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

Form 10-Q

☒ **Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2013

☐ **Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____.

333-166225
(Commission File number)

The logo for Customers Bancorp, Inc. features the word "Customers" in blue, followed by a red circular icon containing a white American flag, and then the word "Bancorp, Inc." in blue.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

27-2290659
(IRS Employer
Identification No.)

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

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer☐

Accelerated filer☒

Non-accelerated filer☐ (Do not check if a smaller reporting company)

Smaller Reporting Company☐

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

On November 5, 2013, 23,674,168 shares of Voting Common Stock and 1,019,755 shares of Class B Non-Voting Common Stock were issued and outstanding.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET — UNAUDITED

(dollars in thousands, except share data)

| | September 30, | December 31, |
|---|---------------------|---------------------|
| | 2013 | 2012 |
| ASSETS | | |
| Cash and due from banks | \$ 88,332 | \$ 12,908 |
| Interest earning deposits | 167,321 | 173,108 |
| Cash and cash equivalents | 255,653 | 186,016 |
| Investment securities available for sale, at fair value | 497,566 | 129,093 |
| Loans held for sale (including \$840,425 and \$1,248,935 of mortgage warehouse loans at fair value at September 30, 2013 and December 31, 2012, respectively) | 917,939 | 1,439,889 |
| Loans receivable not covered under Loss Sharing Agreements with the FDIC | 2,018,532 | 1,216,941 |
| Loans receivable covered under Loss Sharing Agreements with the FDIC | 81,255 | 107,526 |
| Less: Allowance for loan losses | (26,800) | (25,837) |
| Total loans receivable, net (excluding loans held for sale) | 2,072,987 | 1,298,630 |
| FHLB, Federal Reserve Bank, and other stock | 19,113 | 30,163 |
| FDIC loss sharing receivable | 11,038 | 12,343 |
| Bank premises and equipment, net | 11,055 | 9,672 |
| Bank-owned life insurance | 85,991 | 56,191 |
| Other real estate owned (2013 \$7,839; 2012 \$4,109 covered under Loss Sharing Agreements with the FDIC) | 13,601 | 8,114 |
| Goodwill and other intangibles | 3,680 | 3,689 |
| Accrued interest receivable and other assets | 36,489 | 27,434 |
| Total assets | \$ 3,925,112 | \$ 3,201,234 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Demand, non-interest bearing | \$ 671,211 | \$ 219,687 |
| Interest bearing | 2,572,101 | 2,221,131 |
| Total deposits | 3,243,312 | 2,440,818 |
| Federal funds purchased | 0 | 5,000 |
| Other borrowings | 235,250 | 471,000 |
| Subordinated debt | 2,000 | 2,000 |
| Accrued interest payable and other liabilities | 55,665 | 12,941 |
| Total liabilities | 3,536,227 | 2,931,759 |
| Shareholders' equity: | | |
| Preferred stock, no par value or as set by the board; 100,000,000 shares authorized; none issued | 0 | 0 |
| Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 24,741,542 shares issued and 24,693,923 outstanding at September 30, 2013 and 18,507,121 shares issued and 18,459,502 outstanding at December 31, 2012 | 24,742 | 18,507 |
| Additional paid in capital | 306,183 | 212,090 |
| Retained earnings | 61,997 | 38,314 |
| Accumulated other comprehensive (loss) income | (3,537) | 1,064 |
| Less: cost of treasury stock; 47,619 shares at September 30, 2013 and December 31, 2012 | (500) | (500) |
| Total shareholders' equity | 388,885 | 269,475 |
| Total liabilities and shareholders' equity | \$ 3,925,112 | \$ 3,201,234 |

