	2006
Balance of the allowance at the beginning of the year	\$ 10,032	\$ 2,876	\$ 2,460	\$ 2,029	\$ 1,615
Loan charge-offs					
Commercial construction	1,214	920	100	-	-
Commercial real estate	964	2,597	79	-	-
Commercial and industrial	1,699	1,080	-	9	8
Residential real estate	1,366	-	1	-	-
Consumer and other	22	33	15	5	-
Total Charge-offs	5,265	4,630	195	14	8
Loan recoveries					
Commercial construction	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Commercial and industrial	6	8	-	1	4
Residential real estate	9	-	-	-	-
Consumer and other	-	-	-	-	2
Total Recoveries	15	8	-	1	6
Total net charge-offs	5,250	4,622	195	13	2
Provision for loan losses	10,397	11,778	611	444	416
Transfer (1)	(50)	-	-	-	-
Balance of the allowance for loan losses at the end of the year	\$ 15,129	\$ 10,032	\$ 2,876	\$ 2,460	\$ 2,029

(1) In 2010, the Bank had a reserve of \$50,000 for unfunded commitments previously included in the allowance for loan losses. The reserve for unfunded loan commitments was reclassified to other liabilities.

The allowance for loan losses is based on a periodic evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb potential losses. All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows Customers Bank to take corrective actions on a timely basis. Management considers a variety of factors, and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate the appropriate level of allowance for loan losses. This methodology includes an evaluation of loss potential from individual problem credits, as well as anticipated specific and general economic factors that may adversely affect collectability. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions that may affect borrowers' ability to repay, and other factors that may warrant current recognition. In addition, Customers Bank's internal auditors, loan review auditors and various regulatory agencies periodically review the adequacy of the allowance as an integral part of their examination process. Such agencies may require Customers Bank to recognize additions or reductions to the allowance based on their judgments of information available at the time of their examination.

A substantial portion, approximately 75-80%, of our commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, the real estate portfolio). Our lien position on the real estate collateral will vary on a loan by loan basis. Current appraisals

are received when our credit group determines that the facts and circumstances have significantly changed since the date of the last appraisal or the geographical real estate values have deteriorated. The credit committee and loan officers review loans that are fifteen or more days delinquent and all nonaccrual loans on a periodic basis. In addition, loans where the loan officers have identified a “borrower of interest” are discussed to determine if additional analysis is necessary to apply the risk rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographical area and other factors that may affect the cash flow of the loan. On a quarterly basis, if necessary, the collateral values or discounted cash flow models are used to determine the estimated fair value of the underlying collateral for the quantification of a specific reserve for impaired loans. Appraisals used within this evaluation process do not typically age more than two years before a new appraisal is obtained. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to determine the fair value of the underlying collateral.

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

These evaluations, however, are inherently subjective as they require material estimates, including, among others, the amounts and timing of expected future cash flows on impaired loans, estimated losses in the loan portfolio, and general amounts for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which may be susceptible to significant change. Pursuant to ASC 450 Contingencies and ASC 310-40 Troubled Debt Restructurings by Creditors impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral if principal repayment is expected to come from the sale or operation of such collateral.

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The following table shows how the allowance for loan losses is allocated among the various loan portfolios that Customers Bank has outstanding. This allocation is based on management's specific review of the credit risk of the outstanding loan portfolios in each category as well as historical trends.

	2010		December 31, 2009		2008	
	Amount	Percent of Loans in each category to total loans (a)	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans
	(dollars in thousands)					
Commercial construction	\$ 2,126	7.7 %	\$ 2,349	9.5%	\$ 608	15.8%
Commercial real estate	6,280	32.7 %	4,874	58.0%	856	53.3%
Commercial and industrial	1,663	8.7 %	1,350	11.0%	532	15.1%
Residential real estate	3,988	7.8 %	1,284	19.1%	696	12.2%
Consumer and other	11	0.1 %	75	2.4%	32	3.6%
Mortgage warehouse	465	27.7 %	—	—%	—	—%
Manufactured housing	—	15.3 %	—	—%	—	—%
Unallocated	596		100		152	
	\$ 15,129	100.0%	\$ 10,032	100.0%	\$ 2,876	100.0%

	2007		December 31, 2006	
	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans
	(dollars in thousands)			
Commercial construction	\$ 352	16.2%	\$ 69	3.9%
Commercial real estate	757	34.2%	762	38.4%
Commercial and industrial	551	20.1%	449	18.5%
Consumer residential	724	27.9%	623	37.4%
Consumer and other	44	1.6%	41	1.8%
Unallocated	32		85	
	\$ 2,460	100.0%	\$ 2,029	100.0%

(a) Total loans includes covered and non-covered loans in 2010. No covered loans held prior to 2010.

ASSET QUALITY

Customers Bank had impaired loans totaling \$44.6 million at December 31, 2010, compared to \$17.5 million at December 31, 2009. Non-accrual not covered loans totaled \$22.2 million at December 31, 2010, up from \$10.3 million at December 31, 2009. Customers Bank had net charge-offs of \$5.3 million in 2010, compared with \$4.6 million in 2009. Customers Bank had recoveries of \$15,000 in 2010, compared with \$8,000 in 2009. There was \$1.9 million and \$1.2 million of other real estate owned as a result of foreclosure or voluntary transfer to Customers Bank at December 31, 2010 and 2009, respectively.

## Loans not covered under loss sharing arrangements

The tables below set forth non-covered non-performing loans and non-performing assets and asset quality ratios at December 31, 2010, 2009, 2008, 2007 and 2006:

	2010	2009	December 31, 2008	2007	2006
	(dollars in thousands)				
Non-accrual loans	\$ 22,242	\$ 10,341	\$ 4,387	\$ 2,058	\$ 742
Loans 90+ days delinquent still accruing	5	4,119	1,585	11	-
Restructured loans	4,776	4,690	1,203	-	-
Non-performing non-covered loans	27,023	19,150	7,175	2,069	742
OREO	1,906	1,155	1,519	-	-
Non-performing non-covered assets	\$ 28,929	\$ 20,305	\$ 8,694	\$ 2,069	\$ 742

	2010	2009	December 31, 2008	2007	2006
Non-accrual loans to total non-covered loans	4.33 %	4.49%	1.96%	0.96%	0.42%
Non-performing loans to non-covered total loans	5.26 %	8.32%	3.21%	1.63%	0.42%
Non-performing non-covered assets to non-covered total assets	2.40 %	5.81%	3.17%	1.28%	0.32%
Non-accrual non-covered loans and 90+ days delinquent to non-covered total assets	1.85 %	4.13%	2.18%	0.76%	0.32%
Allowance for loan losses to:					
Total non-covered loans (a)	2.94 %	4.36%	1.29%	1.15%	1.14%
Non-performing non-covered loans	55.99 %	52.39%	40.08%	70.41%	273.45%
Non-performing non-covered assets	52.30 %	49.41 %	33.08%	70.41%	273.45%

(a) Total non-covered loans included mortgage warehouse loans of \$186,113 and \$16,435 and purchased manufactured housing loans of \$102,924 and \$0 as of December 31, 2010 and December 31, 2009, respectively. Prior to 2009, the Bank did not hold mortgage warehouse and manufactured housing loans in our investment portfolio.

The table below sets forth types of not covered loans that were non-performing at December 31, 2010, 2009, 2008, 2007 and 2006.

	2010	2009	December 31, 2008	2007	2006
--	------	------	----------------------	------	------

(dollars in thousands)

Commercial construction	\$ 4,673	\$ 2,835	\$ 1,443	\$ 1,469	\$ -
Residential real estate	1,793	672	350	-	227
Commercial real estate	15,879	14,786	5,232	411	411
Commercial and industrial	4,673	721	150	172	104
Consumer and other	5	136	-	17	-
Total non-performing loans	\$ 27,023	\$ 19,150	\$ 7,175	\$ 2,069	\$ 742

Customers Bank seeks to manage 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.

Asset quality assurance activities include careful monitoring of borrower payment status and a review of borrower current financial information to ensure financial strength and viability. Customers Bank has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization, and adjusts policies as appropriate for changes in market conditions and applicable regulations. The risk elements which comprise asset quality include loans past due, non-accrual loans, renegotiated loans, other real estate owned, and loan concentrations.

All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows Customers Bank to take corrective actions on a timely basis.

A regular reporting and review process is in place to provide for proper portfolio oversight and control, and to monitor those loans identified as problem credits by management. This process is designed to assess Customers Bank's progress in working toward a solution, and to assist in determining an appropriate specific allowance for possible losses. All loan work-out situations involve the active participation of management, and are reported regularly to the Board.

Loan charge-offs are determined on a case-by-case basis. Loans are generally charged off when principle is likely to be unrecoverable and after appropriate collection steps have been taken.

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

#### Nonperforming loans and assets covered under FDIC loss sharing agreements

The tables below set forth non-accrual covered loans and non-performing covered assets covered under FDIC loss sharing agreements at December 31, 2010 (in thousands).

	December 31, 2010
Non-accrual covered loans	\$ 40,598
Covered other real estate owned	5,342
Total nonperforming covered assets	\$ 45,940

The table below sets forth the types of covered loans that were non-performing at December 31, 2010 (in thousands).

	December 31, 2010
Commercial construction	\$ 19,880
Residential real estate	4,017
Commercial real estate	10,146
Commercial and industrial	6,364
Manufactured housing	191
Total non-performing covered loans	\$ 40,598

#### FDIC LOSS SHARING RECEIVABLE



As of December 31, 2010, 23% of the outstanding principal balance of loans receivable and 6% of our other real estate assets were covered under loss share agreements with the FDIC in which the FDIC has agreed to reimburse us for 80% of all losses incurred in connection with those assets. We estimated the FDIC reimbursement that will result from losses or expenses incurred as we dispose of covered loans and other real estate assets, and we recorded the estimate as a receivable from the FDIC. The FDIC loss sharing receivable was approximately \$16.7 million as of December 31, 2010. Realized losses in excess of acquisition date estimates will result in an increase in the FDIC receivable for loss share agreements. Conversely, if realized losses are less than acquisition date estimates, the FDIC loss sharing receivable will be reduced. The discount on the FDIC receivable is accreted into noninterest income using the level yield method over the estimated life of the receivable, including estimates of the timing of cash flow receipts and the disposition of non-performing assets.

## PREMISES AND EQUIPMENT AND OTHER ASSETS

Customers Bank's premises and equipment, net of accumulated depreciation, was \$5.3 million and \$2.7 million at December 31, 2010 and 2009, respectively.

Customers Bank's restricted stock holdings at December 31, 2010 and December 31, 2009 were \$4.3 million and \$2.0 million, respectively. These consist of stock of the Federal Reserve Bank, Federal Home Loan Bank and Atlantic Central Bankers Bank, and are required as part of our relationship with these banks.

Customers Bank owned BOLI of \$25.6 million and \$5.0 million at December 31, 2010 and 2009, respectively. Cash flow from these policies will occur over an extended period of time and flow through non-interest income. Customers Bank periodically reviews the creditworthiness of the insurance companies that have underwritten the policies. The cash surrender values of the policies appear on Customers Bank's balance sheet and are subject to full regulatory capital requirements.

Other assets increased to \$6.8 million at December 31, 2010 from \$1.8 million at December 31, 2009.

## DEPOSITS

Customers Bank offers a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from Customers Bank's service area. Total deposits grew to \$1.25 billion at December 31, 2010, an increase of \$931.8 million, or 296.8%, from \$313.9 million at December 31, 2009 primarily from deposits from the two acquired banks and continuation of deposit initiations in the second half of 2009. Customers Bank introduced many new initiatives to increase its deposits that continued through 2010. Sales management practices were introduced along with new marketing and pricing strategies.

The components of deposits were as follows at the dates indicated:

	December 31,	
	2010	2009
	(in thousands)	
Demand, non-interest bearing	\$ 72,268	\$ 18,502
Demand, interest bearing	387,013	84,996
Savings	17,649	9,037
Time, \$100,000 and over	434,453	76,985
Time, other	334,307	124,407
Total deposits	\$ 1,245,690	\$ 313,927

Total time deposits increased \$931.8 million, or 296.8%, to \$1.25 billion at December 31, 2010 compared to \$313.9 million at December 31, 2009. Time deposits of \$100,000 or more were \$434.53 million at December 31, 2010 compared to \$77.0 million at December 31, 2009, an increase of \$357.5 million or 464.3%. Customers Bank had brokered deposits of \$46.0 million and \$30.0 million at December 31, 2010 and 2009, respectively. During this period, non-interest bearing demand deposits increased \$53.8 million, or 290.1%, to \$72.3 million from \$18.5 million. Interest bearing demand deposits increased \$302.0 million, or 355.3%, to \$387.0 million from \$85.0 million. The majority of this increase is in money market accounts that increased to \$373.6 million at December 31, 2010 from \$74.4 million at December 31, 2009. Savings deposit accounts increased \$8.6 million, or 95.3%, to \$17.6 million at December 31, 2010 from \$9.0 million.

At December 31, 2010, the scheduled maturities of time deposits greater than \$100,000 are as follows (in thousands):

3 months or less	\$ 29,068
Over 3 through 6 months	62,012
Over 6 through 12 months	295,165
Over 12 months	48,208
	\$ 434,453

## OTHER BORROWINGS

Customers Bank had other borrowings of \$11.0 million at December 31, 2010 and 2009. The contractual maturities of long-term advances at December 31, 2010 were as follows (in thousands):

2013	\$ 1,000
2015	10,000
	\$ 11,000

## SUBORDINATED DEBT

In June 2004, Customers Bank issued \$2.0 million in floating rate subordinated debt that matures on July 23, 2014. The quarterly interest rate at December 31, 2010 was 3.04%. Currently, 80% of this subordinated debt is included in Customers Bank's Tier II regulatory capital requirement.

Customers Bank issued a subordinated term note during the fourth quarter of 2008. The note was issued for \$1.0 million at a fixed interest rate of 7.50% per annum. Quarterly interest payments are made on this note in January, April, July and October. The note was converted to Common Stock in the third quarter of 2009 due to a significant change in Customers Bank's board of directors, which triggered a change in control event.

## PREFERRED STOCK

During 2008, Customers Bank issued \$980,000 in 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock. There were \$30,000 of expenses related to the issuance of preferred stock in 2008. This stock paid a 10% dividend that is non-cumulative. The preferred shares were exchanged for Common Stock during 2009 in conjunction with the capital raise of \$16.7 million. 178,164 shares of Common Stock were exchanged for 98 shares of preferred stock at a price of \$5.50 per share. In addition, 24,500 warrants were issued in the exchange. Each warrant allows for the purchase of one (1) share of Common Stock at a price of \$5.50 per share. The warrants expire seven (7) years from the date of issuance.

## STOCKHOLDERS' EQUITY

Stockholders' equity increased to \$105.1 million at December 31, 2010 from \$21.5 million at December 31, 2009. The increase was due to a capital raises totally \$59.7 million, net income of \$23.7 million and the increase of \$1.9 million in net unrealized losses on investment securities classified by Customers Bank as available for sale. The unrealized loss in Customers Bank's investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and is recognized as a component of net income only if realized through the sale of such securities prior to maturity, or if the security would become other-than-temporarily impaired. During 2010, Customers Bank issued 18,971,335 shares of common stock at an average price of \$3.11 per share.

## 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 Bank coordinates its management of liquidity with its interest rate sensitivity and capital position. Customers Bank's policy is to maintain a strong liquidity position.

Customers Bank's investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. Customers Bank's principal sources of funds are shareholder capital, deposits, debt issuance, principal and interest payments on loans, and other funds from operations. Customers Bank also maintains borrowing arrangements with the Federal Home Loan Bank and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. As of December 31, 2010, Customers Bank's borrowing capacity with the Federal Home Loan Bank was \$128.0 million at December 31, 2010, of which \$10.0 million was used in borrowings. As of December 31, 2010, Customers Bank's borrowing capacity with the Federal Reserve Bank of Philadelphia was \$74.2 million.

Customers Bank's operating activities used \$221.5 million and \$2.4 million for the years ended December 31, 2010 and 2009, respectively. Customers Bank purchased \$200.0 million of mortgage loans that were not sold until January 2011. In addition, bargain purchase gains were recorded on the two FDIC assisted transactions in the second half of 2010.

Investing activities used \$348.8 million and \$23.8 million for the years ended December 31, 2010 and 2009, respectively. This increase was primarily due to the higher volume of investment securities transactions and an increase in loan activity, primarily mortgage warehouse loans in 2010 compared to 2009.

Financing activities provided \$740.2 million and \$88.8 million for the years ended December 31, 2010 and 2009, respectively. The increase was primarily due to increased growth of deposits of \$680.5 and a \$59.7 million capital raise in 2010.

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

## CAPITAL ADEQUACY

The Board of Governors of the Federal Reserve System has adopted risk-based capital and leverage ratio requirements for banks like Customers Bank that are members of the Federal Reserve System. The Pennsylvania Department of Banking also sets minimum capital requirements. At December 31, 2010 and, 2009, Customers Bank met each of its minimum capital requirements. Management believes that Customers Bank would be deemed “well capitalized” for regulatory purposes as of December 31, 2010 and 2009. Banking regulators have discretion to establish an institution’s classification based on other factors, in addition to the institution’s numeric capital levels.

Management is not aware of any developments that have occurred and that would, or would be reasonably likely to, cause our classification to be reduced below a level of “well capitalized” for regulatory purposes. Customers Bank’s capital classification is determined pursuant to banking regulations to apply Customers Bank regulators’ “prompt corrective action” regulations, and to determine levels of deposit insurance assessments, and may not constitute an accurate representation of our overall financial condition or prospects. The following table summarizes the required capital ratios and the corresponding regulatory capital positions of Customers Bank for the periods or dates indicated:

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollar amounts in thousands)								
As of December 31, 2010:								
Total capital (to risk weighted assets)	\$ 115,077	21.1%	≥ \$ 43,571	≥ 8.0%	≥ \$ 53,464	≥ 10.0%		
Tier 1 capital (to risk weighted assets)	107,036	19.7	≥ 21,557	≥ 4.0	≥ 32,335	≥ 6.0		
Tier 1 capital (to average assets)	107,036	8.7	≥ 49,397	≥ 4.0	≥ 61,747	≥ 5.0		
As of December 31, 2009:								
Total capital (to risk weighted assets)	\$ 25,958	11.8%	≥ \$ 17,648	≥ 8.0%	≥ \$ 22,060	≥ 10.0%		
Tier 1 capital (to risk weighted assets)	21,537	9.8	≥ 8,824	≥ 4.0	≥ 13,236	≥ 6.0		
Tier 1 capital (to average assets)	21,537	6.7	≥ 12,906	≥ 4.0	≥ 16,132	≥ 5.0		

In general, Customers Bank’s capital increases with the addition of earnings to stockholders’ equity and with sales of stock or the issuance of certain qualifying debt, such as the subordinated debt Customers Bank issued in 2004 and 2008 (which is included in Tier II and total capital). Conversely, as Customers Bank’s assets grow, its capital ratios decrease. In general, in the past few years, balance sheet growth has been offset by decreases in capital through losses

and increases in capital from sales of common stock, debt issuance, growth of the allowance for loan losses and our debt issuances. In 2010, the \$59.7 million capital raise improved our capital ratios. Customers Bank plans to grow in the future and to maintain strong capital ratios. To accomplish both these goals, Customers Bank will need to raise additional capital to maintain strong capital ratios.

Customers Bank does not presently have any commitments for significant capital expenditures. Customers Bank is unaware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on liquidity, capital resources, or operations of Customers Bank.