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME — UNAUDITED

(dollars in thousands, except share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest income: | | | | |
| Loans held for sale | \$ 9,495 | \$ 1,622 | \$31,536 | \$ 4,113 |
| Loans receivable, taxable, including fees | 22,363 | 25,368 | 57,489 | 55,850 |
| Loans receivable, non-taxable, including fees | 122 | 55 | 291 | 110 |
| Investment securities, taxable | 1,423 | 805 | 3,334 | 5,936 |
| Investment securities, non-taxable | 0 | 21 | 0 | 64 |
| Other | 148 | 91 | 370 | 225 |
| Total interest income | <u>33,551</u> | <u>27,962</u> | <u>93,020</u> | <u>66,298</u> |
| Interest expense: | | | | |
| Deposits | 5,470 | 5,191 | 15,742 | 15,687 |
| Federal funds purchased | 20 | 5 | 99 | 8 |
| Borrowed funds | 1,041 | 194 | 1,609 | 434 |
| Subordinated debt | 16 | 17 | 49 | 52 |
| Total interest expense | <u>6,547</u> | <u>5,407</u> | <u>17,499</u> | <u>16,181</u> |
| Net interest income | <u>27,004</u> | <u>22,555</u> | <u>75,521</u> | <u>50,117</u> |
| Provision for loan losses | <u>750</u> | <u>10,116</u> | <u>6,470</u> | <u>14,654</u> |
| Net interest income after provision for loan losses | <u>26,254</u> | <u>12,439</u> | <u>69,051</u> | <u>35,463</u> |
| Non-interest income | | | | |
| Mortgage warehouse transactional fees | 3,090 | 3,346 | 10,626 | 8,829 |
| Bank-owned life insurance | 615 | 359 | 1,658 | 948 |
| Deposit fees | 198 | 124 | 487 | 357 |
| Gain on sale of investment securities | 0 | 0 | 0 | 9,006 |
| Accretion of FDIC loss sharing receivable | 0 | 1,296 | 3,722 | 1,951 |
| Gain (loss) on sale of loans | (6) | (71) | 402 | 268 |
| Other | 958 | 4,723 | 2,253 | 5,388 |
| Total non-interest income | <u>4,855</u> | <u>9,777</u> | <u>19,148</u> | <u>26,747</u> |
| Non-interest expense | | | | |
| Salaries and employee benefits | 8,963 | 5,978 | 24,868 | 17,073 |
| Occupancy | 2,289 | 1,709 | 6,309 | 4,937 |
| Professional services | 1,191 | 819 | 3,149 | 2,474 |
| Technology, communications and bank operations | 1,121 | 699 | 3,023 | 2,037 |
| FDIC assessments, taxes, and regulatory fees | 1,105 | 669 | 3,510 | 2,205 |
| Loan workout | 928 | 617 | 1,674 | 1,519 |
| Advertising and promotion | 450 | 270 | 973 | 846 |
| Other real estate owned | 401 | (276) | 962 | 539 |
| Loss contingency | 0 | 0 | 2,000 | 0 |
| Stock-offering expenses | 0 | 97 | 0 | 1,437 |
| Other | 1,899 | 1,424 | 5,254 | 4,140 |
| Total non-interest expense | <u>18,347</u> | <u>12,006</u> | <u>51,722</u> | <u>37,207</u> |
| Income before income tax expense | <u>12,762</u> | <u>10,210</u> | <u>36,477</u> | <u>25,003</u> |
| Income tax expense | <u>4,494</u> | <u>3,574</u> | <u>12,794</u> | <u>8,751</u> |
| Net income | <u>\$ 8,268</u> | <u>\$ 6,636</u> | <u>\$23,683</u> | <u>\$16,252</u> |
| Basic earnings per share | \$ 0.34 | \$ 0.53 | \$ 1.10 | \$ 1.39 |
| Diluted earnings per share | 0.33 | 0.51 | 1.07 | 1.35 |

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — UNAUDITED

(dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$ 8,268 | \$ 6,636 | \$23,683 | \$16,252 |
| Other comprehensive income (loss): | | | | |
| Unrealized holding gains (losses) on securities arising during the period | (10) | 1,597 | (7,079) | 2,226 |
| Income tax effect | 3 | (559) | 2,478 | (779) |
| Unrealized holding gain on securities transferred from the held-to-maturity category into the available-for-sale category | 0 | 0 | 0 | 8,509 |
| Income tax effect | 0 | 0 | 0 | (2,978) |
| Reclassification adjustment for gains included in net income | 0 | 0 | 0 | (9,006) |
| Income tax effect | 0 | 0 | 0 | 3,152 |
| Other comprehensive income (loss), net of tax | (7) | 1,038 | (4,601) | 1,124 |
| Comprehensive income | <u>\$ 8,261</u> | <u>\$ 7,674</u> | <u>\$19,082</u> | <u>\$17,376</u> |

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY — UNAUDITED

(dollars in thousands, except share data)