The maintenance of appropriate levels of capital is an important objective of Customers Bank's Asset and Liability Management process. Through its initial capitalization and its subsequent offerings, Customers Bank has continued to maintain a strong capital position. Management believes that, under current requirements and regulations, Customers Bank will meet its minimum capital requirements for the foreseeable future.

## MARKET FOR COMMON STOCK

Customers Bank's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as market makers in Customers Bank's stock. Consequently, information on current stock trading prices is not readily available. Customers Bank currently acts as its own transfer agent and offers to introduce potential buyers and sellers of our stock to each other, but does not make a market in its own stock or attempt to negotiate prices for trades of its stock.

## OFF-BALANCE SHEET ARRANGEMENTS

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

With commitments to extend credit, our exposure to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. Customers Bank uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. Since they involve credit risk similar to extending a loan, they are subject to Customers Bank's Credit Policy and other underwriting standards.

As of December 31, 2010 and December 31, 2009, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
	2010	2009
	(in thousands)	
Commitments to fund loans	\$ 23,446	\$ 3,922
Unfunded commitments to fund mortgage warehouse loans	221,706	28,565
Unfunded commitments under lines of credit	40,948	16,842
Letters of credit	1,085	854

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

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

Mortgage warehouse loan commitments are agreements to purchase mortgage loans from mortgage bankers that agree to purchase the loans back in a short period of time or to sell to third party mortgage originators. These commitments generally fluctuate monthly as existing loans are repurchased by the mortgage bankers and new loans are purchased



by Customers Bank.

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK - INTEREST RATE SENSITIVITY

The largest component of Customers Bank's total income is net interest income, and the majority of its financial instruments are interest rate sensitive assets and liabilities with various terms and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Customers Bank's Asset/Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

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

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

Through the use of income simulation modeling, Customers Bank has estimated the net interest income for the year ending December 31, 2010, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2010. Customers Bank has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately ("rate shocks"). Rate shocks assume that all interest rates increase or decrease immediately. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2010, resulting from changes in interest rates.

Net change in net interest income

	%
	Change
Rate Shocks	
Up 3%	15.8 %
Up 2%	10.0 %
Up 1%	5.3 %
Down 1%	(0.5) %
Down 2%	0.5 %
Down 3%	1.8 %

The net changes in net interest income in all of the "up" rate shocks and in the "down 1%" rate shock are well within Customers Bank's interest rate risk policy guidelines. While the net changes in net interest income in the "up 1%" rate shocks are slightly higher than Customers Bank's interest rate risk policy guidelines, Management does not believe these scenarios are likely.

Economic Value of Equity ("EVE") estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. This method of measurement primarily evaluates the longer term repricing risks and options in Customers Bank's balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2010, resulting from shocks to interest rates.



## Percent Change Economic Value of Equity

Rate Shocks	From base	EVE assets capital (a)
Up 3%	(22.6 )%	(22.8 )%
Up 2%	(12.5 )%	(12.7 )%
Up 1%	(5.7 )%	(5.8 )%
Down 1%	5.1 %	5.9 %
Down 2%	2.6 %	2.7 %
Down 3%	(2.7 )%	(2.7 )%

(a) Capital defined as Tier 1/Tier 2 Capital as calculated under regulatory guidelines.

The percent changes of EVE are within Customers Bank's interest rate risk policy guidelines.

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

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010, that are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2010, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable and fixed rate loans, and as a result of contractual rate adjustments on adjustable rate loans.

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	At December 31, 2010						
	3 months or less	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years	Total
(dollars in thousands)							
Interest earning deposits and federal funds sold	\$ 232,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 232,328
Investment Securities	6,528	5,535	11,006	43,278	41,746	97,735	205,828
Loans receivable (a)	571,562	40,181	49,768	142,784	55,479	4,039	863,813
Total interest earning assets	810,418	45,716	60,774	186,062	97,225	101,774	1,301,969
Non interest earning assets	-	-	-	-	-	72,438	72,438
Total assets	\$ 810,418	\$ 45,716	\$ 60,774	\$ 186,062	\$ 97,225	\$ 174,212	\$ 1,374,407
Other interest bearing deposits	\$ 353,448	\$ -	\$ -	\$ -	\$ -	\$ 51,214	\$ 404,662
Time deposits	69,563	137,276	479,069	72,375	10,467	10	768,760
Other borrowings	-	-	-	1,000	-	10,000	11,000
Subordinated debt	2,000	-	-	-	-	-	2,000
Total interest bearing liabilities	425,011	137,276	479,069	73,375	10,467	61,224	1,189,862
Non interest bearing liabilities	-	-	-	-	-	82,845	82,845
Stockholders' equity	-	-	-	-	-	105,140	105,140
Total liabilities and equity	\$ 425,011	\$ 137,275	\$ 479,069	\$ 73,375	\$ 10,467	\$ 249,209	\$ 1,374,407
Interest sensitivity gap	\$ 385,407	\$ (91,560)	\$ (418,295 )	\$ 112,687	\$ 86,758	\$ (74,997)	
Cumulative interest sensitivity gap	\$ 385,407	\$ 293,847	\$ (124,448 )	\$ (11,761 )	\$ 74,997		
Cumulative interest sensitivity gap to total assets	28.0 %	(21.4 )%	(9.1 )%	(0.9 )%	5.5 %	(5.5 )%	
	190.7 %	152.3 %	88.0 %	98.9 %	55.7 %	- %	

Cumulative  
interest earning  
assets  
to  
cumulative  
interest  
bearing  
liabilities

(a) Including loans held for sale

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

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

## CONTRACTUAL OBLIGATIONS

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2010. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

(in thousands)

	Total	Within one year	After one but within three years	After three but within five years	More than 5 years
Operating Leases	\$ 9,734	\$ 1,433	\$ 2,848	\$ 2,014	\$ 3,439
Benefit plan commitments	4,500	-	-	-	4,500
Contractual Maturities on time deposits	768,761	684,766	72,360	11,625	10
Subordinated Notes and the interest expense (1)	2,227	61	121	2,045	-
Loan Commitments	292,561	282,275	12	231	10,043
Long term Debt	11,000	-	1,000	10,000	-
Interest on Long Term Debt	1,717	356	713	648	-
Standby Letters of Credit	1,085	1,085	-	-	-
<b>Total</b>	<b>\$ 1,091,585</b>	<b>\$ 969,976</b>	<b>\$ 77,054</b>	<b>\$ 26,563</b>	<b>\$ 17,992</b>

(1) Includes interest on long-term debt and subordinated debentures at a weighted rate of 3.24% and 3.04%, respectively.

## SUPERVISION AND REGULATION

### GENERAL

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

### PENNSYLVANIA BANKING LAWS

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

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

Interstate Branching. Federal law allows the Federal Reserve and FDIC, and the Pennsylvania Banking Code allows the Pennsylvania Banking Department, to approve an application by a state banking institution to acquire interstate branches. For more information on federal law, see, "FEDERAL BANKING LAWS – Interstate Branching," beginning on page 178 this Joint Proxy Statement-Prospectus.

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

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

Under the Interstate MOU, the activities of branches established by Customers Bank in New Jersey or New York would be governed by Pennsylvania state law to the same extent that federal law governs the activities of the branch of an out-of-state national bank in such host states. For Customers Bank, issues regarding whether a particular host state law is preempted are to be determined in the first instance by the Pennsylvania Banking Department. In the event that the Pennsylvania Banking Department and the applicable host state regulator disagree regarding whether a



particular host state law is pre-empted, the Pennsylvania Banking Department and the applicable host state regulator would use their reasonable best efforts to consider all points of view and to resolve the disagreement.

#### FEDERAL BANKING LAWS

Interstate Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (called the “Interstate Act”), among other things, permits bank holding companies to acquire banks in any state. A bank may also merge with a bank in another state. Interstate acquisitions and mergers are subject, in general, to certain concentration limits and state entry rules relating to the age of Customers Bank. Under the Interstate Act, the responsible federal regulatory agency is permitted to approve the acquisition of less than all of the branches of an insured bank by an out-of-state bank or bank holding company without the acquisition of an entire bank, only if the law of the state in which the branch is located permits. Under the Interstate Act, branches of state-chartered banks that operate in other states are covered by the laws of the chartering state, rather than the host state. The Dodd-Frank Act created a more permissive interstate branching regime by permitting banks to establish branches de novo in any state if a bank chartered by such state would have been permitted to establish the branch. For more information on interstate branching under Pennsylvania law, see, “PENNSYLVANIA BANKING LAWS – Interstate Branching,” beginning on page 178 this Joint Proxy Statement-Prospectus.

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

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

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

The risk-based guidelines require all banks to maintain two “risk-weighted assets” ratios. The first is a minimum ratio of total capital (“Tier 1” and “Tier 2” capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of “Tier 1” capital to risk-weighted assets equal to 4.00%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also account for interest rate risk. Institutions with interest rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. A bank’s exposure to declines in the

economic value of its capital due to changes in interest rates is a factor that Customers Banking agencies will consider in evaluating a bank's capital adequacy. The rule does not codify an explicit minimum capital charge for interest rate risk. Customers Bank currently monitors and manages its assets and liabilities for interest rate risk, and management believes that the interest rate risk rules which have been implemented and proposed will not materially adversely affect our operations.

The Federal Reserve Board's "leverage" ratio rules require member banks which are rated the highest in the composite areas of capital, asset quality, management, earnings and liquidity to maintain a ratio of "Tier 1" capital to "adjusted total assets" (equal to Customers Bank's average total assets as stated in its most recent quarterly Call Report filed with the Federal Reserve Board, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 3.00%. For banks which are not the most highly rated, the minimum "leverage" ratio will range from 4.00% to 5.00%, or higher at the discretion of the Federal Reserve Board, and is required to be at a level commensurate with the nature of the level of risk of Customers Bank's condition and activities.

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

The Basel Committee on Banking Supervision (the “Basel Committee”) released a comprehensive list of proposals for changes to capital, leverage, and liquidity requirements for banks in December 2009 (commonly referred to as “Basel III”). In July 2010, the Basel Committee announced the design for its capital and liquidity reform proposals.

In September 2010, the oversight body of the Basel Committee announced minimum capital ratios and transition periods providing: (i) the minimum requirement for the Tier 1 common equity ratio will be increased from the current 2.0% level to 4.5% (to be phased in by January 1, 2015); (ii) the minimum requirement for the Tier 1 capital ratio will be increased from the current 4.0% to 6.0% (to be phased in by January 1, 2015); (iii) an additional 2.5% of Tier 1 common equity to total risk-weighted assets (to be phased in between January 1, 2016 and January 1, 2019; and (iv) a minimum leverage ratio of 3.0% (to be tested starting January 1, 2013). The proposals also narrow the definition of capital, excluding instruments that no longer qualify as Tier 1 common equity as of January 1, 2013, and phasing out other instruments over several years. It is unclear how U.S. banking regulators will define “well-capitalized” in their implementation of Basel III.

The liquidity proposals under Basel III include: (i) a liquidity coverage ratio (to become effective January 1, 2015); (ii) a net stable funding ratio (to become effective January 1, 2018); and (iii) a set of monitoring tools for banks to report minimum types of information to their regulatory supervisors.

Many of the details of the new framework related to minimum capital levels and minimum liquidity requirements in the Basel Committee’s proposals will remain uncertain until the final release is issued. Implementation of the final provisions of Basel III will require implementing regulations and guidelines by U.S. banking regulators. Implementation of these new capital and liquidity requirements has created significant uncertainty with respect to the future liquidity and capital requirements for financial institutions. Therefore, we are not able to predict at this time the content of liquidity and capital guidelines or regulations that may be adopted by regulatory agencies or the impact that any changes in regulation may have on CBI and Customers Bank.

**Deposit Insurance Assessments.** The deposits of Customers Bank are insured by the FDIC up to the limits set forth under applicable law and are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the “Act”). Under this system, the amount of FDIC assessments paid by an individual insured depository institution, such as Customers Bank, is based on the level of risk incurred in its activities. The FDIC places a depository institution in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rates based on certain specified financial ratios. Effective April 1, 2011, a bank’s annual assessment rates were as follows, depending on Customers Bank’s risk category:

The base assessment rate can be adjusted downward based on a bank’s unsecured debt and level of excess capital above the well capitalized threshold, or upward based on a bank’s secured liabilities including FHLB-P advances and repurchase agreements, so that the total risk-based assessment rates will range as follows depending on a bank’s risk category:

Initial and Total Base Assessment Rates*				
Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
5-9	14	23	35	5-35

Initial base assessment rate					
Unsecured debt adjustment* *	(4.5)-0	(5)-0	(5)-0	(5)-0	(5)-0
Brokered deposit adjustment		0-10	0-10	0-10	0-10
TOTAL BASE ASSESSMENT RATE	2.5-9	9-24	18-33	30-45	2.5-45

\* Total base assessment rates do not include the depository institution debt adjustment.

\*\*The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate lower than 2.5 basis points.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution will not exceed 10 basis points times the institution's assessment base for the second quarter 2009. The special assessment was collected on September 30, 2009.

On October 12, 2009, the FDIC adopted a final rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment was collected on December 30, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For purposes of calculating the prepaid assessment, each institution's assessment rate was its total base assessment rate in effect on September 30, 2009. In calculating the prepayment attributable to 2011 and thereafter, it was calculated using the September 29, 2009 increase in 2011 base assessment rates. In addition, future deposit growth was reflected in the prepayment by assuming that an institution's third quarter 2009 assessment base increased quarterly at a 5 percent annual growth rate through the end of 2012. The FDIC began to draw down an institution's prepaid assessments on March 30, 2010, representing payment for the regular quarterly risk-based assessment for the fourth quarter of 2009. In announcing these initiatives, the FDIC stated that, while the prepaid assessment would not immediately affect bank earnings, each institution would record the entire amount of its prepaid assessment as a prepaid expense asset as of December 30, 2009, the date the payment would be made and, as of December 31, 2009 and each quarter thereafter, record an expense or charge to earnings for its regular quarterly assessment and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, institutions would resume paying and accounting for quarterly deposit insurance assessments as they currently do. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010, enacted a number of changes to the federal deposit insurance regime that will affect the deposit insurance assessments the Bank will be obligated to pay in the future. For example:

•The law permanently raises the federal deposit insurance limit to \$250,000 per account ownership. This change may have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

•The new law makes deposit insurance coverage unlimited in amount for non-interest bearing transaction accounts until December 31, 2012. This change may also have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

•The law increases the insurance fund's minimum designated reserve ratio from 1.15 to 1.35, and removes the current 1.50 cap on the reserve ratio. The law gives the FDIC discretion to suspend or limit the declaration or payment of dividends even when the reserve ratio exceeds the minimum designated reserve ratio.

Each of these changes may increase the rate of FDIC insurance assessments to maintain or replenish the FDIC's deposit insurance fund. This could, in turn, raise Customers Bank's future deposit insurance assessment costs. On the other hand, the law changes the deposit insurance assessment base so that it will generally be equal to consolidated assets less tangible equity. This change of the assessment base from an emphasis on deposits to an emphasis on assets is generally considered likely to cause larger banking organizations to pay a disproportionately higher portion of future deposit insurance assessments, which may, correspondingly, lower the level of deposit insurance assessments that community banks such as Customers Bank may otherwise have to pay in the future. While it is likely that the new law will increase Customers Bank's future deposit insurance assessment costs, the specific amount by which the new law's combined changes will affect Customers Bank's deposit insurance assessment costs is hard to predict, particularly because the new law gives the FDIC enhanced discretion to set assessment rate levels.

As of December 31, 2010, Customers Bank's initial base assessment rate was 14.10 basis points.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for us (and all other banks) for the fourth quarter of 2008 was an annual rate of \$.0184 for each \$100 of deposits.

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

Consumer Protection Laws. Customers Bank is subject to a variety of consumer protection laws, including the Truth in Lending Act, the Truth in Savings Act adopted as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Funds

Transfer Act, the Real Estate Settlement Procedures Act and the regulations adopted thereunder. In the aggregate, compliance with these consumer protection laws and regulations involves substantial expense and administrative time on our part.

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

- establishes the Financial Stability Oversight Council, a federal agency acting as the financial system's systemic risk regulator with the authority to review the activities of significant bank holding companies and non-bank financial firms, to make recommendations and impose standards regarding capital, leverage, conflicts and other requirements for financial firms and to impose regulatory standards on certain financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;
- creates a new Consumer Financial Protection Bureau within the U.S. Federal Reserve, which will have substantive rule-making authority over a wide variety of consumer financial services and products, including the power to regulate unfair, deceptive, or abusive acts or practices;
- permits state attorney generals and other state enforcement authorities broader power to enforce consumer protection laws against banks;
- authorizes federal regulatory agencies to ban compensation arrangements at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation's financial system;
- grants the U.S. government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions, such as bank holding companies, that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation;
- gives the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which is likely to result in increased deposit insurance premiums for Customers Bank in the future;
- increases the deposit insurance coverage limit for insurable deposits to \$250,000 generally, and removes the limit entirely for transaction accounts;
- permits banks to pay interest on business demand deposit accounts;
- extends the national bank lending (or loans-to-one-borrower) limits to other institutions such as Customers Bank;
- prohibits banks subject to enforcement action such as a memorandum of understanding from changing their charter without the approval of both their existing charter regulator and their proposed new charter regulator;
- imposes new limits on asset purchase and sale transactions between banks and their insiders;
- may require collateralization of interest rate swap exposure by parties to those transactions;
- modify disclosure standards and limit fees chargeable with respect to consumer loans, including home mortgage loans; and



- provide for low- or no-cost basic consumer deposit accounts and require new disclosures and consumer protections for remittance transactions.

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

#### MEMORANDUM OF UNDERSTANDING

As a result of a March 31, 2009 regulatory examination prior to the arrival of new management, Customers Bank entered into an August 24, 2009 Memorandum of Understanding ("MOU") with its regulators that called for a back-up Bank Secrecy Act officer and employee training, and precluded Customers Bank from declaring or paying dividends that would cause its capital ratios to fall below the higher of the minimum levels for a "well capitalized" classification under Prompt Corrective Action standards or the internal ratios set in Customers Bank's capital plan, or redeeming its stock or issuing debt with maturity greater than one year without prior regulatory approval. The MOU calls for Customers Bank to update plans relating to earnings and capital improvement, management and board oversight, credit risk management and liquidity risk, enhancing pre-purchase analysis of investment securities, and a revision to its allowance for loan and lease losses ("ALLL") methodology by November 15, 2009. Management believes that the Bank is in substantial compliance with all terms of the MOU at this time.

## BANK HOLDING COMPANY REORGANIZATION AND REGULATION

As a bank holding company, CBI will be subject to additional regulation beyond that to which Customers Bank is currently subject.

The Bank Holding Company Act requires a “company” (including CBI, to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank. It also prohibits acquisition by any “company” (including Customers Bank’s proposed holding company) of more than five percent (5%) of the voting shares of, or interest in, or all or substantially all of the assets of, any bank located outside of the state in which a current bank subsidiary is located unless such acquisition is specifically authorized by laws of the state in which such bank is located. A bank holding company is prohibited from engaging in or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh possible adverse effects. Applications under the Bank Holding Company Act and the Change in Control Act are subject to review, based upon the record of compliance of the applicant with the Community Reinvestment Act of 1977.

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

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. A number of activities are authorized by Federal Reserve Board regulation, while other activities require prior Federal Reserve Board approval. The types of permissible activities are subject to change by the Federal Reserve Board. Recent revisions to the Bank Holding Company Act contained in the Federal Gramm Leach Bliley Act of 1999 (the “Gramm Leach Bliley Act”) permit certain eligible bank holding companies to qualify as “financial holding companies” and thereupon engage in a wider variety of financial services such as securities and insurance activities.

The Gramm Leach Bliley Act repealed certain restrictions on bank and securities firm affiliations, and allows bank holding companies to elect to be treated as a “financial holding company” that can engage in approved “financial activities,” including insurance, securities underwriting and merchant banking. Banks without holding companies can engage in many of these new financial activities through a “financial subsidiary.” The law also mandates functional regulation of bank securities activities. Banks’ exemption from broker dealer regulation would be limited to, for example, trust, safekeeping, custodian, shareholder and employee benefit plans, sweep accounts, private placements (under certain conditions), self-directed IRAs, third party networking arrangements to offer brokerage services to bank customers, and the like. It also requires banks that advise mutual funds to register as investment advisers. The legislation provides for state regulation of insurance, subject to certain specified state preemption standards. It

establishes which insurance products banks and bank subsidiaries may provide as principal or underwriter, and prohibits bank underwriting of title insurance, but also preempts state laws interfering with affiliations. The Gramm Leach Bliley Act prohibits approval of new de novo thrift charter applications by commercial entities and limits sales of existing so-called “unitary” thrifts to commercial entities. The law bars banks, savings and loans, credit unions, securities firms and insurance companies, as well as other “financial institutions,” from disclosing customer account numbers or access codes to unaffiliated third parties for telemarketing or other direct marketing purposes, and enables customers of financial institutions to “opt out” of having their personal financial information shared with unaffiliated third parties, subject to exceptions related to the processing of customer transactions and joint financial services marketing arrangements with third parties, as long as the institution discloses the activity to its customers and requires the third party to keep the information confidential. It requires policies on privacy and disclosure of information to be disclosed annually, requires federal regulators to adopt comprehensive regulations for ensuring the security and confidentiality of consumers’ personal information, and allows state laws to give consumers greater privacy protections.

BERKSHIRE BANCORP, INC.

History and Business

History

BBI is a Pennsylvania business corporation and a registered bank holding company headquartered in Wyomissing, Pennsylvania and was founded in 2006 to become the holding company for Berkshire Bank. Berkshire Bank is a Pennsylvania state chartered bank and was founded in 2002.

BBI received funds under the United States Department of Treasury's TARP Capital Purchase Program pursuant to the securities purchase agreement entered into by BBI and the Treasury on June 12, 2009. Through its participation in the TARP Capital Purchase Program, BBI issued (1) 2,892 shares of its Series A Preferred Stock and (2) a warrant to purchase 145.14515 shares of its Series B Preferred Stock which was immediately exercised to purchase 145 shares. BBI received \$2,892,000 through its participation in the TARP Capital Purchase Program. As a participant in the TARP Capital Purchase Program, BBI is subject to additional regulations to which other financial institutions that did not participate in TARP are not subject.

Business

BBI's primary activity consists of owning and supervising its subsidiary, Berkshire Bank. Berkshire Bank, has five branch locations (West Reading, Bern Township, Muhlenberg, Exeter Township and Wyomissing, Pennsylvania), and is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Southeastern Pennsylvania market area. Berkshire Bank's commercial banking activities include accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans.

At March 31, 2011, Berkshire Bank had 39 full time employees and 5 part time employees. In the opinion of management, Berkshire Bank enjoys a satisfactory relationship with its employees. Berkshire Bank is not a party to any collective bargaining agreement.

Supervision and Regulation of BBI and Berkshire Bank

The operations of BBI and Berkshire Bank are subject to federal and state statutes applicable to bank holding companies and banks chartered under the banking laws of the Federal Reserve System, the Commonwealth of Pennsylvania, and to banks whose deposits are insured by the FDIC. Berkshire Bank's operations are also subject to regulations of the Commonwealth of Pennsylvania and the FDIC.

During 2010, BBI and Berkshire Bank became subject to certain regulatory actions, restrictions, and agreements which may materially affect BBI's and Berkshire Bank's ability to do business and compete with other financial institutions that are not subject to such actions, restrictions, and agreements. The regulatory actions, restrictions and agreements include, but are not limited to, (1) notices of downgrades in ratings for BBI and Berkshire Bank, (2) notices of violations of Regulation W and Section 1103 of the Pennsylvania Banking Code relating to intercompany transactions between BBI and Berkshire Bank due to insufficient collateral for specific covered transactions not involving customers, (3) the board of directors of Berkshire Bank adopting resolutions requiring action on certain matters requiring attention as well as prohibitions, (4) BBI being determined by the Federal Reserve Board to be in "troubled condition", (5) restrictions by the Federal Reserve Board from paying dividends on BBI's preferred stock

issued to the U.S. Treasury under TARP or on any other preferred stock or debt securities, and (6) a consent order and fines for violation of the Home Mortgage Disclosure Act.

While management believes BBI and Berkshire Bank have made progress in addressing each of the above matters, the regulatory actions, restrictions and agreements have the effect of restricting the ability of BBI and Berkshire Bank from competing effectively with other financial institutions in their markets and regionally. Although, management is unaware of any pending concerns, BBI and Berkshire Bank may become subject to further regulatory restrictions or enforcement actions in the future.

## MARKET PRICE OF COMMON STOCK AND DIVIDENDS – BBI

## Trading Market for Common Stock

There is no established public trading market for BBI's common stock. BBI's common stock is neither actively traded nor listed for trading on any securities exchange. BBI's common stock is traded in the local over-the-counter market and in privately negotiated transactions. Furthermore, there are no brokerage firms that act as a market maker in BBI's common stock. Consequently, information on current stock trading prices is not readily available. Berkshire Bank currently acts as BBI's transfer agent, but it does not make a market in BBI's common stock, nor does it attempt to negotiate prices for trades of such stock.

## Market Price of Common Stock

As of March 31, 2011, there were 421 shareholders of record, 4,051,063 outstanding shares of BBI's common stock and 774,571 outstanding warrants to purchase BBI's common stock.

The chart below shows the high and low sale prices known by management to have occurred of BBI common stock for the periods indicated.

	High(1)	Low(1)
2011 through March 31, 2011 (2)	-	-
2010 (2)	-	-
2009	\$10.25	\$9.75
2008	\$10.25	\$10.00

(1) These ranges are limited only to those transactions known by management to have occurred, based primarily on individual trades of which management may have become aware. There may, in fact, have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

(2) There were no trades of BBI common stock during 2010 and 2011.

## Dividends on Common Stock

BBI has not paid any cash dividends on its shares. Presently, BBI and Berkshire Bank are not authorized to pay cash dividends on their shares and must obtain approval of their primary regulators prior to declaration of a dividend. BBI's ability to pay dividends is restricted by banking laws, Pennsylvania corporate law, the regulations of the Federal Reserve Board and the Berkshire Bank's ability to pay dividends to BBI.

## Security Ownership of Certain Beneficial Owners and Management

The following table shows, to the best of Berkshire Bank's knowledge, those persons or entities, who owned of record or beneficially, on March 31, 2011, more than 5% of the outstanding BBI common stock.

Beneficial ownership of BBI common stock was determined by referring to Securities and Exchange Commission Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares:

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- Voting power, which includes power to vote or to direct the voting of the stock; or
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
  - The right to acquire beneficial ownership within 60 days after March 31, 2011.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
First Niagara Financial Group* 726 Exchange Street, Suite 618 Buffalo, New York 14210	878,757 **	20.68%***

\* On April 9, 2010, First Niagara Financial Group (“First Niagara”) acquired Harleysville National Corporation (“HNC”), a bank holding company that had, until this time, held a passive investment interest in BBI pursuant to “Crown X” written commitment provided by HNC to the Federal Reserve Bank of Philadelphia. As part of the acquisition, First Niagara assumed HNC ownership percentage with the same terms as was extended to HNC.

Pursuant to this commitment, First Niagara may not acquire or retain BBI shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of BBI or any of its subsidiaries.

\*\* For purposes of the Crown X written commitment entered into by HNC, and subsequently assumed by First Niagara, with the Federal Reserve Bank of Philadelphia, the ownership by First Niagara of 679,728 shares of common stock or 16.78% ownership of BBI by First Niagara. First Niagara also holds 127,758 vested warrants and 71,271 five-year, non-detachable warrants.

\*\*\* For federal securities law purposes, the beneficial ownership percentage calculation is based on 679,728 shares, 127,758 vested warrants, and 71,271 five-year, non-detachable warrants owned by First Niagara as the numerator, divided by the aggregate of 4,051,063 shares of issued and outstanding common stock and First Niagara 127,758 vested warrants and 71,271 five-year, non-detachable warrants, expressed as a percentage.

## Beneficial Ownership of Executive Officers, Directors and Nominees

The following table shows, as of March 31, 2011 the amount and percentage of BBI common stock beneficially owned by each director and executive officer individually and as a group.

Beneficial ownership of shares of BBI common stock is determined in accordance with Securities and Exchange Commission Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, in which the person has or shares:

- Voting power, which includes the power to vote or to direct the voting of the stock; or
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
- The right to acquire beneficial ownership within 60 days after the record date of March 31, 2011.

Unless otherwise indicated in a footnote appearing below the table, all shares reported in the table below are owned directly by the reporting person. The number of shares owned by the directors and executive officers is rounded to the nearest whole share.

Directors and Nominees	Amount and Nature of Beneficial Ownership*	Percentage of Class**
(i) Rick B. Burkey*****/*****	159,3131	3.88%
(ii) Richard C. Gromis***/*/*/*/*/*/*/*	114,4162	2.81%
(iii) Richard I. Hart, Jr.*****/*****	125,5293	3.07%
( i v ) N o r m a n E . H e i l e n m a n****/*/*/*/*/*/*/*	113,1534	2.77%
(v) Edward S. Jenkins*****	90,4155	2.21%
(vi) Dennis H. Lorah*****	125,9966	3.07%
(vii) Jeffrey A. Nilsson*****/*****	147,0877	3.59%
(viii) Alan D. Ross, CPA*****/*****	93,6208	2.31%
(ix) Aggregate of All Directors and Executive Officers (8 Directors, 2 Executive Officers also serve as Directors)	969,529	22.49%

\* Information furnished by the directors and BBI.

\*\* As of March 31, 2011, the number of shares of common stock issued and outstanding was 4,051,063. The calculation of individual director's percentage ownership is based on the individual director's beneficial ownership as



the numerator, divided by the sum of the aggregate common stock of 4,051,063 shares, and the individual director's vested transferable warrants, vested non-transferable warrants and five-year non-detachable warrants as the denominator, expressed as a percentage. The aggregate calculation for ownership by all directors is the sum of the aggregate directors' beneficial ownership of 969,529 as the numerator, divided by the sum of 4,051,063 shares of common stock issued and outstanding and 135,493 vested transferable warrants, 102,841 vested non-transferable warrants and 21,200 five-year, non-detachable warrants from the 2007 stock offering, expressed as a percentage.

\*\*\* Mr. Richard C. Gromis is a Director and the President and Chief Operating Officer of BBI.

\*\*\*\* Mr. Norman E. Heilenman is the Chairman of the Board and Chief Executive Officer of BBI.

\*\*\*\*\* Five members of the Board of Directors and the Executive Officers of BBI are members in BB Investment Group, LLC organized March 28, 2005 to invest in the common stock of BBI. BB Investment Group, LLC purchased 40,909 shares of BBI common stock during the final phase of the stock offering in 2005. BB Investment Group, LLC also purchased 47,871 shares of BBI common stock during the 2007 offering and currently owns 63,734 shares and 57,801 five-year, non-detachable warrants, as of March 31, 2011.

\*\*\*\*\* Seven members of the Board of Directors and the Executive Officers of BBI are members in BB II Investment Group, LLC organized August 20, 2010 to invest in common stock of BBI. BB II Investment Group, LLC purchased 175,000 shares during a private placement offering in September 2010.

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1 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 21,362 vested non-transferable warrants, 11,913 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC.

2 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 4,065 shares owned individually by spouse, and 20,446 vested transferable warrants and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC.

3 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 7,629 vested non-transferable warrants, 3,038 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC.

4 Includes 2,440 shares owned by spouse, 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 12,817 vested transferable warrants, 11,901 vested non-transferable warrants, 781 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC and 5,796 shares held in an IRA.

5 Includes 7,082 shares through BB Investment Group, LLC, 22,018 shares owned jointly with spouse, 7,627 shares owned individually by spouse, 20,446 vested transferable warrants, 13,732 vested non-transferable warrants, 6,422 five-year, non-detachable warrants and 13,088 shares held in an IRA.

6 Includes 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 26,855 vested non-transferable warrants, 1,562 five-year, non-detachable warrants from the 2007 stock offering and 7,627 shares held in an IRA.

7 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, and 20,446 vested transferable warrants, 21,362 vested non-transferable warrants, 6,422 five-year, non-detachable warrants through BB Investment Group, LLC, 26,243 shares held in an IRA and 40,532 shares held in a revocable trust.

8 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 3,906 five-year, non-detachable warrants from the 2007 stock offering which represent a purchase by the 401(k) plan, 6,422 five-year, non-detachable warrants through BB Investment Group, LLC and 26,547 shares in 401(k) plan and 24,663 shares owned jointly with spouse.

BERKSHIRE BANCORP, INC. - MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Critical Accounting Policies

BBI has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with banking industry practices in the preparation of financial statements. BBI's significant accounting policies are described in footnote 1 to its audited consolidated financial statements.

Certain accounting policies involve significant judgments and assumptions by BBI that have a material impact on the carrying value of certain assets and liabilities. BBI considers these accounting policies to be critical accounting policies. The judgment and assumptions BBI uses are based on historical experience and other factors, which BBI believes 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.

The following is a summary of the policies BBI recognizes as involving critical accounting estimates: Allowance for Loan Losses, Fair value of Available for Sale Securities and Deferred Income taxes.

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

**Fair Value of Securities Available for Sale.** BBI receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Debt securities available for sale are mostly comprised of U.S. government agency securities. BBI uses various indicators in determining whether a security is other-than-temporarily impaired, including if the market value is below its cost for an extended period of time with low expectation of recovery or, for debt securities, when it is probable that the contractual interest and principal will not be collected. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer. The unrealized losses associated with securities that management does not intend to sell, and it is not more likely than not that BBI will be required to sell prior to maturity or market price recovery, are not considered to be other than temporary as of December 31, 2010, because the unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer.

**Deferred Income Taxes.** BBI provides for deferred income taxes on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry-forwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be

realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

## 2. Overview

The following discussion and analysis presents material factors affecting BBI's financial condition as of December 31, 2010 and 2009, and results of operations for each of the three years in the period ended December 31, 2010, 2009 and 2008. This discussion and analysis should be read in conjunction with BBI's financial statements, notes thereto and other financial information appearing elsewhere in this document.

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

There are risks inherent in all loans, so BBI maintains an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. BBI maintains this allowance by charging a provision for loan losses against our operating earnings.

The external environment in 2010 was and continues to be very challenging as the economy struggles through a recession. Many business customers in our market experienced a loss of revenues and there was an increase in bankruptcies. Many overleveraged real estate customers were forced to take action to improve their cash flow due to high vacancy rates and a reduction in rents due to the reduced demand for space during the downturn. Unemployment increased throughout 2010 as companies reduced expenses to manage through the challenging times. These conditions produced stress in the asset quality of the loan portfolio, primarily the commercial real estate portfolio. There continues to be uncertainty in the external environment and it is likely that these challenging conditions will continue in the next few years.

This prediction about continued growth is a forward-looking statement and is subject to a number of contingencies, including an assumption that the recession may have reached bottom, and to BBI's estimation that borrowers will increase their borrowing activity in the coming months. If the economy falters or remains stagnant, or if businesses delay their borrowings, it is possible that BBI's continued growth in this business will not occur. Further, given the unprecedented low level of interest rates, there is no guarantee that the demand and profitability in this type of lending will continue. If interest rates rise, refinancing activity will most likely decline. The decline in volumes could put pressure on spreads and fee income margins. See "FORWARD-LOOKING STATEMENTS" on page 1.

In addition to earning interest on its loans and investments, BBI earns income through other sources, such as fees and other charges to its customers and earnings from bank owned life insurance ("BOLI"). We describe the various components of this non-interest income, as well as non-interest expense, in the following discussion.

### 3. Results of Operations – Years ended December 31, 2010, 2009 and 2008

Over the past year, management has seen signs of economic recovery, albeit at a moderate rate. Household spending has expanded but remains constrained by other factors, such as high unemployment, modest income growth, lower housing wealth, and tighter credit standards. Consumer spending continues to be concentrated in necessities, as opposed to discretionary big-ticket items, while business spending patterns are tempered due to uncertainties in the economic and political environment. Economists expect that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations are likely to warrant the continued low levels of the federal funds rate for an extended period.

There continues to be stress on the financial industry in terms of asset quality and loan demand. Credit quality continues to remain a primary focus as delinquencies are inflated throughout the industry. Commercial, industrial and consumer lending remains weak throughout the national banking industry. Real estate lending, however, has increased. Despite these economic conditions and the impact the recession has had on our borrowers, BBI is pleased to report stability in our financial performance as noted below.



BBI's performance during the year ended December 31, 2010 included the following items when compared to the year ended December 31, 2009:

- Net loss increased \$22,000 or 1.76%;
- Net interest margin increased to 3.67% or by 51 basis points due to reduced funding costs as higher-priced time deposits rolled off and higher-cost borrowings were paid off;
  - The provision for loan losses decreased \$137,000 as non-performing loans stabilized;
- Increase in non-interest income of \$187,000 or 25.62% due to increased gains on the sale of SBA and residential mortgage loans and increases in other miscellaneous income; and
  - BBI was well-capitalized.

Twelve months ended December 31, 2010 and 2009

BBI experienced a net loss of \$1.3 million and a net loss attributable to common shareholders of \$1.5 million for the year ended December 31, 2010 compared to a net loss of \$1.3 million and a net loss attributable to common shareholders of \$1.4 million for the year ended December 31, 2009. Net interest income was up \$751 thousand at \$4.8 million for the year ended December 31, 2010 compared to \$4 million for the year ended December 31, 2009. The decrease in provision for loan losses of \$137 thousand over that in 2009 was primarily due to the decrease in non-performing loans and the mediation of the deterioration of the economic conditions during 2010 as compared to 2009. This is highlighted by a 2 basis point decrease in our allowance for loan losses to loans ratio, to 1.48% at December 31, 2010 from 1.50% at December 31, 2009. Non-interest income increased \$187 thousand to \$917 thousand for the year ended December 31, 2010 compared to \$730 thousand for the year ended December 31, 2009. The increase of \$1.1 million in non-interest expense to \$6.3 million for the year ended December 31, 2010 from \$5.2 million for the year ended December 31, 2009 was due to an increase in merger related expenses in the amount of \$243 thousand in addition to the impairment charge to goodwill in the amount of \$418 thousand, expenses related to loan workout, increased charges for impaired loans, and increased premiums for FDIC insurance. On a basic and diluted per share basis, the net loss was \$0.37 per share for 2010 compared to a net loss of \$0.35 per share for 2009. BBI's loss on average assets was -0.89% in 2010 compared to -0.90% in 2009. BBI's loss on average equity was -10.91% in 2010 compared to -11.22% in 2009.

Twelve months ended December 31, 2009 and 2008

BBI reported a net loss of \$1.3 million for the fiscal year ended December 31, 2009. This represents an increase of \$98 thousand, when compared to \$1.2 million net loss for the fiscal year ended December 31, 2008. On a basic and diluted per share basis, the net loss was \$0.35 per share for 2009 compared to net loss of \$0.31 per share for 2008. BBI's loss on average assets was -0.90% in 2009 compared to -.92% in 2008. BBI's loss on average equity was -11.22% in 2009 compared to -11.98% in 2008.