| For the Nine Months Ended September 30, 2013 and 2012 | | | | | | | |
|--|------------------------------|------------------|----------------------------------|----------------------|--|-------------------|-------------------|
| | Shares of Common Stock | Common Stock | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
| Balance, January 1, 2012 | 11,347,683 | \$ 11,395 | \$ 122,602 | \$ 14,496 | \$ (245) | \$ (500) | \$ 147,748 |
| Comprehensive income | | | | 16,252 | 1,124 | | 17,376 |
| Share-based-compensation expense | | | 1,616 | | | | 1,616 |
| Common stock issued, net of costs | 7,111,819 | 7,112 | 87,650 | | | | 94,762 |
| Balance, September 30, 2012 | <u>18,459,502</u> | <u>\$ 18,507</u> | <u>\$ 211,868</u> | <u>\$ 30,748</u> | <u>\$ 879</u> | <u>\$ (500)</u> | <u>\$ 261,502</u> |
| | Shares of Common Stock | Common Stock | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
| Balance, January 1, 2013 | 18,459,502 | \$ 18,507 | \$ 212,090 | \$ 38,314 | \$ 1,064 | \$ (500) | \$ 269,475 |
| Comprehensive income | | | | 23,683 | (4,601) | | 19,082 |
| Share-based-compensation expense | | | 2,461 | | | | 2,461 |
| Public offering of common stock, net of costs of \$5,994 | 6,179,104 | 6,179 | 91,328 | | | | 97,507 |
| Exercise and redemption of warrants | 31,904 | 32 | 76 | | | | 108 |
| Issuance of common stock under share-based-compensation arrangements | 23,413 | 24 | 228 | | | | 252 |
| Balance, September 30, 2013 | <u>24,693,923</u> | <u>\$ 24,742</u> | <u>\$ 306,183</u> | <u>\$ 61,997</u> | <u>\$ (3,537)</u> | <u>\$ (500)</u> | <u>\$ 388,885</u> |

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED

(dollars in thousands)

Nine Months Ended September 30,

| | 2013 | 2012 |
|--|--------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Net income | \$ 23,683 | \$ 16,252 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 6,470 | 14,654 |
| Loss contingency | 2,000 | 0 |
| Provision for depreciation and amortization | 2,115 | 1,447 |
| Stock-based compensation | 2,461 | 1,616 |
| Deferred taxes | (5) | (1,112) |
| Net amortization of investment securities premiums and discounts | 368 | 2,897 |
| Gain on sale of investment securities | 0 | (9,006) |
| Gain on sale of SBA loans | (402) | (268) |
| Origination/purchase of loans held for sale | (17,177,835) | (7,305,339) |
| Proceeds from the sale of loans held for sale | 17,697,088 | 6,292,453 |
| Net increase in FDIC loss sharing receivable | (5,054) | (4,537) |
| Amortization (accretion) of fair value discounts | (724) | (277) |
| Net loss on sales of other real estate owned | 254 | 985 |
| Impairment charges on other real estate owned | 161 | 468 |
| Change in investment in bank-owned life insurance | (1,658) | (1,035) |
| Increase in accrued interest receivable and other assets | (3,888) | (1,081) |
| Increase (decrease) in accrued interest payable and other liabilities | 42,976 | (2,190) |
| Net Cash Provided by (Used In) Operating Activities | 588,010 | (994,073) |
| Cash Flows from Investing Activities | | |
| Proceeds from maturities, calls and principal repayments of investment securities available for sale | 14,816 | 26,488 |
| Proceeds from sales of investment securities available for sale | 0 | 306,610 |
| Purchases of investment securities available for sale | (390,735) | (108,249) |
| Proceeds from maturities and principal repayments of investment securities held to maturity | 0 | 50,968 |
| Net (increase) decrease in loans | (638,992) | 302,275 |
| Purchase of loan portfolio | (155,306) | (63,246) |
| Proceeds from sales of SBA loans | 4,276 | 3,689 |
| Purchases of bank-owned life insurance | (27,965) | (10,000) |
| Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other stock | 11,050 | (763) |
| Reimbursements from the FDIC on loss sharing agreements | 6,134 | 5,308 |
| Purchases of bank premises and equipment | (2,740) | (2,343) |
| Proceeds from sales of other real estate owned | 4,582 | 7,383 |
| Net Cash (Used In) Provided by Investing Activities | (1,174,880) | 518,120 |
| Cash Flows from Financing Activities | | |
| Net increase in deposits | 802,556 | 765,131 |
| Net decrease in short-term borrowed funds | (339,000) | (300,000) |
| Proceeds from FHLB borrowings | 35,000 | 0 |
| Exercise and redemption of warrants | 108 | 0 |
| Proceeds from issuance of long-term debt, net of deferred costs of \$2,914 at September 30, 2013 | 60,336 | 0 |
| Net proceeds from stock offering | 97,507 | 94,762 |
| Net Cash Provided by Financing Activities | 656,507 | 559,893 |
| Net Increase in Cash and Cash Equivalents | 69,637 | 83,940 |
| Cash and Cash Equivalents - Beginning | 186,016 | 73,570 |
| Cash and Cash Equivalents - Ending | \$ 255,653 | \$ 157,510 |
| Supplementary Cash Flows Information | | |
| Interest paid | \$ 17,268 | \$ 16,257 |
| Income taxes paid | 7,743 | 12,625 |
| Non-cash items: | | |
| Transfer of loans to other real estate owned | \$ 10,259 | \$ 8,293 |
| Transfer of held to maturity investments to available for sale | 0 | 268,671 |

See accompanying notes to the unaudited consolidated financial statements.

CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary Customers Bank (the “Bank”). In the third quarter of 2013, Customers Bancorp also has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Bancorp believes that the disclosures made are adequate to make the information not misleading. The Bancorp’s unaudited consolidated interim financial statements reflect all adjustments that are, in the opinion of management, necessary for fair statement of the results of interim periods presented. Certain amounts reported in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications did not significantly impact the Bancorp’s financial position or results of operations.

The accounting policies of Customers Bancorp, Inc. and Subsidiaries, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as disclosed on pages 85 through 93 of Customers’ Annual Report on Form 10-K for the fiscal year ended December 31, 2012. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the latest Form 10-K.

Operating results for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The Bancorp evaluated its September 30, 2013 consolidated financial statements for subsequent events through the date the financial statements were issued. The Bancorp is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 — ACQUISITION ACTIVITY

CMS Bancorp Acquisition

Effective April 22, 2013, the Bancorp entered into an Amendment to the Agreement and Plan of Merger (“Amendment”) to that certain Agreement and Plan of Merger, dated as of August 10, 2012 (“Merger Agreement”), by and between the Bancorp and CMS Bancorp, Inc. (“CMS”).

The Amendment extended from April 30, 2013 to December 31, 2013 the initial date at which, if the merger of CMS with and into the Bancorp pursuant to the Merger Agreement, as amended, has not closed, either the Bancorp or CMS may terminate the Agreement, subject to the termination date being extended until March 31, 2014 under certain specified circumstances.

The Amendment also updated the definitions of “CMS Valuation” and “Customers Valuation,” establishing the valuation date for book value as of March 31, 2013. The exchange ratio will remain fixed until settlement, using the multiples of 0.95x for CMS common equity, and 1.25x for Customers common equity for purposes of calculating the exchange ratio.

Other key terms agreed to by the Bancorp and CMS under the Amendment provided for:

- CMS’s ability to have terminated the Merger Agreement, as amended, exercisable at any time after May 20, 2013, if either (i) the Bancorp had not made an investment in CMS of \$1.5 million of CMS Preferred Stock, or (ii) the Bancorp and CMS had not agreed upon the terms of a \$2.0 million senior secured lending facility that the Bancorp will have made available to CMS;
- the Bancorp’s payment of \$300,000 to CMS as partial reimbursement for merger-related expenses incurred as of March 31, 2013; and
- the Bancorp to pay to CMS a termination fee of \$1.0 million in the event the Merger Agreement, as amended, is terminated under certain provisions primarily relating to failure to consummate the Parent Merger due to non-receipt of required government approvals.

On May 22, 2013, the Bancorp purchased \$1.5 million (1,500 shares) of CMS Series A Noncumulative Perpetual Preferred Stock, satisfying the first obligation listed above. On April 23, 2013, the Bancorp paid to CMS \$300,000, satisfying the second obligation listed above. The third obligation has not been triggered at this time.

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Acacia Federal Savings Bank Acquisition

On April 4, 2013, Customers Bancorp, Inc., Acacia Life Insurance Company (“Acacia”) and Ameritas Life Insurance Corp. (together with Acacia, “Sellers”) announced their mutual decision, due to delays in the receipt of regulatory approvals, not to extend the term of that certain Stock Purchase Agreement, dated as of June 20, 2012, as amended by those certain Amendment to Stock Purchase Agreement, dated as of December 18, 2012, Amendment No. 2 to Stock Purchase Agreement dated as of January 30, 2013, and Amendment No. 3 to Stock Purchase Agreement dated as of February 28, 2013, by and among the Company and Sellers (the “Purchase Agreement”). Instead, on April 4, 2013, the parties entered into a Termination and Non-Renewal Agreement to terminate the Purchase Agreement and the transactions contemplated thereby (the “Termination Agreement”). Each party will bear its own costs and expenses in connection with the terminated transaction, without penalties. The parties mutually agreed that the termination was in each company’s best interest. Costs related to the acquisition have been expensed.

New England Commercial Lending Acquisition

On March 28, 2013, Customers Bank completed the purchase of certain commercial loans from Michigan-based Flagstar Bank. Under the terms of the agreement, Customers Bank acquired \$182.3 million in commercial loan commitments, of which \$155.1 million was drawn at the date of acquisition. Also, as part of the agreement, Customers Bank assumed the leases for two of Flagstar’s commercial lending offices in New England. The purchase price was 98.7% of loans outstanding.

NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES

Purchased Loans

The Bancorp believes that the varying circumstances under which it purchases loans and the diverse quality of loans purchased should drive the decision as to whether loans in a portfolio should be deemed to be purchased-credit-impaired loans (“PCI” loans). Therefore, loan acquisitions are and will be evaluated on a case-by-case basis to determine the appropriate accounting treatment. Loans acquired that do not have evidence of credit deterioration at the purchase date are and will be accounted for in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs*, and loans acquired with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are and will be accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*.