#### NET INTEREST INCOME

Twelve months ended December 31, 2010 and 2009

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





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	2010			2009			2008		
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
	Balance	income	yield	Balance	income	yield	Balance	income	yield
		or	or		or	or		or	or
		expense	cost		expense	cost		expense	cost
<b>Assets:</b>									
Interest earning									
deposits with banks	\$ 4,046	\$ 32	0.80 %	\$ 401	\$ 1	0.25 %	\$ 346	\$ 8	2.32 %
Federal funds sold	7,540	10	0.13 %	2,268	2	0.10 %	1,966	55	2.79 %
Investment securities	7,682	360	4.69 %	12,053	558	4.63 %	14,748	688	4.66 %
Loans (A)	109,335	6,410	5.86 %	110,890	6,398	5.77 %	96,430	6,340	6.57 %
Restricted stock	1,143	-	0.00 %	1,149	-	0.00 %	1,036	30	2.88 %
Total interest earning									
assets	129,746	6,812	5.25 %	126,761	6,959	5.49 %	114,526	7,121	6.22 %
Less allowance for									
loan losses	(1,397 )			(1,254 )			(1,038 )		
Other assets	15,078			12,971			11,220		
<b>TOTAL ASSETS</b>	<b>\$ 143,427</b>			<b>\$ 138,478</b>			<b>\$ 124,708</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Interest checking	\$ 17,620	88	0.50 %	\$ 21,775	149	0.68 %	\$ 28,827	\$ 634	2.20 %
Money market	54,292	864	1.59 %	12,316	147	1.19 %	9,356	209	2.23 %
Other Savings	1,949	9	0.46 %	1,438	7	0.49 %	953	10	1.05 %
Certificates of deposit	47,190	976	2.07 %	69,709	2,215	3.18 %	53,731	2,279	4.24 %
Total interest-bearing									
deposits	121,051	1,937	1.60 %	105,238	2,518	2.39 %	92,867	3,132	3.37 %
Other borrowings	3,275	119	3.64 %	14,466	436	3.01 %	16,137	539	3.34 %
Total interest-bearing									
liabilities	124,326	2,056	1.64 %	119,704	2,954	2.46 %	109,004	3,671	3.36 %
Non-interest-bearing									
deposits	6,666	-		6,658	-		5,447	-	
Other liabilities	780			976			641		
Shareholders' equity	11,655			11,140			9,616		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 143,427</b>			<b>\$ 138,478</b>			<b>\$ 124,708</b>		
Net interest income		\$ 4,756			\$ 4,005			\$ 3,450	
Interest spread			3.61 %			3.03 %			2.86 %
Net interest margin			3.67 %			3.16 %			3.01 %

- (A) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.
- (B) Interest spread is defined as the average yield on interest-earnings assets less the average rate on interest bearing liabilities.
- (C) Net interest margin is defined as Net interest income divided by interest earning assets.

Net interest income was \$4.8 million for the year ended December 31, 2010, compared to \$4 million for the same period of 2009, an increase of \$751 thousand, or 18.8%. Interest income on loans, investments and interest earning deposits was \$6.8 million in 2010 compared to \$6.9 million in 2009, a decrease of \$147 thousand or 2.11%. Meanwhile, interest expense on deposits and borrowed funds was \$2.1 million in 2010, down \$898 thousand, or 30.4%, from \$2.9 million in 2009. The decrease in interest income and interest expense reflects the declining market interest rates in 2009 and throughout 2010. Two benchmark rates, the prime rate and the Fed Funds rate, remained stable throughout 2009 and 2010. In addition to average interest rates decreasing in 2010 compared to 2009, BBI experienced an increase in non-accrual loans which also decreased yields on loans. Yield on assets decreased to 5.25% in 2010 from 5.49% in 2009 while the cost of funds decreased to 1.64% in 2010 from 2.46% in 2009. Average interest earning assets increased to \$129.8 million in 2010 from \$126.8 million in 2009.

The key measure of BBI's net interest income is its net interest margin. BBI's net interest margin increased to 3.67% in 2010 from 3.16% in 2009. This increase was primarily attributable to lower yields on loans due to the downward re-pricing of variable rate commercial loans in a falling rate environment being more profoundly offset by lower costs on time deposits and borrowings and to the mix of assets and liabilities. BBI was able to take higher costing deposits and reprice those downward, particularly time deposits as they came due. This resulted in an overall lower cost of funds which enhanced the improvement of the margin.

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

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Rate	Volume	Total	Rate	Volume	Total
<b>Interest income</b>						
Interest earning deposits	222	(189)	32	(715)	708	(7)
Federal funds sold	54	(47)	7	(5,278)	5,225	(53)
Investment securities	681	(881)	(199)	(483)	353	(130)
Loans	10,312	(10,299)	13	(77,669)	77,727	58
Restricted stock	-	-	-	(2,988)	2,958	(30)
<b>Total interest income</b>	<b>11,269</b>	<b>(11,416)</b>	<b>(147)</b>	<b>(87,133)</b>	<b>86,971</b>	<b>(162)</b>
<b>Interest expense</b>						
Interest checking accounts	(4,070)	4,009	(61)	(43,737)	43,252	(485)
Money market accounts	4,902	(4,185)	717	(9,735)	9,673	(62)
Other savings accounts	(41)	43	2	(533)	530	(3)
Certificates of deposit	(77,264)	76,025	(1,239)	(57,143)	57,079	(64)
<b>Total interest bearing deposits</b>	<b>(76,473)</b>	<b>75,892</b>	<b>(581)</b>	<b>(111,148)</b>	<b>110,534</b>	<b>(614)</b>
Other borrowings	9,123	(9,440)	(317)	(5,251)	5,148	(103)
<b>Total interest expense</b>	<b>(67,350)</b>	<b>66,452</b>	<b>(898)</b>	<b>(116,399)</b>	<b>115,682</b>	<b>(717)</b>
<b>Net interest income</b>	<b>78,619</b>	<b>(77,868)</b>	<b>751</b>	<b>29,266</b>	<b>(28,711)</b>	<b>555</b>



Twelve months ended December 31, 2009 and 2008

BBI's net interest income was \$4 million for the year ended December 31, 2009, compared to \$3.4 million for the prior year, an increase of \$555 thousand, or 16.1%. Interest income on loans, investments and interest earning deposits was \$7 million in 2009 compared to \$7.1 million in 2008, an increase of \$162 thousand or 2.3%. Meanwhile, interest expense on deposits and borrowed funds was \$3 million in 2009, down \$717 thousand, or 19.5%, from \$3.7 million in 2008. The decrease in interest income and interest expense reflects the declining market interest rates in 2009; however, BBI was able to mitigate the decrease in loan yield by making it up in volume. Two benchmark rates, the prime rate and the Fed Funds rate, remained stable during 2009. Yield on assets decreased to 5.49% in 2009 from 6.22% in 2008 while the cost of funds decreased to 2.46% in 2009 from 3.36% in 2008. Average interest earning assets increased to \$126.8 million in 2009 from \$114.5 million in 2008.

The key measure of BBI's net interest income is its net interest margin. BBI's net interest margin increased to 3.16% in 2009 from 3.01% in 2008. This increase is primarily attributable to lower yields on loans being offset by lower costs on time deposits and borrowings and to the mix of assets and liabilities.

#### PROVISION FOR LOAN LOSSES

Twelve months ended December 31, 2010 and 2009

During December 31, 2010, the provision for loan losses was \$672 thousand, down \$137 thousand from \$809 thousand in 2009. This decrease was primarily due to a significant decrease in non-performing loans and charge-offs and the stabilizing value of real estate in our market area. Loan issues were related to the significant economic downturn faced by the national and regional economies in 2009 and also throughout 2010.

As is typical with community banks, BBI has a high concentration (93.7%) of its loans secured by real estate. Construction, commercial and residential, and commercial real estate represent 54.5% of the loan portfolio (by collateral type), although exposure in construction loans has been gradually winding down over the past several years and now represents 5.6% of the portfolio at December 31, 2010. It is in the construction and commercial real estate secured portion of the loan portfolio that BBI is experiencing the most difficulty with delinquent and non-accrual loans. Although management believes that they have identified and appropriately allocated reserves against the riskiest of BBI's loans in construction and commercial real estate, the possibility of further deterioration before the real estate market turns presents the potential for increased allocations of the ALLL in that area in the future.

BBI's loan portfolio is comprised of approximately 1,096 loans spread over approximately 700 relationships. The average size of loans tends to be larger because of the higher concentration of commercial vs. consumer loans. There are also several large relationships that represent a disproportionate percentage of the loan portfolio. This imbalance in the portfolio can be seen in the disproportionate impact that large borrowers have on the delinquent and non-accrual loan figures. Although the delinquent and non-accrual loan percentages of the portfolio have risen over the past four quarters, a relatively limited number of borrowers are driving those numbers rather than a broad trend of delinquency across our borrowers as a whole.

For the year ended December 31, 2010, BBI had twenty five (25) significant credit relationships with outstanding balances of approximately \$33.6 million or 31.7% of the total loan portfolio. In addition, only one of these significant credit relationships for \$1.3 million was classified as Substandard at December 31, 2010 but had no specific reserve allocation. Approximately 235 loans had outstanding balances of approximately \$59.3 million or 55% of the total loan portfolio where the primary or secondary collateral is commercial real estate at December 31, 2010. The concentration of these credit relationships causes the imbalance of the loan portfolio; however, no individual credit

relationship concentration was greater than 3% of total loans at December 31, 2010. Management monitors these credit relationships on an ongoing basis to evaluate that the collateral and the cash flow estimates used to determine that specific reserves are appropriate and reflect the current circumstances of the borrowers. These ongoing monitoring activities include obtaining updated financial information on a more frequent and formalized basis, evaluation of the underlying collateral to determine if the assumptions used to determine the valuation are appropriate, site visits to properties, if determined to be necessary and other factors significant to the underlying collateral of these loans.

The majority of BBI's borrowers are small, local businesses and individuals with investments in residential or commercial real estate. The typical borrower provides self-prepared or accountant assisted financial statements and tax returns that are not audited and therefore are less reliable than information that would be obtained from more sophisticated borrowers. The cost of audited financial statements would be prohibitive for many of our small borrowers. The absence of objectively verified financial information is a challenge to all community banks and represents a layer of risk that must be considered in judging the adequacy of the ALLL.

BBI believes that the allowance for loan losses is at a level considered adequate to provide for losses that can be reasonably anticipated. Net charge-offs were \$734 thousand and \$421 thousand, respectively, for the years ended December 31, 2010 and 2009.

Twelve months ended December 31, 2009 and 2008

In 2009, the provision for loan losses, at \$809 thousand, was up 104.8%, or \$414 thousand, from \$395 thousand in 2008. This increase was primarily due to an increase in non-performing loans and increased charge-offs, each related to the deterioration of the economy.

See “Credit Risk” and “Asset Quality” beginning on pages 202 and 206, respectively, of this Joint Proxy Statement - Prospectus for further information regarding BBI’s provision for loan losses, allowance for loan losses and net charge-offs generally, and additional discussion of BBI’s non-performing loans.

#### NON-INTEREST INCOME

The below chart shows BBI’s results in the various components of non-interest income for each of the years ended December 31, 2010, 2009 and 2008.

	Years ended December 31,		
	2010	2009	2008
	(dollars in thousands)		
Gain on the sale of loans	\$570	\$365	\$202
Gain (loss) on the sale of available for sale securities	62	(10 )	2
Gain (loss) on the sale of OREO	(60 )	103	1
Gain on the disposition of assets, net	-	2	-
Other	345	270	253
Total non-interest income (loss)	\$917	\$730	\$458

Twelve months ended December 31, 2010 and 2009

In 2010, non-interest income was \$917 thousand, up \$187 thousand from \$730 thousand in 2009. This change is largely due to a gain of \$570 thousand on the sale of loans in 2010, compared to a gain of \$365 thousand on the sale of loans in 2009. This was offset by a loss on the sale of other real estate owned in 2010 of \$60 thousand compared to a gain on the sale of other real estate owned of in 2009 of \$103 thousand. In addition, other income increased during 2010 to \$345 thousand from \$270 thousand in 2009.

BBI purchased \$2 million of BOLI in August of 2006. Income from this increased to \$127 thousand in 2010 compared to \$101 thousand during 2009.

BBI sold investments in 2010 for a gain of \$62 thousand, compared to a loss of \$10 thousand in 2009. The gain in 2010 was primarily due to the sale of mortgage backed securities of \$1.6 million.

BBI had a loss of \$60 thousand on the sale of other real estate owned in 2010 and a gain of \$103 thousand in 2009.

In 2010, other non-interest income was \$345 thousand, up \$75 thousand from \$270 thousand in 2009.





Twelve months ended December 31, 2009 and 2008

In 2009, non-interest income was \$730 thousand, up \$272 thousand from \$458 thousand in 2008. This change is partially due to a gain of \$365 thousand on the sale of loans in 2009, compared to a gain of \$202 thousand on the sale of loans in 2008. In addition, other income increased from \$253 thousand in 2008 to \$270 thousand in 2009 which was primarily driven by deposit service charges which were \$148 thousand in 2009 compared to \$142 thousand in 2008.

BOLI is carried at its cash surrender value. BBI recognizes tax-free income from the periodic increases in the cash surrender value of these policies and from death benefits. BBI purchased \$2 million in BOLI in August of 2006. Income from this was steady for 2009 and 2008 at \$101 thousand and was included in other income.

#### NON-INTEREST EXPENSE

The chart below shows BBI's results in the various components of non-interest expense for each of the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31		
	2010	2009	2008
	(dollars in thousands)		
Compensation and benefits, net	\$2,248	\$2,141	\$2,263
Occupancy and data processing	1,595	1,525	1,364
Marketing and business development	28	46	77
Professional services	281	321	248
FDIC assessments, taxes, and regulatory fees	270	237	82
Impairment charge on goodwill	418	-	-
Impairment charge on foreclosed assets	104	80	-
Costs related to other real estate owned	339	106	24
Costs related to non-performing loans	107	118	6
Merger related expenses	243	-	-
Other	640	602	601
Total non-interest expenses	\$6,273	\$5,176	\$4,665

Twelve months ended December 31, 2010 and 2009

The 21.2% or \$1.1 million increase in total non-interest expense, from \$5.2 million in 2009 to \$6.3 million in 2010, was largely due merger related expenses of \$243 thousand during 2010, an impairment charge of \$418 thousand related to goodwill, an increase in FDIC assessments, other real estate owned expenses which included necessary write-downs based upon current market appraisals and nonperforming loan expenses incurred in 2010.

Compensation and benefits, net represent the largest component of non-interest expense, and were \$2.2 million in 2010 compared to \$2.1 million in 2009, an increase of 5% or \$107 thousand. Unearned loan costs and fees were \$196 thousand and \$311 thousand for the years ended December 31, 2010 and 2009, respectively, which accounts for a majority of the difference in the compensation and benefits, net between the two periods since these costs are deferred and directly affect the compensation and benefit expense.

BBI's occupancy and data processing expenses increased 4.6% or \$70 thousand to \$1.6 million from \$1.5 million in 2009. A portion of this increase is the result of increased maintenance and utilities costs on facilities in the amount of \$36 thousand. Increased data processing costs based upon increased deposit account volume in addition to cost escalation in accordance with data processing contracts were also contributing factors resulting in increased expenses in the amount of \$34 thousand or a 7.5% increase.

BBI's 2010 marketing and business development expense of \$28 thousand was down \$18 thousand or 39.1% compared to 2009 level of \$46 thousand.

Expenses related to professional services decreased 12.46% or \$40 thousand to \$281 thousand from \$321 thousand in 2009.

FDIC assessments, taxes and regulatory fees increased 13.9% or \$33 thousand to \$270 thousand in 2010 from \$237 thousand in 2009. This increase is attributable to the FDIC increases in premiums. Due to recent changes in deposit premium assessments by the FDIC, FDIC insurance assessments increased significantly from prior years. With regard to the FDIC premium, on November 12, 2009, the Board of Directors of the FDIC adopted a final rulemaking requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011. Each institution recorded the entire amount of its prepaid assessment as a prepaid expense (asset) as of December 31, 2009. As of December 31, 2009, and each quarter thereafter, each institution will record an expense (charge to earnings) for its regular quarterly assessment for the quarter and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, the institution will record an accrued expense payable each quarter for the assessment payment, which would be paid in arrears to the FDIC at the end of the following quarter. If the prepaid assessment is not exhausted by December 31, 2014, any remaining amount would be returned to the depository institution.

Impairment charges on foreclosed assets increased 30% from \$80 in 2009 to \$104 thousand in 2010. This increase is primarily attributable to deteriorating market values on real estate.

Other real estate owned expenses increased 220% or \$223 thousand to \$339 thousand in 2010 from \$106 thousand in 2009. This increase is attributable to an increase of expenses related to preparing properties for sale and costs associated with holding these properties, such as payment of real estate taxes and other maintenance related costs.

Merger related expenses in the amount of \$243 thousand included legal expenses, accounting related services and the cost of the fairness opinion for the merger.

Other expenses increased 6.3% or \$38 thousand to \$640 thousand in 2010 from \$602 thousand in 2009. This increase was primarily attributable to increases in other miscellaneous expenses.

Twelve months ended December 31, 2009 and 2008

Total non-interest expense increased 10.9% or \$511 thousand to \$5.2 thousand in 2009 from \$4.7 million in 2008.

Compensation and benefits, net represent the largest component of non-interest expenses, and were \$2.1 million in 2009 compared to \$2.3 million in 2008, a decrease of 5.4% or \$122 thousand. This decrease was primarily driven by the reduction of personnel directly related to the cutback in branch hours at various locations

BBI's occupancy expense and data processing increased 11.8% or \$161 thousand to \$1.5 million in 2009 from \$1.4 million in 2008, primarily due to the added expense of the three new branch offices.

Marketing and business development expense decreased 40.3%, or \$31 thousand, to \$46 thousand in 2009 from \$77 thousand in 2008, primarily due to the ability to attract deposits and loans in the branch offices without substantial advertising dollars.

Professional service fees increased to \$321 thousand in 2009 from \$248 thousand in 2008. This increase is primarily attributable to the costs associated with outsourcing both loan review and both internal and external audit services. FDIC assessments, taxes, and regulatory fees increased to \$237 thousand in 2009 from \$82 thousand in 2008. This increase is primarily attributable to higher FDIC insurance premiums.

Other real estate owned expenses increased to \$126 thousand in 2009 from \$24 in 2008.

Other expenses decreased \$19 thousand or 3.2% to \$582 thousand at 2009 in comparison to \$601 thousand at 2008 due to a decrease in dues and membership expense which decreased \$11 thousand from December 31, 2009 when compared to the same period ended December 31, 2008.

### INCOME TAXES

Twelve months ended December 31, 2010 and 2009

BBI had incurred cumulative net losses for several years since its inception through the year ended December 31, 2010. This has resulted in no provision for income taxes, deferred taxes and income taxes payable for the year ended December 31, 2010 and for the same period in 2009.

Twelve months ended December 31, 2009 and 2008

BBI had incurred cumulative net losses for several years since its inception through the year ended December 31, 2009. This has resulted in no provision for income taxes, deferred taxes and income taxes payable for the year ended December 31, 2009 and for the same period in 2008.

### FINANCIAL CONDITION

#### GENERAL

BBI's total assets were \$135.3 million at December 31, 2010. This represents a 6.3% decrease from \$144.4 million at December 31, 2009. The main components of this change were an increase in cash and cash equivalents, and loans offset by a decrease in investment securities. BBI's total liabilities were \$124.7 million at December 31, 2010, down 6.2% from \$132.9 million at December 31, 2009. The main component of this change was due to decreased deposits and borrowings.

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

	Years Ended December 31,	
	2010	2009
	(dollars in thousands)	
Cash and cash equivalents	\$13,508	\$11,552
Total investments	1,657	11,845
Total loans	107,374	110,215
Loans held for sale	574	978
Total assets	135,281	144,350
Earning assets	117,581	133,163
Total deposits	123,253	128,078

Total other borrowings	764	4,304
Total liabilities	124,749	132,944
Total stockholders' equity	10,532	11,406

### CASH AND DUE FROM BANKS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection, interest bearing deposits with other banks and Federal funds sold. These balances totaled \$13.5 million at December 31, 2010. This represents a \$1.9 million increase from \$11.6 million at December 31, 2009. These balances vary from day to day, primarily due to variations in customers' deposits with BBI. The increase was driven by an increase in interest-bearing deposits with other banks which were \$4.4 million at 2010 compared to \$500 thousand at 2009. This was offset by a decrease in federal funds sold from a level of \$9.3 million in 2009 versus \$7.2 million at 2010.

### INTEREST-EARNING DEPOSITS WITH BANKS

BBI's interest earning deposits consist mainly of deposits at the FHLB-P and certificates of deposit held through other banks. These deposits totaled \$4.4 million at December 31, 2010, which was a \$3.9 million increase from \$506 thousand at December 31, 2009. This balance varies from day to day, depending on several factors, such as variations in customers' deposits with BBI and the payment of checks drawn on customers' accounts.

### FEDERAL FUNDS SOLD

Federal funds sold consist of overnight interbank lending through Atlantic Central Bankers Bank. These funds totaled \$7.2 million at December 31, 2010, representing a decrease of 22.6% from \$9.3 million at December 31, 2009. This balance varies day-to-day, based upon the short-term fluctuations in the net cash position of BBI.

### INVESTMENT SECURITIES

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

Management determines the appropriate classification of securities at the time of purchase. In accordance with ASC 320 "Investments—Debt and Equity Securities," securities are classified as: (a) securities held to maturity ("HTM"), which are classified as such based on management's intent and ability to hold the securities to maturity; (b) trading account securities, which are bought and held principally for the purpose of selling them in the near term; and (c) securities available for sale ("AFS"), which include those securities that may be sold in response to changes in interest rates, changes in pre-payment assumptions, the need to increase regulatory capital or other similar requirements. BBI does not necessarily intend to sell its AFS securities, but has classified them as AFS to provide flexibility to respond to liquidity needs.

At December 31, 2010, all of BBI's \$1.7 million in investment securities were classified as AFS. This represents a decrease of 86% from \$11.8 million at December 31, 2009. The decrease was largely due to several security calls, in addition to normal maturities, principal repayments, and sales. Unrealized gains and losses on AFS securities, although excluded from the results of operations, are reported as a separate component of shareholders' equity, net of the related tax effect.

At December 31, 2010, BBI held no investment securities that were classified as HTM. BBI does not intend to purchase any HTM securities in the foreseeable future. As of December 31, 2010 and 2009, BBI held no trading account securities.

The investment securities portfolio's composition changes periodically as a result of restructuring transactions, taken primarily to manage liquidity, capital and interest rate risk.



The following two tables set forth information regarding the stated maturity, average yield, and compositions, of our investment securities portfolio as of the dates indicated. The first two tables do not include amortization or anticipated prepayments on mortgage-backed securities; callable securities are included at their stated maturity dates.

	December 31, 2010		December 31, 2009	
	Fair Value	Weighted Average Yield (dollars in thousands)	Fair Value	Weighted Average Yield
Due after one year through five years	\$ -	-%	\$ -	-%
Due after five years through ten years	-	-%	-	-%
Due after ten years	1,512	5.00%	9,516	5.07%
	1,512	5.00%	9,516	5.07%
Mortgage-backed securities	145	3.13%	2,329	3.65%
	\$ 1,657	4.84%	\$ 11,845	4.79%

	December 31,	
	2010	2009
	(dollars in thousands)	
	Composition of AFS Securities	
U.S. Treasury and government agency	\$ 1,512	\$ 9,516
Mortgage-backed securities	145	2,329
	\$ 1,657	\$ 11,845

At December 31, 2010, BBI held no securities that were impaired based on having a fair value lower than amortized cost for at least twelve consecutive months. At December 31, 2010 and 2009, respectively, BBI did have \$0 and \$8.5 million in securities, which consisted of 0 and 12 securities, with continuous losses for less than twelve months that it considers to be temporarily impaired primarily due to interest rate changes and a lack of liquidity in the market. BBI does not intend to sell and it is not more likely than not that BBI will be required to sell the securities prior to maturity or market price recovery. Management believes that there is no other than temporary impairment of these securities as of December 31, 2010. Securities with a carrying value of \$448 thousand and \$7.7 million of investment securities were pledged as collateral at December 31, 2010 and 2009, respectfully. Securities are pledged to the FHLB-P to be used as collateral for borrowing purposes and to provide collateral for municipal deposit customers.

## LOANS

The composition of net loans receivable at December 31, 2010, 2009, 2008, 2007 and 2006 is as follows:

	2010	2009	December 31,		2006
			2008	2007	
			(dollars in thousands)		
Commercial construction	\$2,473	\$4,645	\$-	\$-	\$-
Commercial real estate	57,937	57,847	53,500	44,992	35,340
Commercial and industrial	25,666	24,705	26,529	21,943	17,951
Residential construction	1,089	1,119	379	467	1,880
Consumer residential	17,110	18,051	19,601	16,542	12,561
Consumer and other	2,690	3,397	4,279	5,616	2,497
Total loans	106,965	109,764	104,288	89,560	70,229
Net deferred loan costs	409	451	479	415	178
Allowance for loan losses	(1,593 )	(1,655 )	(1,267 )	(1,087 )	(811 )
Net loans receivable	\$105,781	\$108,560	\$103,500	\$88,888	\$69,596

BBI engages in the general business of commercial and consumer banking primarily in the market area of Berks County, Pennsylvania. BBI has been locally managed to serve the needs of individuals, small and medium size businesses and professionals, as it has a community focus with an emphasis on personal service, flexibility and responsiveness to customers' needs.

BBI operates five banking locations and an operation center. The retail banking offices are in Bern Township, Exeter Township, Muhlenberg Township, West Reading and Wyomissing. The operation center is in Shillington. In addition, BBI has one remote ATM on Tuckerton Road in Muhlenberg Township.

BBI offers a full range of banking products and services including: personal and business checking accounts, time, demand and savings accounts, money market accounts, safe deposit box services, retirement accounts and online banking/bill pay. Loan products include commercial and consumer installment loans, commercial and residential mortgages, SBA lending, construction loans and lines of credit. The majority of residential mortgage loans are sold in the secondary market. The majority of commercial loans are retained.

BBI's relationship managers originate loan requests through a variety of sources which include BBI's existing customer base, referrals from directors and various networking sources (accountants, attorneys, and realtors), and market presence. Over the past several years, BBI's relationship managers have expanded their local presence by BBI's continued participation in community and civic events and strong networking efforts. In addition, the consolidation and other changes which are occurring in the market have allowed BBI to increase market share.



## Commercial Lending/SBA Lending

The Small Business Banking platform originates loans, including Small Business Administration (SBA) loans, through a team of dedicated and experienced Small Business relationship managers. This ensures BBI has small business experts in place providing appropriate financial solutions to the small business owners in our communities. The focus of the group are companies located in Berks County with annual revenues of less than \$5 million, which typically have credit needs of less than \$2 million. BBI lends to a wide range of businesses in the market to diversify risk. Much of the commercial loan portfolio is secured by owner occupied real estate and hard business assets. BBI does very little lending on an unsecured basis or where the receivables are the primary collateral. The support administration of the platform for this group is centralized and includes risk management, product management, marketing, performance tracking and overall strategy.

## Consumer Lending

BBI's product offerings include real estate secured consumer lending, but BBI does not offer indirect automobile loans, and does very little unsecured loans or credit cards. BBI provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending is conservative. Lending helps to solidify customer relationships and grow relationship revenues. Residential loans which are originated for sale in the normal course of business is a source of fee revenue for BBI.

Loans outstanding (net of the allowance for loan losses) were \$105.8 million at December 31, 2010, a decrease of \$2.8 million, or 2.6%, from \$108.6 million at December 31, 2009. The loan portfolio was generally diversified among commercial and consumer borrowers. For further information on our loans, see Note 6 of BBI's 2010 Audited Financial Statements on page BBI F-16 of this Joint Proxy Statement - Prospectus.

The following table sets forth information concerning the contractual maturities of the loan portfolio, net of unearned costs and fees. For amortizing loans, scheduled repayments for the maturity category in which the payment is due are not reflected below, because such information is not readily available.

Loan Maturities	December 31,	
	2010	2009
	(dollars in thousands)	
Within 1 year	\$ 38,269	\$ 41,572
After 1 year but within 5 yrs	9,518	11,823
After 5 yrs but within 15 yrs	16,435	12,964
Over 15 years	43,152	43,856
	\$ 107,374	\$ 110,215
Fixed Rate:		
Within 1 year	\$ 15,234	\$ 13,802
After 1 year but within 5 yrs	7,774	9,967
After 5 yrs but within 15 yrs	16,311	12,872
Over 15 years	43,153	43,857
	82,472	80,498
Variable Rate:		
Within 1 year	\$ 23,036	\$ 27,769
After 1 year but within 5 yrs	1,743	1,856
After 5 yrs but within 15 yrs	123	92
Over 15 years	-	-

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		24,902		29,717
Total	\$	107,374	\$	110,215

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## CREDIT RISK

BBI 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 by management as well as external loan review. Management also attempts to anticipate and allow for credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged as they are incurred, and to which provisions are added periodically as Management and the board of directors deem appropriate.

The provision for loan losses was \$672 thousand, \$809 thousand, and \$395 thousand for the years ended December 31, 2010, 2009, and 2008, respectively. The allowance for loan losses was \$1.5 million, or 1.48% of total loans, at December 31, 2010 and \$1.7 million, or 1.50%, of total loans at December 31, 2009. Net charge-offs were \$734 thousand for the year ended December 31, 2010, an increase of \$313 thousand compared to the \$421 thousand for the fiscal year ending December 31, 2009.

The \$137 thousand decrease in the provision for loan losses for 2010 was primarily attributable to decreased delinquent, non-performing and impaired loans and a stabilization of the real estate market. During 2009, BBI changed the methodology for estimating the allowance for loan loss. The standardized methodology used to assess the adequacy of the allowance includes the allocation of specific and general reserves. Specific reserves are made to individual impaired loans, which have been defined to include all nonperforming loans and troubled debt restructurings. The general reserve is set based upon a representative average historical net charge-off and recovery trends, volume and loan term trends, risk and underwriting policies trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. Beginning in the second quarter of 2010, BBI began to use the three previous year's historical net charge-off rate as opposed to a six year net charge-off base. This resulted in an overall increase of approximately \$150 thousand in the required reserve. In addition, all of the environmental factors are ranked and assigned a basis point value based on the following scale: low, low moderate, moderate, high moderate and high risk. The factors are evaluated separately for each type of loan. For example, commercial loans are broken further into commercial mortgages, commercial lines of credit, etc. Each loan type is risk weighted for environmental factors based on its individual characteristics.

According to BBI's policy, a loss ("charge-off") is to be recognized and charged to the allowance for loan losses as soon as a loan is recognized as uncollectible. All credits which are 90 days past due must be analyzed for BBI's ability to collect on the credit. Once a loss is known to exist, the charge-off approval process is immediately expedited. Beginning in 2010, BBI decreased its loan loss provision in response to the improvement in inherent credit risk within its loan portfolio and changes to some of the environmental factors noted above. The inherent credit risk was evidenced by the decrease in delinquent and non-performing loans from previous quarters, as the downturn in the economy leveled off which had impacted borrowers' ability to pay. However, factors such as a weakened housing market continued to erode the value of underlying collateral, which resulted in a higher level of net charge-offs during 2010. In addition, net charge-offs of \$734 thousand as of December 31, 2010 are higher than normal from previous levels of net charge-offs of \$421 thousand and \$215 thousand for the years ended December 31, 2009 and 2008, respectively. BBI is proactively addressing these issues.

BBI has implemented the methodology described in ASC 450 "Contingencies" and ASC 310-10-35 "Troubled Debt Restructurings by Creditors". This methodology provides guidance in determining the fair value on impaired loans and utilizes BBI's historical loss experience to consider inherent losses for performing loans. See "Asset Quality" beginning on page 206 in this Joint Proxy Statement - Prospectus.



The below chart depicts BBI's allowance for loan losses for the periods indicated.

	2010	2009	December 31, 2008	2007	2006
	(dollars in thousands)				
Balance of the allowance at the beginning of the year	\$1,655	\$1,267	\$1,087	\$811	\$587
Loan charge-offs:					
Commercial construction	49	-	-	-	-
Commercial real estate	145	83	-	-	-
Commercial and industrial	239	206	198	-	-
Residential construction	-	-	-	-	-
Consumer residential	283	-	-	-	-
Consumer and other	48	142	17	5	12
Total Charge-offs	764	431	215	5	12
Loan recoveries:					
Commercial construction	-	-	-	-	-
Commercial real estate	-	3	-	-	-
Commercial and industrial	-	-	-	-	-
Residential construction	-	-	-	-	-
Consumer residential	26	-	-	-	-
Consumer and other	4	7	-	-	-
Total Recoveries	30	10	-	-	-
Total net charge-offs	734	421	215	5	12
Provision for loan losses	672	809	395	281	236
Balance of the allowance for loan losses at the end of the year	\$1,593	\$1,655	\$1,267	\$1,087	\$811

The allowance for loan losses is based on a periodic evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb inherent losses. All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows BBI to take corrective actions on a timely basis. Management considers a variety of factors, and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate the appropriate level of allowance for loan losses. This methodology includes an evaluation of loss potential from individual problem credits, as well as anticipated specific and general economic factors that may adversely affect collectability. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions that may affect borrowers' ability to repay, and other factors that may warrant current recognition. In addition, BBI's outsourced internal auditors, outsourced loan review function and various regulatory agencies periodically access the adequacy of the allowance as an integral part of their examination process. Such agencies may require BBI to recognize additions or reductions to the allowance based on their judgments of information available at the time of their examination.



A substantial portion, approximately 94%, of BBI's commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, the real estate portfolio). BBI's lien position on the real estate collateral will vary on a loan by loan basis. BBI's credit group assesses whether the facts and circumstances have significantly changed since the date of the last appraisal or the geographical real estate values have deteriorated. The credit committee and loan officers review loans that are fifteen or more days delinquent or have issues that warrant additional attention and all nonaccrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographical area and other factors that may affect the cash flow of the loan. On a quarterly basis, if necessary, the collateral values or discounted cash flow models are used to determine the estimated fair value of the underlying collateral for the quantification of a specific reserve for impaired loans. Appraisals used within this evaluation process do not typically age more than twelve to eighteen months before a new appraisal is obtained. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to determine the fair value of the underlying collateral.

These evaluations, however, are inherently subjective as they require material estimates, including, among others, the amounts and timing of expected future cash flows on impaired loans, estimated losses in the loan portfolio, and general amounts for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which may be susceptible to significant change. Pursuant to ASC 450 "Contingencies" and ASC 310-10-35 "Troubled Debt Restructurings by Creditors" impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral if principal repayment is expected to come from the sale or operation of such collateral.

The following table shows how the allowance for loan losses is allocated among the various loan portfolios that BBI has outstanding. This allocation is based on management's specific review of the credit risk of the outstanding loan portfolios in each category as well as historical trends.

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	2010		December 31, 2009			2008		
	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans
			(dollars in thousands)					
Commercial construction	\$49	2.31 %	\$13	4.23 %	\$21	-	-	%
Commercial real estate	831	54.16 %	609	52.70 %	613	51.30		%
Commercial and industrial	437	23.99 %	370	22.51 %	49	25.44		%
Residential construction	7	1.02 %	93	1.02 %	51	0.36		%
Consumer residential	212	16.00 %	554	16.45 %	450	18.80		%
Consumer and other	57	2.52 %	-	3.09 %	70	4.10		%
Unallocated	-	- %	16	- %	13	-		%
	\$1,593	100.00 %	\$1,655	100.00 %	\$1,267	100.00		%

			December 31, 2007			2006		
	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans	Amount	Percent of Loans in each category to total loans
			(dollars in thousands)					
Commercial construction			\$4	- %	\$-	-	-	%
Commercial real estate			191	50.24 %	304	50.32		%
Commercial and industrial			25	24.50 %	50	25.56		%
Residential construction			412	0.52 %	175	2.68		%
Consumer residential			417	18.47 %	266	17.88		%
Consumer and other			27	6.27 %	8	3.56		%
Unallocated			11	- %	8	-		%
			\$1,087	100.00 %	\$811	100.00		%

## ASSET QUALITY

BBI had non-performing loans totaling \$2.2 million at December 31, 2010, compared to \$5.5 million at December 31, 2009. Impaired loans, which included a troubled debt restructured loan in the amount of \$1.4 million, totaled \$3.5 million at December 31, 2010, down from \$4.4 million at December 31, 2009. BBI had charge-offs of \$764 thousand in 2010, compared with \$431 thousand in 2009. BBI had recoveries of \$30 thousand in 2010, compared with \$10 thousand in 2009. There was \$4.9 million and \$1.8 million of other real estate owned as a result of foreclosure or voluntary transfer to BBI at December 31, 2010 and 2009, respectively.

The tables below set forth non-performing loans and non-performing assets and asset quality ratios at December 31, 2010, 2009, 2008, 2007 and 2006.

	December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
Non-accrual loans	\$2,218	\$5,412	\$1,612	\$1,137	\$147
Loans 90+ days delinquent still accruing	-	87	105	-	-
Non-performing loans	2,218	5,499	1,717	1,137	147
OREO	4,936	1,765	1,280	-	-
Non-performing assets	\$7,154	\$7,264	\$2,997	\$1,137	\$147

Troubled debt restructurings (“TDRs”) occur when a creditor, for economic or legal reasons related to a debtor’s financial condition, grants a concession to the debtor that it would not otherwise consider, such as a below market interest rate, extending the maturity of a loan, or a combination of both. At December 31, 2010, there was one loan, which is a participation loan with another bank, in the amount of \$1.4 million that was classified as a TDR by the Company and the lead bank and was deemed impaired, compared to \$0 loans at December 31, 2009. The TDR loan is not included in non-accrual loans, as this loan continues to perform under its modified terms.

	December 31,									
	2010		2009		2008		2007		2006	
Non-accrual loans to total loans	2.07	%	4.91	%	1.54	%	1.26	%	0.21	%
Non-performing loans to total loans	2.07	%	4.99	%	1.64	%	1.26	%	0.21	%
Non-performing assets to total assets	5.29	%	5.03	%	2.29	%	0.95	%	0.14	%
Non-accrual loans and 90+ days delinquent to total assets	1.64	%	3.81	%	1.31	%	0.95	%	0.14	%
Allowance for loan losses to:										
Total loans	1.48	%	1.50	%	1.21	%	1.21	%	1.15	%
Non-performing loans	71.82	%	30.10	%	73.79	%	95.60	%	551.70	%
Non-performing assets	22.27	%	22.78	%	42.28	%	95.60	%	551.70	%



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The table below sets forth types of loans that were non-performing at December 31, 2010, 2009, 2008, 2007 and 2006.