Loans that are purchased that do not have evidence of credit deterioration

Purchased performing loans are recorded at fair value and include credit and interest rate marks associated with acquisition accounting adjustments, as accounted for under the contractual cash flow method of accounting. The fair value adjustment is accreted as an adjustment to yield over the estimated contractual lives of the loans. There is no allowance for loan losses established at the acquisition date for the acquired performing loans. A provision for loan losses is recorded for any credit deterioration in these loans subsequent to acquisition.

Loans that are purchased that have evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected

For purchases of this type of loan, evidence of deteriorated credit quality may include past-due and non-accrual status, borrower credit scores and recent loan-to-value percentages.

The fair value of loans with evidence of credit deterioration is recorded net of a nonaccretable difference and accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is not included in the carrying amount of acquired loans. Subsequent to acquisition, estimates of cash flows expected to be collected are updated each reporting period based on updated assumptions regarding default rates, loss severities, and other factors that are reflective of current market conditions. Subsequent decreases 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, 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.

Purchased-credit-impaired loans acquired in the same fiscal quarter may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. On a quarterly basis, the Bank re-estimates the total cash flows (both principal and interest) expected to be collected over the remaining life of each pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions. If the timing and/or amounts of expected cash flows on purchased-credit-impaired loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as non-accrual loans; however, when the timing and amounts of expected cash flows for purchased-credit-impaired loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans.

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Recently Issued Accounting Standards

In January, 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, to clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with relevant accounting guidance or subject to an enforceable master netting arrangement or similar agreement. The guidance in this ASU was effective for the first interim or annual period beginning on or after January 1, 2013 (the same effective date for ASU 2011-11) and is to be applied retrospectively. See “**NOTE 15 — DISCLOSURES ABOUT OFFSETTING ASSETS AND LIABILITIES**” for the required disclosures.

In October, 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires an entity to subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. The amendments in this ASU were effective for the first interim periods or annual period beginning on or after December 15, 2012 and are to be applied prospectively. Adoption of this ASU has not had a significant impact on the Bancorp’s results of operations or financial position.

In February, 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (“AOCI”). The ASU requires entities to disclose additional information about reclassification adjustments, including (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements were effective for fiscal years and interim periods beginning after December 15, 2012 for public companies. See “**NOTE 4 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT**” for the required disclosures.

NOTE 4 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT (a)

| | Unrealized | | |
|--|---|------------------------|-----------|
| | Gains and Losses on Available-for-Sale Securities | Foreign Currency | Total |
| | | Items | |
| | | (dollars in thousands) | |
| Beginning Balance - July 1, 2013 | \$ (3,530) | \$ 0 | \$(3,530) |
| Other comprehensive loss before reclassifications | (8) | 1 | (7) |
| Amounts reclassified from accumulated other comprehensive loss | 0 | 0 | 0 |
| Net current-period other comprehensive (loss) income | (8) | 1 | (7) |
| Ending balance - September 30, 2013 | \$ (3,538) | \$ 1 | \$(3,537) |

| | Unrealized | | |
|--|---|------------------|-----------|
| | Gains and Losses on Available-for-Sale Securities | Foreign Currency | Total |
| | | Items | |
| Beginning Balance - January 1, 2013 | \$ 1,064 | \$ 0 | \$ 1,064 |
| Other comprehensive loss before reclassifications | (4,602) | 1 | (4,601) |
| Amounts reclassified from accumulated other comprehensive loss | 0 | 0 | 0 |
| Net current-period other comprehensive (loss) income | (4,602) | 1 | (4,601) |
| Ending balance - September 30, 2013 | \$ (3,538) | \$ 1 | \$(3,537) |

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

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NOTE 5 — EARNINGS PER SHARE

The following are the components and results of the Bancorp's earnings per share calculation for the periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|------------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (dollars in thousands, except per share data) | | | |
| Net income allocated to common shareholders | \$ 8,268 | \$ 6,636 | \$ 23,683 | \$ 16,252 |
| Weighted-average number of common shares - basic | 24,678,317 | 12,465,744 | 21,494,880 | 11,723,090 |
| Share-based compensation plans | 475,987 | 310,845 | 383,326 | 231,674 |
| Warrants | 182,898 | 134,926 | 175,999 | 112,265 |
| Weighted-average number of common shares - diluted | 25,337,202 | 12,911,515 | 22,054,205 | 12,067,029 |
| Basic earnings per share | \$ 0.34 | \$ 0.53 | \$ 1.10 | \$ 1.39 |
| Diluted earnings per share | \$ 0.33 | \$ 0.51 | \$ 1.07 | \$ 1.35 |