	2010	2009	December 31, 2008	2007	2006
	(dollars in thousands)				
Commercial construction	\$238	\$379	\$-	\$-	\$-
Commercial real estate	2,865	2,347	767	100	-
Commercial and industrial	320	1,646	682	1,031	-
Residential construction	-	-	-	-	-
Consumer residential	106	1,034	168	-	117
Consumer and other	52	93	100	6	30
Total non-performing loans	\$3,581	\$5,499	\$1,717	\$1,137	\$147

BBI seeks to manage 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. Asset quality assurance activities include careful monitoring of borrower payment status and a review of borrower current financial information to ensure financial strength and viability. BBI has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization, and adjusts policies as appropriate for changes in market conditions and applicable regulations. The risk elements which comprise asset quality include loans past due, non-accrual loans, renegotiated loans, other real estate owned, and loan concentrations.

All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows BBI to take corrective actions on a timely basis.

A regular reporting and review process is in place to provide for proper portfolio oversight and control, and to monitor those loans identified as problem credits by management. This process is designed to assess BBI's progress in working toward a solution, and to assist in determining an appropriate specific allowance for possible losses. All loan work-out situations involve the active participation of management, and are reported regularly to the Board. Loan charge-offs are determined on a case-by-case basis. Loans are generally charged off when principal is likely to be unrecoverable and after appropriate collection steps have been taken. Loan policies and procedures are reviewed internally for possible revisions and changes on a regular basis. In addition, these policies and procedures, together with the loan portfolio, are reviewed on a periodic basis by various regulatory agencies and by BBI's outsourced internal auditors and loan review auditors, as part of their examination and audit procedures.

#### PREMISES AND EQUIPMENT AND OTHER ASSETS

BBI's premises and equipment, net of accumulated depreciation, was \$3.9 million and \$4.2 million at December 31, 2010 and 2009, respectively.

BBI's restricted stock holdings at December 31, 2010 and December 31, 2009 were \$1.1 million and \$1.2 million, respectively. These consist of stock of the FHLB-P and Atlantic Central Bankers Bank, and are required as part of our relationship with these banks. Federal law requires a member institution of the Federal Home Loan Bank to hold stock of its district FHLB according to a predetermined formula. The redeemable carrying amount of Federal Home Loan Bank stock with limited marketability is carried at cost.

BBI owned BOLI of \$2.4 million and \$2.3 million at December 31, 2010 and 2009, respectively. Cash flow from these policies will occur over an extended period of time and flow through non-interest income. BBI periodically reviews the creditworthiness of the insurance companies that have underwritten the policies. The cash surrender values of the policies appear on BBI's balance sheet and are subject to full regulatory capital requirements.

Goodwill represents the excess of the cost over fair value of net assets of the acquired business. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is tested using a two step process. If the carrying amount exceeds the estimated fair value, an indicator of goodwill impairment exists and a second step test is performed to determine if any goodwill impairment exists. In the second step, the Company calculates the implied value of goodwill by emulating a business combination. This step subtracts the estimated fair value of the net assets from the step one estimated fair value to determine the implied value of goodwill. If the implied value of goodwill is less than the carrying value of the goodwill, goodwill is not impaired, but if the implied value of goodwill is less than the carrying value of the goodwill allocated, an impairment charge is recognized for the difference in the consolidated statements of operations with a corresponding reduction to goodwill on the consolidated balance sheet. The Company has evaluated goodwill and determined that impairment existed as of December 31, 2010. Therefore an impairment charge of \$418 was recorded as of December 31, 2010. The balance in goodwill as of December 31, 2010 and 2009 was \$0 and \$418, respectively.

Other assets decreased to \$2.5 million at December 31, 2010 from \$2.7 million at December 31, 2009. The other asset decrease is primarily due to a prepaid FDIC premium of \$719 thousand added at December 31, 2009 with a balance of \$438 million as of December 31, 2010. In addition, an increase in other real estate owned to \$4.9 million at December 31, 2010 was realized compared to \$1.8 million at December 31, 2009. This was a direct result of properties being moved from non-accrual loan status to other real estate owned as BBI continued to work on resolution of non-performing loans and assets.

## DEPOSITS

BBI offers a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from BBI's service area. Total deposits decreased to \$123.3 million at December 31, 2010, a decrease of \$4.8 million, or 3.8%, from \$128.1 million at December 31, 2009. In the fourth quarter of 2009, BBI introduced a new product, the "Green Money Market account" to increase its deposit holdings. This product, which was launched in October of 2009, resulted in total deposits in this product category in the amount of \$33 million as of December 31, 2009. The balance in this product equated to \$45.2 million as of December 31, 2010. The account had an interest rate of 2% which was guaranteed through March of 2011. This is reflected below in the \$8.0 million increase in demand, interest bearing deposits from a level of \$60.4 million in 2009 to \$68.4 million in 2010, or 13.3% increase was a direct result of this marketing promotion. BBI does not have any brokered deposits at December 31, 2010 and 2009.

The components of deposits were as follows at the dates indicated:

	2010	December 31, 2009	2008
		(dollars in thousands)	
Demand, non-interest	\$6,973	\$6,821	\$5,761

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bearing			
Demand, interest bearing	68,424	60,376	32,664
Savings	1,957	1,970	983
Time, \$100,000 and over	13,300	14,700	14,303
Time, other	32,599	44,211	49,606
Total deposits	\$ 123,253	\$ 128,078	\$ 103,317

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Total time deposits decreased \$13 million, or 22.1%, to \$45.9 million at December 31, 2010 compared to \$58.9 million at December 31, 2009. Time deposits of \$100,000 or more were \$13.3 million at December 31, 2010 compared to \$14.7 million at December 31, 2009, a decrease of \$1.4 million or 9.5%. During this period, non-interest bearing demand deposits increased \$152 thousand, or 2.2%, to \$7 million from \$6.8 million. In an effort to obtain more business deposits, BBI initiated a program of remote deposit capture which allowed business customers to transmit checks electronically without having to go to a branch. Interest bearing demand deposits increased \$8 million, or 13.3%, to \$68.4 million from \$60.4 million. The majority of this increase is in money market accounts.

Savings deposit accounts decreased \$13 thousand, or 0.7%, to \$1.957 million at December 31, 2010 from \$1.970 million.

At December 31, 2010, the scheduled maturities of time deposits of \$100,000 or more were as follows:

	December 31, 2010 (dollars in thousands)
3 months or less	\$ 562
Over 3 through 6 months	950
Over 6 through 12 months	7,230
Over 12 months	4,558
	\$ 13,300

#### OTHER BORROWINGS

BBI had other borrowings of \$764 thousand at December 31, 2010, a 82.2% decrease from the \$4.3 million at December 31, 2009, represented by \$764 thousand in FHLB-P borrowings. BBI had \$0 in short-term advances from the FHLB-P at December 31, 2010 and \$1.4 million at December 31, 2009. Borrowings decreased primarily due to the increase in deposits.

Federal funds purchased, Federal Reserve Bank discount window borrowings and FHLB-P advances represent overnight or less than 30 day borrowings.

Short term borrowings consisted of the following at December 31, 2010, 2009 and 2008:

	December 31, 2010			
	Ending Balance	Average Balance	Maximum Month End Balance	Average Rate
Federal funds purchased	\$-	\$-	\$-	0 %
Federal Reserve - Discount Window	-	-	-	0 %
Federal Home Loan Bank	-	1,397	2,000	1.61 %
Total	\$-	\$1,397	\$2,000	1.61 %

	December 31, 2009		
Ending	Average	Maximum	Average

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	Balance	Balance	Month End Balance	Rate	
Federal funds purchased	\$-	\$856	\$2,704	1.25	%
Federal Reserve - Discount Window	-	19	-	0.5	%
Federal Home Loan Bank	-	3,845	4,819	2.35	%
Total	\$-	\$4,720	\$7,523	2.14	%

	December 31, 2008				
	Ending Balance	Average Balance	Maximum Month End Balance	Average Rate	
Federal funds purchased	\$396	\$721	\$2,413	2.09	%
Federal Reserve - Discount Window	-	-	-	-	%
Federal Home Loan Bank	5,000	3,097	5,000	3.66	%
Total	\$5,396	\$3,818	\$7,413	3.37	%

Long-term borrowings are comprised of advances from the FHLB-P. Under the terms of a blanket agreement, collateral for the loans is secured by certain qualifying assets such as loans and investment securities.

The contractual maturities of advances at December 31, 2010 were as follows:

	2010 (dollars in thousands)
2013	266
2015 and thereafter	498
	\$764

#### PREFERRED STOCK

BBI received funds under the United States Department of Treasury's TARP Capital Purchase program pursuant to the securities purchase agreement entered into by BBI and the Treasury on June 12, 2009. Through its participation in the TARP Capital Purchase Program, BBI issued (1) 2,892 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value \$1.00 per share and a liquidation preference of \$1,000 per share ("Series A Preferred Stock") and (2) a warrant to purchase 145 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value \$1.00 per share and a liquidation preference of \$1,000 per share ("Series B Preferred Stock"). The warrant for the Series B Preferred Stock was immediately exercised on June 12, 2009. BBI received \$2,892,000 through its participation in the TARP Capital Purchase Program. The proceeds from the preferred stock were allocated between the Series A Preferred Stock and Series B Preferred Stock based on their relative fair value, using a discount rate of 12%. The original net discount is being accreted over the expected term of five years using the effective interest method. As a participant in the TARP Capital Purchase Program, BBI is subject to additional regulations to which other financial institutions that did not participate in TARP are not subject.

As of December 31, 2010, BBI continues to have outstanding 2,892 shares Series A Preferred Stock and 145 shares of its Series B Preferred Stock. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series B Preferred Stock has a cumulative dividend rate of 9% per annum.

The American Recovery and Reinvestment Act of 2009 provides that subject to consultation with the appropriate Federal banking agency, the U.S. Treasury shall permit a TARP recipient to repay any assistance previously provided under the TARP without regard to whether the financial institution has replaced such funds from any other source or to any waiting period. BBI will be subject to existing supervisory procedures for approving redemption requests for capital instruments. The federal regulator will weigh BBI's desire to redeem the preferred stock against the contribution of Treasury capital to BBI's overall soundness, capital adequacy and ability to lend, including confirming that BBI has a comprehensive internal capital assessment process.

On October 26, 2009, BBI commenced the sale of 6,000 shares of its 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C, par value \$1.00 per share, \$1,000 liquidation preference per share. During the year ended December 31, 2009 and 2010, respectively, the Company sold 50 and 0 shares for total gross proceeds of \$50 thousand. Direct offering expenses of \$65 thousand are netted against the gross proceeds and charged against additional paid-in capital.

### SHAREHOLDERS' EQUITY

Shareholders' equity decreased to \$10.5 million at December 31, 2010 from \$11.4 million at December 31, 2009. This was primarily due to the consolidated losses of BBI. An increase in net unrealized (gains) losses on investment securities in the amount of \$132 thousand classified by BBI as AFS was recognized between December 31, 2009 and December 31, 2010. The unrealized loss in BBI's investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and is recognized as a component of net income only if realized through the sale of such securities prior to maturity, or if the security would become other-than-temporarily impaired.

In 2003, BBI entered into an agreement with East Penn Financial Corporation ("East Penn") whereby East Penn purchased 19.9% of the Company's stock in the initial public offering. The agreement included the issuance of a stock warrant that allowed East Penn to purchase and own up to 24.9% of the Company's outstanding shares. East Penn has since been acquired by Harleysville National Corporation (HNC) which assumed the right to 19.9% ownership in the Company with the same terms as was extended to East Penn. On April 9, 2010, First Niagara Financial Group ("First Niagara") acquired HNC and assumed the HNC ownership percentage with the same terms as was extended to HNC. Pursuant to this commitment, First Niagara may not acquire or retain BBI shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of BBI or any of its subsidiaries.

There are certain limitations on the ability of BBI to pay cash dividends without prior approval of regulatory authorities. BBI recorded dividends in the approximate amount of \$87 thousand and \$79 thousand on the Series A Preferred Stock and Series B Preferred Stock in 2009 and 2010, respectively. Presently, BBI and Berkshire Bank are not authorized to pay cash dividends on their shares and must obtain approval of their primary regulators prior to declaration of a dividend. BBI's ability to pay dividends is restricted by banking laws, Pennsylvania corporate law, and the regulations of the Federal Reserve Board and Berkshire Bank's ability to pay dividends to BBI. For a more detailed description of BBI's shareholders' equity, see Note 14 of our 2010 Audited Financial Statements on page BBI F-23 of this Joint Proxy Statement - Prospectus.

## STOCK WARRANT PLAN

During 2003, BBI issued stock purchase warrants in connection with its initial public offering, giving organizers the right to purchase at the initial offering price of \$3.28 per share. Subsequently, in 2007, as part of the stock offering, BBI issued non-detachable warrants exercisable until December 31, 2012 at varying share prices ranging from \$7.36 through December 31, 2008 to \$11.20 through December 31, 2012.

The following table summarizes changes in stock warrants outstanding under the 2003 Initial Offering and the Warrants associated with the Stock Offering of 2007 for the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31,					
	2010		2009		2008	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at beginning of year	774,571	\$ 5.08	775,611	\$ 5.08	865,519	\$ 5.32
Granted	-	-	-	-	-	-
Expired/terminated	-	-	-	-	-	-
Exercised	-	-	(1,040)	8.32	(89,908)	7.45
Outstanding at December 31	774,571	\$ 5.08	774,571	\$ 5.08	775,611	\$ 5.08

## 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. BBI coordinates its management of liquidity with its interest rate sensitivity and capital position. BBI's policy is to maintain a strong liquidity position.

BBI's investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. BBI's principal sources of funds are shareholder capital, deposits, principal and interest payments on loans, and other funds from operations. BBI also maintains borrowing arrangements with the FHLB-P and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. As of December 31, 2010, BBI's borrowing capacity with the FHLB-P was \$51.9 million, of which \$764 thousand was used in borrowings. BBI had \$144 thousand of pledged mortgage backed and agency securities and \$8.8 million of pledged loans as collateral for these borrowings. As of December 31, 2010, BBI's borrowing capacity with the Federal Reserve Bank of Philadelphia was \$6.4 million, and BBI had \$5 million of pledged loans as collateral for this borrowing capacity. BBI also has available a line of credit agreement to purchase federal funds from the ACBB totaling \$4 million of which advances up to \$1 million would be unsecured. Additional advances up to the remaining \$3 million would be secured by investments held in safekeeping at ACBB. There were no federal funds purchased outstanding at December 31, 2010 or December 31, 2009.

BBI's net cash provided by and used in operating activities was \$871 thousand and \$1.3 million for the years ended December 31, 2010 and 2009, respectively. The change was primarily due to the goodwill impairment charge of \$418 thousand and an increase in the proceeds of loans held for sale.

Net cash provided by investing activities was \$9.2 million and net cash used in investing activities was \$4.0 million for the years ended December 31, 2010 and 2009, respectively. This increase in cash was driven by lower levels of investment security purchases during 2010 as well as a decrease in the volume of loans in 2010 compared to 2009.

Cash used in financing activities was \$8 million and cash provided by financing activities was \$14.7 million for the years ended December 31, 2010 and 2009, respectively. The decrease compared to 2009 was primarily due to decreased repayments in borrowings combined with a decrease in interest-bearing deposits.

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

#### CAPITAL ADEQUACY

BBI is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on BBI's financial statements. Under capital adequacy and the regulatory framework for prompt corrective action, BBI must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

At December 31, 2010 and December 31, 2009, BBI and Berkshire Bank met each of its minimum capital requirements. Management believes that Berkshire Bank would be deemed "well capitalized" for regulatory purposes as of December 31, 2010 and December 31, 2009. Banking regulators have discretion to establish an institution's classification based on other factors, in addition to the institution's numeric capital levels.

At December 31, 2010, management was not aware of any developments that have occurred and that would, or would be reasonably likely to, cause our classification to be reduced below a level of "well capitalized" for regulatory purposes. Berkshire Bank's capital classification is determined pursuant to banking regulations to apply Berkshire Bank regulators' "prompt corrective action" regulations, and to determine levels of deposit insurance assessments, and may not constitute an accurate representation of our overall financial condition or prospects. The following table summarizes the required capital ratios and the corresponding regulatory capital positions of BBI and Berkshire Bank for the periods or dates indicated:

As of December 31, 2010:	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk Based Capital (to Risk Weighted Assets)	(dollar amounts in thousands)							
Bank	\$ 11,788	10.91	% \$ 8,645	8.0	% \$ 10,807	10.0	%	
Consolidated	11,878	10.99	% 8,644	8.0	% N/A	N/A	%	
Tier I Capital (to Risk Weighted Assets)								
Bank	10,430	9.65	% 4,323	4.0	% 6,484	6.0	%	
Consolidated	10,520	9.74	% 4,322	4.0	% N/A	N/A	%	
Tier I Capital (to Average Assets)								
Bank	10,430	7.64	% 5,462	4.0	% 6,828	5.0	%	
Consolidated	10,520	7.70	% 5,462	4.0	% N/A	N/A	%	
As of December 31, 2009:								
Total Risk Based Capital (to Risk Weighted Assets)								
Bank	\$ 12,680	11.62	% \$ 8,731	8.0	% \$ 10,913	10.0	%	
Consolidated	12,472	11.46	% 8,706	8.0	% N/A	N/A	%	
Tier I Capital (to Risk Weighted Assets)								
Bank	11,316	10.37	% 4,365	4.0	% 6,548	6.0	%	
Consolidated	11,108	10.21	% 4,353	4.0	% N/A	N/A	%	
Tier I Capital (to Average Assets)								
Bank	11,316	7.68	% 5,891	4.0	% 7,364	5.0	%	
Consolidated	11,108	7.54	% 5,891	4.0	% N/A	N/A	%	

In general, BBI's capital increased with the addition of TARP in the amount of \$2,892 thousand received June 12, 2009. Conversely, as BBI's assets grow, its capital ratios decrease. During 2010, the balance sheet was reduced in an effort to manage the risk-based capital ratios to ensure that the Bank was adequately capitalized.

In general, in the past few years, balance sheet growth has been offset by decreases in capital through losses and increases in capital from sales of common stock and growth of the allowance for loan losses.

BBI does not presently have any commitments for significant capital expenditures. BBI is unaware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on



liquidity, capital resources, or operations of BBI.

The maintenance of appropriate levels of capital is an important objective of BBI's Asset and Liability Management process. Through its initial capitalization and its subsequent offerings, BBI has continued to maintain a strong capital position.

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### MARKET FOR COMMON STOCK

BBI's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as market makers in BBI's stock. Consequently, information on current stock trading prices is not readily available. BBI currently acts as its own transfer agent and offers to introduce potential buyers and sellers of our stock to each other, but does not make a market in its own stock or attempt to negotiate prices for trades of its stock. At December 31, 2010, there were approximately 420 shareholders who owned the 4,051,063 shares of Common Stock outstanding.

Based on the information available to us, private sales of BBI's Common Stock was not traded at all during 2010 and traded at a low of \$9.75 per share and at a high of \$10.25 during 2009. This quoted price is limited only to those private transactions known by management in fact, there may have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

### OFF-BALANCE SHEET ARRANGEMENTS

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

With commitments to extend credit, BBI's exposure to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. BBI uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. Since they involve credit risk similar to extending a loan, they are subject to BBI's Credit Policy and other underwriting standards.

As of December 31, 2010 and December 31, 2009, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
	2010	2009
	(dollars in thousands)	
Commitments to fund loans	\$33,793	\$36,783
Unfunded commitments under lines of credit	8,596	12,655
Letters of credit	428	769

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

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

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

## OTHER OFF-BALANCE SHEET ARRANGEMENTS

Other off-balance sheet arrangements include operating leases for BBI's premises. BBI leases the premises for its corporate headquarters and main banking office, as well as four branches in addition to an operations center under operating lease agreements with various terms and at various rentals. Each lease differs as to whether BBI has one or more renewal options and on what terms. As of December 31, 2010, BBI's approximate future non-cancellable minimum payments under these leases, by year, were as follow:

	December 31, 2010 (dollars in thousands)
2011	\$ 415
2012	430
2013	361
2014	301
2015	283
2016 & Thereafter	894
	\$ 2,684

## CONTRACTUAL OBLIGATIONS

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-Term Debt Obligations	764	\$ -	\$ 266	\$ -	\$ 498
Capital Lease Obligations	-	-			-
Operating Lease Obligations	2,684	415	791	584	894
Time Deposits	45,899	30,517	13,803	1,579	-
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under GAAP	-	-	-	-	-
<b>Total</b>	<b>\$ 49,347</b>	<b>\$ 30,932</b>	<b>\$ 14,860</b>	<b>\$ 2,163</b>	<b>\$ 1,392</b>

The chart above indicates BBI's contractual obligations related to long-term debt obligations at December 31, 2010 which are the combinations of mid-term repurchase agreements in the amount of \$266 thousand as well as \$498 thousand in an amortized fixed rate term note at FHLB-P. These borrowings due require repayment penalties if paid in advance of the due date. In addition, operating lease obligations are a result of BBI leases for the premises for its corporate headquarters and main banking office, as well as four branches in addition to an operations center under operating lease agreements with various terms and at various rentals. Each lease differs as to whether BBI has one or more renewal options and on what terms. Contractual obligations regarding time deposits in the amount of \$45.9 million are also included by payments due period. There are no capital lease obligations or other long-term liabilities as of December 31, 2010.



#### WHERE YOU CAN FIND MORE INFORMATION

Neither Customers Bank's nor CBI's Voting Common Stock is registered with any federal or state securities or banking regulator, and neither entity currently makes periodic securities filings with any regulator. Upon effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus forms a part, CBI will become subject to the reporting requirements of Section 15(a) of the Securities Act, and will begin filing periodic reports, proxy statements, and other information required by the Exchange Act. See "Additional Information" on page 218 of this Joint Proxy Statement-Prospectus for additional information on where you may read and copy materials filed with the SEC.

Customers Bank files quarterly reports of condition on Form FFIEC 041 ("Call Reports") with the Federal Reserve Bank of Philadelphia, Ten Independence Mall, Philadelphia, PA 19106-1574. The Call Reports are publicly available from the FDIC's Internet website at <http://www2.fdic.gov/idasp/main.asp> or the Federal Financial Institutions Examination Council Internet website at <https://cdr.ffiec.gov/public/>. If you wish to obtain a printed copy of an individual Call Report facsimile for periods prior to 2001, please contact the FDIC Public Information Center for ordering instructions and current fees by E-Mail at [publicinfo@fdic.gov](mailto:publicinfo@fdic.gov), by telephone at 877-688-3342 or 703-562-2200, or by fax at 703-562-2296. You may contact the National Technical Information Service ("NTIS"), a branch of the U.S. Department of Commerce), at 800-363-2068 or 703-605-6000 to obtain all available Call Reports for a specific period on magnetic tape, cartridge, or CD-ROM format, at a cost. NTIS has a website for ordering products at <http://www.ntis.gov>. Use the Site Index at the bottom to find products in Customers Banking Information category. Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of the end of or for the period to which the Call Report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. These instructions in most, but not all, cases follow GAAP, including the opinions and statements of the Accounting Principles Board and the Financial Accounting Standards Board. The Call Reports are not incorporated by reference and are not a part of this Joint Proxy-Statement Prospectus. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure, the reports nevertheless provide important information concerning Customers Bank. In addition to filing Call Reports, Customers Bank has delivered Audited Financial Statements to its shareholders each year, as well as proxy statements together with notices of each annual meeting.

Customers Bank is not subject to the informational requirements of the Exchange Act, and is not therefore required to file reports or other information with the SEC pursuant to the Exchange Act. Customers Bank maintains a website (<http://www.customersbank.com>) where you may find additional information about Customers Bank. The information contained in the website is not incorporated by reference and is not a part of this Joint Proxy-Statement Prospectus.

Upon written request of any shareholder, a copy of Customers Bank's Call Report, Customers Bank's audited Annual Report for the fiscal year ended December 31, 2010 and Customers Bank's proxy statement for its 2010 Annual Meeting of shareholders may be obtained, without charge, on written request to Thomas Brugger, Chief Financial Officer, 1015 Penn Avenue, Suite 103, Wyomissing, PA 19610.

#### ADDITIONAL INFORMATION

CBI has filed electronically with the SEC, Washington, D.C., through EDGAR a registration statement (No. 333-166225) on Form S-1 under the Securities Act of 1933, for the registration of CBI Voting Common Stock and Class B Non Voting Common Stock to be issued in the reorganization and merger. This Joint Proxy Statement-Prospectus constitutes the prospectus that was filed as a part of that registration statement, and does not contain all of the information set forth in the registration statement and its annexes and exhibits. Some items were omitted in accordance with the rules and regulations of the SEC. Anyone may inspect the registration statement or any other document filed with the SEC without charge at the public reference facilities of the SEC, 100 F Street, N.E. Washington, D.C. 20549 and may obtain copies of all or any part of it from the SEC upon payment of the required fees. The registration statement may also be reviewed on the SEC's website at <http://www.sec.gov>.

#### PROPOSAL C3 AND B2

#### TO ADJOURN THE SPECIAL MEETING IF NECESSARY TO SOLICIT OR RECEIVE ADDITIONAL PROXIES

Management does not anticipate that it will be necessary to adjourn the meeting in order to obtain sufficient proxies to complete the voting on the proposals, but management believes it is prudent to identify this as a possible action in the unlikely event that insufficient proxies are returned to determine the outcome of the vote on the proposals.

THE BOARDS OF DIRECTORS OF BOTH CBI AND BBI RECOMMEND A VOTE "FOR" APPROVAL OF  
PROPOSAL C3 AND B2 TO ADJOURN THE MEETING IF  
NECESSARY TO SOLICIT OR RECEIVE ADDITIONAL PROXIES.

## SHAREHOLDER PROPOSALS FOR 2011

Assuming consummation of the reorganization, shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in CBI's proxy statement for its 2011 Annual Meeting of Shareholders must be received by CBI no later than \_\_\_\_\_, which is 120 days prior to the first anniversary of the mailing date of this Joint Proxy Statement-Prospectus. However, if the date of the 2011 Annual Meeting shall be changed by more than 30 days from the date of Customers Bank's 2010 Annual Meeting, then the deadline is a reasonable time before CBI begins to print and send its proxy materials. Any such proposal and our obligation, if applicable, to include it in CBI's proxy statement, will be subject to Rule 14a-8 of the rules and regulations of the SEC.

Assuming consummation of the reorganization, nominations for the election of directors of CBI may be made by any shareholder entitled to vote for the election of directors by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Corporate Secretary of CBI not less than ninety (90) days nor more than one hundred and twenty (120) days prior to any meeting of shareholders called for election of directors; provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such written notice may be delivered or mailed, as prescribed, to the Corporate Secretary of CBI not later than the close of the seventh day following the day on which notice was mailed to shareholders. Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each nominee, and (iii) the number of shares of capital stock of the Corporation which are beneficially owned by each such nominee and the earliest date of acquisition of any of such stock.

Assuming consummation of the reorganization, subject to the immediately preceding paragraph relating to shareholder nominations, if a shareholder wishes to present a proposal at the 2011 Annual Meeting but does not intend to have such proposal included in CBI's proxy statement, and such proposal is properly brought before the 2011 Annual Meeting, then in accordance with Rule 14a-4 under the Exchange Act, if the shareholder has not provided notice of the proposal by \_\_\_\_\_ (or if the date of the meeting has changed more than 30 days from the date of Customers Bank's 2010 Annual Meeting, a reasonable time before CBI sends its proxy materials), the board of directors of CBI will have the right to exercise its discretionary voting authority on that proposal. The persons designated in CBI's proxy card will be granted discretionary voting authority with respect to any such shareholder proposal for which CBI does not receive timely notice.

## LEGAL MATTERS

Certain legal matters in connection with the reorganization will be passed upon for CBI and Customers Bank by Stradley Ronon Stevens & Young, LLP, 30 Valley Stream Parkway, Malvern, PA 19355 and for BBI and Berkshire Bank by Bybel Rutledge LLP, 1017 Mumma Road, Suite 302, Lemoyne, PA 17043.

## EXPERTS

The financial statements of Customers Bank including the balance sheets of Customers Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010 have been attached to this Joint Proxy Statement-Prospectus in reliance upon the report of ParenteBeard LLC, 2609 Keiser Boulevard, Wyomissing, Pennsylvania, 19610, independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

## ACCOUNTANTS



The financial statements of BBI including the balance sheets of BBI as of December 31, 2010, 2009, and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended have been attached to this Joint Proxy Statement-Prospectus in reliance upon the report of McGladrey & Pullen, LLP, 512 Township Line Road, One Valley Square, Suite 250, Blue Bell, PA 19422, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

#### OTHER BUSINESS

We do not presently know of any business other than that described above to be presented to the shareholders for action at the meeting. Should other business come before the meeting, votes may be cast pursuant to proxies in respect of any such business in the best judgment of the persons acting under the proxies.

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO ADDITIONAL POSTAGE IF MAILED IN THE UNITED STATES.

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Report of Independent Registered Public Accounting Firm	Customers F-1
Balance Sheets as of December 31, 2010 and 2009	Customers F-2
Statements of Operations for the years ended December 31, 2010, 2009, and 2008	Customers F-3
Statements of Changes In Stockholders' Equity for the years ended December 31, 2010, 2009, and 2008	Customers F-4
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Notes to Financial Statements for the years ended December 31, 2010, 2009, and 2008	Customers F-6

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Stockholders of Customers Bank

We have audited the accompanying balance sheets of Customers Bank (formerly, New Century Bank) as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Customers Bank as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

Reading, Pennsylvania  
April 15, 2011

CUSTOMERS BANK  
BALANCE SHEETS

	December 31,	
	2010	2009
	(dollar amounts in thousands, except per share data)	
<b>ASSETS</b>		
Cash and due from banks	\$ 6,396	\$ 4,171
Interest earning deposits	225,635	58,978
Federal funds sold	6,693	5,658
Cash and cash equivalents	238,724	68,807
Investment securities available for sale, at fair value	205,828	44,588
Loans held for sale	199,970	—
Loans receivable, net of allowance for loan losses \$15,129 in 2010; \$10,032 in 2009	498,958	220,266
Loans receivable covered under loss sharing agreements with the FDIC	164,885	—
Total loans receivable, net	663,843	220,266
FDIC loss sharing receivable	16,702	—
Bank premises and equipment, net	5,302	2,719
Bank owned life insurance	25,649	4,955
Other real estate owned (\$5,342 in 2010 and \$0 in 2009 covered by loss sharing agreements with the FDIC)	7,248	1,155
Accrued interest receivable and other assets	11,141	7,270
Total assets	\$ 1,374,407	\$ 349,760
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Demand, non-interest bearing	\$ 72,268	\$ 18,502
Interest bearing	1,173,422	295,425
Total deposits	1,245,690	313,927
Borrowings	11,000	11,000
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	10,577	1,330
Total liabilities	1,269,267	328,257
<b>Stockholders' equity:</b>		
Preferred stock, par value \$1,000 per share; 1,000,000 shares authorized, no shares issued and outstanding in 2010 and 2009	—	—
Common stock, par value \$1.00 per share; 100,000,000 shares authorized; shares issued and outstanding 2010 – 25,194,041; 2009 - 5,522,706	25,194	5,522

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Additional paid in capital	71,336	29,243
Retained earnings (accumulated deficit)	10,506	(13,229)
Accumulated other comprehensive loss	(1,896)	(33)
Total stockholders' equity	105,140	21,503
Total liabilities and stockholders' equity	\$ 1,374,407	\$ 349,760

See accompanying notes to financial statements.

Customers F-2

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CUSTOMERS BANK  
STATEMENTS OF OPERATIONS

Years Ended December 31,	2010	2009	2008
	(dollar amounts in thousands, except per share data)		
Interest income:			
Loans receivable, including fees	\$ 29,021	\$ 12,142	\$ 13,644
Investment securities, taxable	1,382	1,140	1,419
Investment securities, non-taxable	110	191	413
Other	394	13	26
Total interest income	30,907	13,486	15,502
Interest expense:			
Deposits	11,112	5,729	6,832
Borrowed funds	366	461	1,112
Subordinated debt	68	146	194
Total interest expense	11,546	6,336	8,138
Net interest income	19,361	7,150	7,364
Provision for loan losses	10,397	11,778	611
Net interest income (loss) after provision for loan losses	8,964	(4,628)	6,753
Non-interest income:			
Service fees	643	458	637
Mortgage warehouse transaction fees	2,631	70	—
Bank owned life insurance	228	229	218
Gains (losses) on sales of investment securities	1,114	236	(361)
Impairment charges on investment securities	—	(15)	(940)
Bargain purchase gain on bank acquisitions	40,254	—	—
Other	800	96	96
Total non-interest income (loss)	45,670	1,074	(350)
Non-interest expense:			
Salaries and employee benefits	14,031	4,267	3,651
Occupancy	1,897	1,261	1,280
Technology, communication and bank operations	2,431	1,000	901
Advertising and promotion	1,007	191	231
Professional services	2,833	510	365
FDIC assessments, taxes, and regulatory fees	1,613	892	445
Impairment and losses on other real estate owned	702	381	100
Loan workout and other real estate owned	682	531	152
Other	972	648	529
Total non-interest expense	26,168	9,681	7,654
Income (loss) before taxes	28,466	(13,235)	(1,251)
Income taxes (benefit)	4,731	—	(426)
Net income (loss)	\$ 23,735	\$ (13,235)	\$ (825)
Basic income (loss) per share	\$ 1.26	\$ (3.66)	\$ (0.41)
Diluted income (loss) per share	\$ 1.23	\$ (3.66)	\$ (0.41)

See accompanying notes to financial statements.

Customers F-3

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CUSTOMERS BANK  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For Years Ended December 31, 2010, 2009, and 2008

	Preferred stock	Number of common stock shares	Common stock	Additional Paid in Capital	Retained Earnings (Accumulated deficit)	Accumulated other comprehensive loss	Total
(dollar amounts in thousands, except share amounts)							
Balance, December 31, 2007	\$—	2,021,078	\$2,021	\$14,123	\$ 835	\$ (149 )	\$16,830
Comprehensive loss:							
Net loss					(825 )		(825 )
Change in net unrealized losses on securities available for sale, net of taxes						(106 )	(106 )
Total comprehensive loss							(931 )
Preferred Stock Series A issued	980			(30 )			950
Balance, December 31, 2008	980	2,021,078	2,021	14,093	10	(255 )	16,849
Comprehensive loss:							
Net loss					(13,235 )		(13,235 )
Change in net unrealized losses on securities available for sale, net of taxes						222	222
Total comprehensive loss							(13,013 )
Dividends paid on preferred stock Series A					(4 )		(4 )
Preferred stock Series A exchanged for common stock	(980 )	178,164	178	802			—



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Subordinated debt converted to common stock		213,219	213	787			1,000
Common stock shares issued		3,110,245	3,110	13,561			16,671
Balance, December 31, 2009	—	5,522,706	5,522	29,243	(13,229 )	(33 )	21,503
Comprehensive income:							
Net income					23,735		23,735
Change in net unrealized losses on investment securities available for sale, net of taxes						(1,863 )	(1,863 )
Total comprehensive income							21,872
Stock-based compensation expense				2,041			2,041
Common stock issued, net of costs		18,971,335	18,972	40,052			59,024
Shares issued under the management stock purchase plan		700,000	700				700
Balance, December 31, 2010	\$—	25,194,041	\$25,194	\$71,336	\$ 10,506	\$ (1,896 )	\$105,140

See accompanying notes to financial statements.

Customers F-4

CUSTOMERS BANK  
STATEMENTS OF CASH FLOWS

For Years Ended December 31,	2010	2009	2008
Cash Flows From Operating Activities	(dollars in thousands)		
Net income (loss)	\$ 23,735	\$ (13,235)	\$ (825)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Provision for loan losses	10,397	11,778	611
Provision for depreciation and amortization	840	726	846
Stock based compensation	2,041	—	—
Bargain purchase gain on bank acquisitions	(40,254)	—	—
Deferred income tax expense (benefit)	1,817	(394)	(17)
Net amortization of investment securities premiums and discounts	(133)	184	1
(Gain) loss on sale of investment securities	(1,114)	(236)	361
Gain on sale of loans	(98)	—	—
Origination of loans held for sale	(199,970)	—	—
Impairment charges on investment securities	—	15	940
Increase in FDIC loss sharing receivable	(520)	—	—
Accretion of fair value discounts	(417)	—	—
Loss on sales of other real estate owned	67	31	—
Impairment charges on other real estate owned	635	350	100
Earnings on investment in bank owned life insurance	(228)	(229)	(204)
Decrease (increase) in accrued interest receivable and other assets	(11,417)	(1,868)	(853)
Increase (decrease) in accrued interest payable and other liabilities	(6,927)	450	427
Net Cash (Used in) Provided by Operating Activities	(221,546)	(2,428)	1,387
Cash Flows from Investing Activities			
Purchases of investment securities available for sale	(303,681)	(34,489)	(5,910)
Proceeds from maturities, calls and principal repayments on investment securities available for sale	8,175	8,425	8,887
Proceeds from sales of investment securities available for sale	154,287	11,816	4,267
Sales of investment securities held to maturity	—	2,263	—
Proceeds from maturities and principal repayments on investment securities held to maturity	—	39	243
Net increase in loans	(175,183)	(14,507)	(11,264)
Purchase of loan portfolio	(94,632)	—	—
Proceeds on a sale of an SBA loan	1,465	—	—
Purchase of life insurance	(20,466)	—	—
Purchase of restricted stock	(2,143)	—	—
Proceeds and acquired cash in FDIC assisted transactions	72,931	—	—
Reimbursements from the FDIC on loss sharing agreements	11,115	—	—
Purchases of bank premises and equipment	(3,287)	(430)	(545)
Proceeds from sales of other real estate owned	2,633	3,071	—
Net Cash Used in Investing Activities	(348,786)	(23,812)	(4,432)
Cash Flows from Financing Activities			
Net increase in deposits	680,525	76,085	17,497
Net decrease in short—term borrowed funds	—	(4,000)	(11,900)

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Proceeds from long—term borrowed funds	—	—	1,000
Repayment of long—term borrowed funds	—	—	(5,000)
Proceeds from issuance of common stock	59,724	16,671	—
Proceeds from issuance of preferred stock	—	—	950
Dividends on preferred stock	—	(4)	—
Net Cash Provided by Financing Activities	740,249	88,752	2,547
Net Increase in Cash and Cash Equivalents	169,917	62,512	(388)
Cash and Cash Equivalents — Beginning	68,807	6,295	6,683
Cash and Cash Equivalents — Ending	\$ 238,724	\$ 68,807	\$ 6,295

See accompanying notes to financial statements.

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CUSTOMERS BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Dollars, in thousands except for per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Customers Bank (the Bank) serves residences and businesses in eastern Pennsylvania. In 2010, Customers Bank acquired two banks, USA Bank and ISN Bank (the Acquired Banks), in FDIC assisted transactions that expanded its footprint into central New Jersey and southeast New York. Customers Bank has 11 branches and provides commercial banking products, primarily loans and deposits. Customers Bank also provides liquidity to mortgage market originators nationwide through its mortgage warehouse division. Customers Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Reserve Bank and is periodically examined by those regulatory authorities. New Century Bank changed its name to Customers Bank in 2010.