The following is a summary of securities that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Weighted-average anti-dilutive securities: | | | | |
| Share-based compensation awards | 92,245 | 6,592 | 87,129 | 6,592 |
| Warrants | 118,745 | 129,946 | 118,745 | 129,946 |
| Total anti-dilutive securities | 210,990 | 136,538 | 205,874 | 136,538 |

NOTE 6 — INVESTMENT SECURITIES

In May 2012, Customers Bancorp reclassified its \$269.0 million held-to-maturity investment portfolio to available for sale. Due to its strong outlook for loan growth, falling interest rates, and its decision to postpone its initial public offering of stock, the Bancorp decided to proceed with this reclassification to provide liquidity. In accordance with regulatory and accounting requirements, the Bancorp is prohibited from classifying security purchases as held to maturity for a period of two years, ending May 2014.

The amortized cost and approximate fair value of investment securities as of September 30, 2013 and December 31, 2012 are summarized as follows:

| | September 30, 2013 | | |
|--------------------------------|------------------------|------------------|------------------|
| | Amortized | Gross Unrealized | Gross Unrealized |
| | Cost | Gains | Losses |
| | (dollars in thousands) | | |
| Available for Sale: | | | |
| Mortgage-backed securities (1) | \$454,933 | \$ 1,410 | \$ 6,822 |
| Corporate notes | 25,000 | 163 | 23 |
| Equity securities | 23,074 | 81 | 250 |
| | <u>\$503,007</u> | <u>\$ 1,654</u> | <u>\$ 7,095</u> |
| | | | <u>\$497,566</u> |

(1) Includes private-label securities with an aggregate amortized cost of \$521 and an aggregate fair value of \$513.

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| | December 31, 2012 | | | |
|--------------------------------|------------------------|------------------|------------------|------------|
| | Amortized | Gross Unrealized | Gross Unrealized | |
| | Cost | Gains | Losses | Fair Value |
| | (dollars in thousands) | | | |
| <i>Available for Sale:</i> | | | | |
| Mortgage-backed securities (1) | \$102,449 | \$ 1,795 | \$ 109 | \$104,135 |
| Corporate notes | 25,000 | 89 | 137 | 24,952 |
| Equity securities | 6 | 0 | 0 | 6 |
| | \$127,455 | \$ 1,884 | \$ 246 | \$129,093 |

(1) Includes private-label securities with an aggregate amortized cost of \$629 and an aggregate fair value of \$612.

The following table shows proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three and nine months ended September 30, 2013 and 2012:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (dollars in thousands) | | | |
| Proceeds from sale of available-for-sale securities | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 306,610</u> |
| Gross gains | \$ 0 | \$ 0 | \$ 0 | \$ 9,006 |
| Gross losses | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net gains | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 9,006</u> |

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

The following table shows available-for-sale debt securities by stated maturity. Debt securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and are, therefore, classified separately with no specific maturity date:

| | September 30, 2013 | |
|--|------------------------|------------------|
| | Amortized | Fair Value |
| | Cost | |
| | (dollars in thousands) | |
| Due in one year or less | \$ 0 | \$ 0 |
| Due after one year through five years | 25,000 | 25,140 |
| Due after five years through ten years | 0 | 0 |
| Due after ten years | 0 | 0 |
| Mortgage-backed securities | <u>454,933</u> | <u>449,521</u> |
| Total debt securities | <u>\$479,933</u> | <u>\$474,661</u> |

The Bancorp's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2013 and December 31, 2012 were as follows:

| | September 30, 2013 | | | | | |
|----------------------------|------------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (dollars in thousands) | | | | | |
| Available for Sale: | | | | | | |
| Mortgage-backed securities | \$ 129,120 | \$ 6,811 | \$ 309 | \$ 11 | \$ 129,429 | \$ 6,822 |
| Corporate notes | 4,980 | 20 | 4,997 | 3 | 9,977 | 23 |
| Equity securities | 22,068 | 250 | 0 | 0 | 22,068 | 250 |
| Total | \$ 156,168 | \$ 7,081 | \$ 5,306 | \$ 14 | \$ 161,474 | \$ 7,095 |

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| | December 31, 2012 | | | | | |
|----------------------------|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (dollars in thousands) | | | | | | |
| Available for Sale: | | | | | | |
| Mortgage-backed securities | \$ 5,695 | \$ 87 | \$ 429 | \$ 22 | 6,124 | \$ 109 |
| Corporate notes | 0 | 0 | 9,862 | 137 | 9,862 | 137 |
| Total | <u>\$ 5,695</u> | <u>\$ 87</u> | <u>\$ 10,291</u> | <u>\$ 159</u> | <u>\$ 15,986</u> | <u>\$ 246</u> |

At September 30, 2013, there were twenty available-for-sale investment securities in the less-than-twelve-month category and seven available-for-sale investment securities in the twelve-month-or-more category. At December 31, 2012, there were two available-for-sale investment securities in the less-than-twelve-month category and eight available-for-sale investment securities in the twelve-month-or-more category. In management's opinion, the unrealized losses reflect primarily changes in interest rates due to changes in economic conditions and the liquidity of the market, and not credit quality. In addition, the Bancorp does not believe that it will be more likely than not that the Bancorp will be required to sell the securities prior to maturity or market-price recovery.