Basis of Presentation

The accounting policies and reporting policies of the Bank are in conformity with accounting principles generally accepted in the United States of America and predominant practices of the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported balances of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of restricted stock, the valuation of deferred tax assets, determination of other-than-temporary impairment losses on securities, and the fair value of financial instruments.

Customers Bank evaluated its December 31, 2010 financial statements for subsequent events through the date the financial statements were issued. Customers Bank is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as disclosed within the notes to the financial statements.

Business Combinations

At the date of acquisitions the Bank records the assets acquired and liabilities assumed on the balance sheet at their estimated fair value, and goodwill or a bargain purchase gain is recognized based upon the purchase price and the estimated fair values. The results of operations for the acquired companies are included in the Bank's statement of operations beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the statement of operations during the period incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks with a maturity date of three months or less, and federal funds sold.

Supplementary Cash Flows Information

Interest paid	\$ 10,241	\$ 5,030	\$ 8,248
Income taxes paid (refunds received)	\$	—\$ (165)	\$ 152

### Supplemental Schedule of Noncash Investing and Financing Activities

Other real estate acquired in settlement of loans	\$ 4,786	\$ 3,088	\$ 1,619
Exchange of preferred shares to common stock	\$ —	\$ 980	\$ —
Conversion of subordinated term note to common stock	\$ —	\$ 1,000	\$ —

### Restrictions on Cash and Amounts due from Banks

Customers Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2010 and 2009, these reserve balances amounted to \$3 and \$25, respectively.

### Investment Securities

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

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(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities (continued)

Investment securities classified as held to maturity are those debt securities Customers Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities. As of December 31, 2010 and 2009, Customers Bank did not have any investment securities designated as held to maturity.

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether Customers Bank intends to sell the security, and (b) whether it is more likely than not that Customers Bank will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but Customers Bank does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

Loans Held for Sale

Loans originated with the intent to sell in the secondary market are carried at the lower of cost or fair value, determined in the aggregate. These loans are sold on a non-recourse basis with servicing released. Gains and losses on the sale of loans recognized in earnings are measured based on the difference between proceeds received and the carrying amount of the loans, inclusive of deferred origination fees and costs, if any.

As a result of changes in events and circumstances or developments regarding management's view of the foreseeable future, loans not originated or acquired with the intent to sell may subsequently be designated as held for sale. These loans are transferred to the held for sale portfolio at the lower of amortized cost or fair value.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. Customers Bank is generally amortizing these amounts over the contractual life of the loans. Loans acquired in

a FDIC-assisted acquisition, that are subject to a loss share agreement, are referred to as “covered loans” and are reported separately in the balance sheet.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans is applied against principal until all principal has been repaid. Thereafter, interest payments are recognized as income until all unpaid interest has been received. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a minimum of six months and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Transfers of financial assets, including loan participations sold, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Customers Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Customers Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable (continued)

On August 6, 2010, the Bank purchased a \$105.8 million manufactured housing loan portfolio from Tammac Holding Corporation for a purchase price of \$105.8 million, where \$94.6 million was funded on the purchase date and the remainder was held back under the provisions of the agreement and recorded in non-interest bearing deposit accounts. The Agreement of Sale of Loans (the Agreement) includes a hold-back for 10% of the purchase price for the fulfillment of the provisions of the Agreement, including the payment of past due amounts for principal and interest of the purchased loans during the hold-back period and servicing and indemnification obligations, should these events occur through the repayment of the loan portfolio. The loans purchased were originated on or before 2008 and are current with their payments as of August 6, 2010; accordingly, no loans were identified with credit deterioration on the purchase date.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Customers Bank disaggregates its loan portfolio into segments for purposes of determining the allowance for loan losses (ALLL). Customers Bank's portfolio segments include commercial and industrial, commercial real estate, construction, residential real estate, mortgage warehouse, manufactured housing and consumer. The Bank further disaggregates its residential real estate portfolio segment into two classes based upon certain risk characteristics; first mortgages and home equity. The remaining portfolio segments are also considered classes for purposes of monitoring and assessing credit quality based on certain risk characteristics.

Customers Bank's current methodology for determining the ALLL is based on historical loss rates, risk ratings, specific allocation on loans identified as impaired above specified thresholds and other qualitative adjustments. In addition, the allowance for loan losses is dependent upon the identification of problem loans in a timely manner. The ALLL allocation on individual commercial, commercial and industrial and construction loans (specific reserves) and the historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience (general reserves). An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when evaluating allowances for individual loans or pools of loans.

Delinquency monitoring is used to identify credit risks and the general reserves are established based on the expected net charge-offs, adjusted for qualitative factors. Loss rates are based on the average net charge-off history by portfolio segment. Historical loss rates may be adjusted for significant factors that, in management's judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and trends in nonaccrual loans; changes in loan mix; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices and the Bank's credit examiners.



### Credit Quality Factors

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

The Bank assigns a special mention rating to loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bank's credit position.

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(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

The Bank assigns a substandard rating to loans that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans in this grade also are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.

The Bank assigns a doubtful rating to loans and leases that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

Loans classified as loss are considered uncollectible and are charged off in the period in which they are determined uncollectible. Because loans and leases in this category are fully charged down, they are not included in the following tables.

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

Impaired loans

A loan is considered impaired when, based on current information and events, it is probable that Customers Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Fair value is measured based on the value of the collateral securing the loans, less cost to sell. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not

considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. The covered loans are and will continue to be subject to the Bank's internal and external credit review and monitoring that is applied to the non-covered loan portfolio. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a provision for loan losses will be charged to earnings. These provisions will be offset by an increase to the FDIC loss sharing receivable for the estimated portion anticipated to be received from the FDIC, and is recognized in non-interest income.

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(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable Covered Under Loss Sharing Agreements

Loans acquired in the two FDIC assisted transactions are recorded at fair value at the acquisition date and are subject to loss sharing agreements with the FDIC. In the acquisitions of the Acquired Banks, the fair value was determined based on expected future cash flows and the fair value of the collateral. Factors considered in determining the fair value (Level 3) of the acquired loans include projected cash flows, type of loan and related collateral, classification status, contractual interest rate, term of loan, amortization status, current market conditions and discount rates. Loans were evaluated individually when applying valuation techniques for the majority of the loans of the Acquired Banks. The present values of projected cash flows are measured using discount rates that are based on current market rates for new originations of comparable loans. The discount rates do not include adjustments for credit losses that are included in the estimated cash flows.

Acquired loans that were not individually reviewed but had characteristics of credit deterioration are aggregated into pools, based on individually evaluated common risk characteristics, and aggregate expected cash flows were estimated for each pool. Loans acquired from USA Bank were individually reviewed. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Bank aggregated three pools of acquired loans in the ISN Bank acquisition totaling \$6,211 at the acquisition date that were determined to have credit deterioration characteristics primarily based on non-accrual or significant delinquency status. A loan will be removed from a pool of loans only if the loan is sold, foreclosed, assets are received in satisfaction of the loan, or the loan is written off, and will be removed from the pool at the carrying value. If an individual loan is removed from a pool of loans, the difference between its relative carrying amount and the cash, fair value of the collateral, or other assets received will be recognized in income immediately and would not affect the effective yield used to recognize the accretable difference on the remaining pool.

The fair value of loans with evidence of credit deterioration are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included in the carrying amount of acquired loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on accretion of interest income in future periods. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of those cash flows.

Restricted Stock

Restricted stock, included in other assets, represents required investment in the capital stock of the Federal Home Loan Bank and Atlantic Central Bankers Bank and is carried at cost as of December 31, 2010 and 2009. In December 2009, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time

this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB. Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2010 and 2009.

#### Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis. Certain other real estate owned (OREO) that was acquired from the Acquired Banks or through the foreclosure of loans of the Acquired Banks is subject to Loss Sharing Agreements with the FDIC.

After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of its carrying amount or fair value less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in the statement of operations.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FDIC Loss Sharing Receivable

The FDIC loss sharing receivable is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss share agreements of the Acquired Banks. The difference between the present value and the undiscounted cash flows the Bank expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC loss sharing receivable.

The FDIC loss sharing receivable is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC loss sharing receivable and any decreases in cash flow of the covered assets under those expected will increase the FDIC loss sharing receivable. Increases to the FDIC loss sharing receivable are recorded immediately as adjustments to non-interest income and decreases to the FDIC loss sharing receivable are recognized over the life of the loss share agreements.

Bank Owned Life Insurance

The Bank owned life insurance policies insure the lives of officers of the Bank, and name the Bank as beneficiary. Non-interest income is generated tax-free (subject to certain limitations) from the increase in the policies' underlying investments made by the insurance company. The Bank is capitalizing on the ability to partially offset costs associated with employee compensation and benefit programs with the bank owned life insurance.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Income Taxes

Customers Bank accounts for income taxes under the liability method of accounting for income taxes. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Customers Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

A tax position is recognized if it is more likely than not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information

available at the reporting date and is subject to management's judgment.

#### Stock Based Compensation

Customers Bank has two active stock-based compensation plans. Stock based compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of Customers Bank's common stock at the date of grant is used for restricted stock awards.

#### Comprehensive Income

Comprehensive income(loss) consists of net income(loss) and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on debt securities.

#### Earnings per Share

Basic earnings per share represents net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance.

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(dollars in thousands, except per share data)

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Segment Information

Customers Bank has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing the interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Bank as one segment or unit.

##### Reclassifications

Certain amounts reported in the 2009 and 2008 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications did not impact Customers Bank’s financial position or results of operations.

##### Change in Accounting Estimates

In 2009, Customers Bank refined the methodology for calculating the allowance for loan losses. FASB ASC 310-10-35, Receivables and ASC 450, Contingencies, considers two sections for estimating the allowance for loan losses. The first section is identifying individual problem assets and determining the current fair value using current appraisals, comparative asset values, discounted non-current appraisals, condition of the asset, and other relevant factors. The second section for estimating the allowance is for performing loans. Customers Bank considers eight years of historical trends by risk ratings by loan category, charge-offs by loan category, and delinquencies by loan category. Customers Bank includes additional allowance amounts by loan category based on one year trends in local, regional, and national qualitative factors such as: unemployment, real estate sales, and concentrations of credit, portfolio factors, and availability of current customer financial information. The impact of this change in methodology was to increase the allowance for loan losses by approximately \$800 in 2009 from the amount that would have been reported under the previous methodology. This change in accounting estimate was applied prospectively. The remaining \$11,000 of the provision for loan losses was due to specific reserves required on collateral deficient loans and loan charge-offs as a result of events arising in the year ended December 31, 2009.

##### New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (the FASB) issued accounting guidance changing the accounting principles and disclosure requirements related to securitizations and special-purpose entities. This guidance eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance also expands existing disclosure requirements to include more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The Bank applied this guidance on January 1, 2010 and application did not have a material impact on the Bank’s financial statements.



In January 2010, the FASB issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Bank applied this guidance in the first quarter of 2010 and application did not have a material impact on the Bank's financial statements.

In July 2010, the FASB issued accounting guidance to provide financial statement users with greater transparency of an entity's allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio's risk and performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010 with the exception of the troubled debt restructuring disclosures which are anticipated to be effective for interim and annual reporting periods ending after June 15, 2011. The application of this guidance did not have a material impact on the Bank's financial statements and see Note 5 for the expanded disclosures required by this guidance.

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, providing additional guidance to creditors for evaluating troubled debt restructurings. The amendments clarify the guidance in ASC 310-40, Receivables: Troubled Debt Restructurings by Creditors, which requires a creditor to classify a restructuring as a troubled debt restructuring (TDR) if (1) the restructuring includes a concession by the creditor to the borrower and (2) the borrower is experiencing financial difficulties. The amended guidance requires a creditor to consider all aspects of the restructuring to determine whether it has granted a concession. It further clarifies that a creditor must consider the probability that a debtor could default in the foreseeable future when determining whether the debtor is facing financial difficulty, even though the debtor may not be in default at the date of restructuring. This new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and requires a company to retrospectively evaluate all restructurings occurring on or after the beginning of the fiscal year of adoption to determine if the restructuring is a TDR. Management is currently evaluating the impact of this new accounting guidance.

(dollars in thousands, except per share data)

## NOTE 2 – ACQUISITION ACTIVITY

### Berkshire Bancorp, Inc. Acquisition

On August 24, 2010, Customers Bank entered into a definitive agreement to acquire Berkshire Bancorp, Inc. and its subsidiary Berkshire Bank (collectively, Berkshire) upon the formation of its Holding Company. Berkshire is a \$150,000 bank holding company located in Berks County, Pennsylvania with five branch offices. Customers Bank will issue shares of its common stock valued at its tangible book value at the month-end prior to closing for Berkshire and Customers Bank. In addition, the Bank will provide Berkshire approximately \$3,000 to repurchase the preferred shares held by the U.S. Department of the Treasury under the Troubled Asset Relief Program Capital Purchase Program. The merger is expected to close in the second quarter of 2011 and will require both regulatory and Berkshire's and the Bank's shareholder approval.

### FDIC Assisted Acquisitions

On July 9, 2010, Customers Bank acquired certain assets and assumed certain liabilities of USA Bank from the Federal Deposit Insurance Corporation (FDIC) in an FDIC-assisted transaction (the USA Bank acquisition). USA Bank was headquartered in Port Chester, New York and operated one branch. On September 17, 2010, Customers Bank acquired certain assets and assumed certain liabilities of ISN Bank, from the FDIC in an FDIC-assisted transaction (the ISN Bank acquisition). ISN Bank was headquartered in Cherry Hill, New Jersey and operated one branch. The acquisitions were accounted for under the acquisition method of accounting in accordance with ASC Topic 805 Business Combinations. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values.

As part of the Purchase and Assumption Agreement entered into by Customers Bank with the FDIC (the Agreement) in connection with the USA Bank and ISN Bank acquisitions, Customers Bank entered into loss sharing agreements, in accordance with which the FDIC will cover a substantial portion of any future losses on the acquired loans. Excluding certain consumer loans, the loans and other real estate owned acquired are covered by a loss share agreement between Customers Bank and the FDIC which affords Customers Bank protection against future losses. Under the Agreement, the FDIC will cover 80% of losses on the disposition of the loans and OREO covered under the Agreements (collectively, the Covered Assets). The term for loss sharing and Customers Bank reimbursement to the FDIC is five years for non-single family loans and ten years for single family loans. The reimbursable losses from the FDIC are based on the book value of the relevant loans as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the provisions of the loss share agreement. Customers Bank has recorded an aggregate receivable from the FDIC of \$28,337 for the USA Bank and ISN Bank acquisitions which represents the estimated fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to Customers Bank.

The Agreement with the FDIC for each acquisition provided Customers Bank with an option to purchase at appraised value the premises, furniture, fixtures, and equipment of each bank and assume the leases associated with these offices. Customers Bank exercised the option to purchase the assets of USA Bank during the third quarter. Customers Bank did not exercise the option to purchase the assets of ISN Bank and has received approval from the FDIC to move the deposit relationships to its Hamilton, New Jersey branch on January 18, 2011.

The acquired assets and liabilities, as well as the adjustments to record the assets and liabilities at fair value, are presented in the following table. Cash received from the FDIC is included in the fair value adjustments to arrive at the

total assets acquired. Because the consideration paid to the FDIC was less than the net fair value of the acquired assets and liabilities, the Bank recorded a bargain purchase gain as part of the acquisitions.

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(dollars in thousands, except per share data)

NOTE 2 – ACQUISITION ACTIVITY (continued)

A summary of the net assets acquired and the estimated fair value adjustments for USA Bank as of July 9, 2010 and ISN Bank as of September 17, 2010 resulting in a bargain purchase gain as follows:

Cost basis of assets acquired in excess of liabilities assumed	\$ 20,586
Cash payments received from the FDIC	31,519
Net assets acquired before fair value adjustments	52,105
Fair value adjustments:	
Loans receivable	(35,733)
FDIC loss share receivable	28,337
Other real estate owned	(4,261)
Bank premises and equipment and reposed assets	(194)
Total fair value adjustments	(11,851)
Pre-tax gain on the acquisition	40,254
Income taxes	(13,109)
Gain on the acquisition of the Acquired Banks, net of taxes	\$ 27,145

The net after-tax gain represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed, and is influenced significantly by the FDIC-assisted transaction process. As indicated in the preceding table, net assets of \$20,586 (i.e., the cost basis) were transferred to Customers Bank in the USA Bank and ISN Bank acquisitions and the FDIC made cash payments to the Bank totaling \$31,519.

In many cases, the determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. These fair value estimates are considered preliminary, and are subject to change as additional information relative to closing date fair values becomes available.

The following table sets forth the assets acquired and liabilities assumed, at the estimated fair value, in the USA Bank and ISN Bank acquisitions:

	USA Bank July 9, 2010	ISN Bank September 17, 2010
Assets Acquired		
Cash and cash equivalents, including federal funds sold	\$ 54,140	\$ 18,791
Investment securities	15,330	6,181
Loans receivable – covered under FDIC loss sharing	123,312	51,348
Loans receivable – not covered under FDIC loss sharing	1,414	26
Total loans receivable	124,726	51,374
Other real estate owned	3,406	1,234
FDIC loss sharing receivable	22,728	5,609

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Other assets	785	713
Total assets acquired	221,115	83,902
Liabilities Assumed		
Deposits		
Non-interest bearing	7,584	972
Interest bearing	171,764	70,919
Total deposits	179,348	71,891
Deferred income tax liability	9,390	3,719
Other liabilities	13,370	154
	p	
Total liabilities assumed	202,108	75,764
Net Assets Acquired	\$ 19,007	\$ 8,138

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(dollars in thousands, except per share data)

### NOTE 3 – EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if (i) options to issue common stock were exercised and (ii) warrants to issue common stock were exercised. Potential common shares that may be issued related to outstanding stock options and warrants are determined using the treasury stock method.

The following are the components of Customers Bank's earnings (loss) per share for the periods presented:

	December 31,		
	2010	2009	2008
Net income (loss) allocated to common shareholders	\$ 23,735	\$ (13,235)	\$ (825)
Weighted average number of common shares outstanding - basic	18,909,014	3,618,002	2,021,078
Stock-based compensation plans	293,680	—	—
Warrants	144,346	—	—
Weighted average number of common shares - diluted	19,347,040	3,618,002	2,021,078
Basic earnings (loss) per share	\$ 1.26	\$ (3.66)	\$ (0.41)
Diluted earnings (loss) per share	\$ 1.23	\$ (3.66)	\$ (0.41)

Stock options outstanding for 28,850 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 and warrants for 33,591 shares of common stock with an exercise price of \$5.50 for the year ended December 31, 2010 were not dilutive because the exercise price was greater than the average market price. Stock options outstanding for 44,810 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 and warrants for 716,921 shares of common stock with an exercise price of \$5.50 for the year ended December 31, 2009 were not dilutive due to losses in 2009. Stock options outstanding for 44,810 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 were not dilutive due to losses in 2008.

### NOTE 4 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of available for sale investment securities as of December 31, 2010 and 2009 are summarized as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. Treasury and government agencies	\$ 1,711	\$ —	\$ (30)	\$ 1,681
Mortgage-backed securities	204,182	561	(3,169)	201,574
Asset-backed securities	719	3	—	722

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Municipal securities	2,088	—	(237)	1,851
	\$ 208,700	\$ 564	\$ (3,436)	\$ 205,828

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(dollars in thousands, except per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				