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

At September 30, 2013 and December 31, 2012, Customers Bank had pledged investment securities aggregating \$329.8 million and \$103.5 million fair value, respectively, as collateral for borrowings from the FHLB. No amounts were outstanding against the securities pledged as collateral as of September 30, 2013.

During the third quarter of 2013, Customers Bancorp through its foreign subsidiaries, CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd., purchased 4.1 million in common shares of Religare Enterprises, Ltd., a diversified financial services company domiciled in India. The total investment as of September 30, 2013 is \$23.1 million, 2.8% of the current outstanding shares of Religare Enterprises, Inc.

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable excludes loans held for sale, largely mortgage warehouse loans, of \$917,939 and \$1,439,889 as of September 30, 2013 and December 31, 2012, respectively.

The composition of net loans receivable was as follows:

| | September 30, | December 31, |
|--|------------------------|---------------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Construction | \$ 22,192 | \$ 27,792 |
| Commercial real estate | 29,623 | 44,901 |
| Commercial and industrial | 6,826 | 11,153 |
| Residential real estate | 19,233 | 19,952 |
| Manufactured housing | 3,381 | 3,728 |
| Total loans receivable covered under FDIC loss sharing agreements (1) | 81,255 | 107,526 |
| Construction | 34,674 | 28,897 |
| Commercial real estate | 1,490,930 | 835,488 |
| Commercial and industrial | 213,794 | 75,118 |
| Mortgage warehouse | 1,006 | 9,565 |
| Manufactured housing | 142,677 | 154,703 |
| Residential real estate | 133,503 | 109,430 |
| Consumer | 1,889 | 2,061 |
| Total loans receivable not covered under FDIC loss sharing agreements | 2,018,473 | 1,215,262 |
| Total loans receivable (2) | 2,099,728 | 1,322,788 |
| Deferred (fees) costs, net | 59 | 1,679 |
| Allowance for loan losses | (26,800) | (25,837) |
| Loans receivable, net | <u>\$ 2,072,987</u> | <u>\$ 1,298,630</u> |

- (1) Loans that were acquired in two FDIC-assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as **“covered”** loans throughout these financial statements.
- (2) Customers Bank takes advantage of Federal Home Loan Bank (“FHLB”) programs for overnight and term borrowings. Under the terms of a blanket collateral agreement, advances from the FHLB are collateralized by qualifying first-mortgage loans.

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Non-Covered Nonaccrual Loans and Loans Past Due

The following tables summarize **non-covered** loans, by class:

| September 30, 2013 | | | | | | | |
|---------------------------|----------------------------|--------------------------------|-----------------------|-----------------|--------------------|------------------|--------------------|
| | 30-89 Days Past Due (1) | Greater Than 90 Days (1) | Total Past Due (1) | Non- Accrual | Current (2) | PCI Loans (5) | Total Loans (4) |
| | (dollars in thousands) | | | | | | |
| Commercial and industrial | \$ 0 | \$ 0 | \$ 0 | \$ 221 | \$ 211,404 | \$ 2,169 | \$ 213,794 |
| Commercial real estate | 0 | 0 | 0 | 10,625 | 1,442,061 | 38,244 | 1,490,930 |
| Construction | 0 | 0 | 0 | 2,050 | 31,683 | 941 | 34,674 |
| Residential real estate | 400 | 0 | 400 | 945 | 121,550 | 10,608 | 133,503 |
| Consumer | 0 | 0 | 0 | 0 | 1,469 | 420 | 1,889 |
| Mortgage warehouse | 0 | 0 | 0 | 0 | 1,006 | 0 | 1,006 |
| Manufactured housing (3) | 6,311 | 3,095 | 9,406 | 1,101 | 126,981 | 5,189 | 142,677 |
| Total | <u>\$ 6,711</u> | <u>\$ 3,095</u> | <u>\$ 9,806</u> | <u>\$14,942</u> | <u>\$1,936,154</u> | <u>\$57,571</u> | <u>\$2,018,473</u> |

| December 31, 2012 | | | | | | | |
|---------------------------|----------------------------|--------------------------------|-----------------------|-----------------|--------------------|------------------|--------------------|
| | 30-89 Days Past Due (1) | Greater Than 90 Days (1) | Total Past Due (1) | Non- Accrual | Current (2) | PCI Loans (5) | Total Loans (4) |
| | (dollars in thousands) | | | | | | |
| Commercial and industrial | \$ 38 | \$ 0 | \$ 38 | \$ 288 | \$ 72,715 | \$ 2,077 | \$ 75,118 |
| Commercial real estate | 1,437 | 0 | 1,437 | 17,770 | 770,508 | 45,773 | 835,488 |
| Construction | 0 | 0 | 0 | 2,423 | 25,022 | 1,452 | 28,897 |
| Residential real estate | 381 | 0 | 381 | 1,669 | 95,396 | 11,984 | 109,430 |
| Consumer | 0 | 0 | 0 | 56 | 1,486 | 519 | 2,061 |
| Mortgage warehouse | 0 | 0 | 0 | 0 | 9,565 | 0 | 9,565 |
| Manufactured housing (3) | 9,234 | 1,966 | 11,200 | 141 | 135,924 | 7,438 | 154,703 |
| Total | <u>\$ 11,090</u> | <u>\$ 1,966</u> | <u>\$ 13,056</u> | <u>\$22,347</u> | <u>\$1,110,616</u> | <u>\$69,243</u> | <u>\$1,215,262</u> |

- (1) Loan balances do not include non-accrual loans.
- (2) Loans where payments are due within 29 days of the scheduled payment date.
- (3) Purchased manufactured housing loans, purchased in 2010, are subject to cash reserves held at the Bank that are used to fund the past-due payments when the loan becomes 90-days or more delinquent.
- (4) Loans exclude deferred costs and fees.
- (5) Purchased-credit-impaired loans that were aggregated into pools are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because we recognize interest income on each pool of loans, they are all considered to be performing. PCI loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and being reported as performing loans.

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Covered Nonaccrual Loans and Loans Past Due

The following tables summarize **covered** loans, by class:

| September 30, 2013 | | | | | | | |
|---------------------------|----------------------------|-------------------------|--------------|---|-------------------|------------------|--------------------|
| | Greater Than | | Total Past | | Current (2)(3) | PCI Loans (5) | Total Loans (4) |
| | 30-89 Days Past Due (1) | 90 Days Past Due (1) | Due (1) | Non- Accrual (dollars in thousands) | | | |
| Commercial and industrial | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 4,394 | \$ 2,432 | \$ 6,826 |
| Commercial real estate | 0 | 0 | 0 | 1,821 | 17,413 | 10,389 | 29,623 |
| Construction | 0 | 0 | 0 | 3,382 | 5,920 | 12,890 | 22,192 |
| Residential real estate | 0 | 0 | 0 | 564 | 14,328 | 4,341 | 19,233 |
| Manufactured housing | 86 | 0 | 86 | 21 | 3,138 | 136 | 3,381 |
| Total | <u>\$ 86</u> | <u>\$ 0</u> | <u>\$ 86</u> | <u>\$5,788</u> | <u>\$45,193</u> | <u>\$30,188</u> | <u>\$81,255</u> |

| December 31, 2012 | | | | | | | |
|---------------------------|----------------------------|-------------------------|---------------|---|-------------------|------------------|--------------------|
| | Greater Than | | Total Past | | Current (2)(3) | PCI Loans (5) | Total Loans (4) |
| | 30-89 Days Past Due (1) | 90 Days Past Due (1) | Due (1) | Non- Accrual (dollars in thousands) | | | |
| Commercial and industrial | \$ 220 | \$ 0 | \$ 220 | \$ 100 | \$ 8,404 | \$ 2,429 | \$ 11,153 |
| Commercial real estate | 0 | 0 | 0 | 3,712 | 20,859 | 20,330 | 44,901 |
| Construction | 0 | 0 | 0 | 5,244 | 6,472 | 16,076 | 27,792 |
| Residential real estate | 0 | 0 | 0 | 1,358 | 14,226 | 4,368 | 19,952 |
| Manufactured housing | 48 | 0 | 48 | 90 | 3,527 | 63 | 3,728 |
| Total | <u>\$ 268</u> | <u>\$ 0</u> | <u>\$ 268</u> | <u>\$10,504</u> | <u>\$53,488</u> | <u>\$43,266</u> | <u>\$107,526</u> |

- (1) Loans balances do not include nonaccrual loans.
- (2) Loans receivable that were not identified upon acquisition as a loan with credit deterioration.
- (3) Loans where payments are due within 29 days of the scheduled payment date.
- (4) Loans exclude deferred costs and fees.
- (5) Purchased-credit-impaired loans that were aggregated into pools are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because we recognize interest income on each pool of loans, they are all considered to be performing. PCI loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and being reported as performing loans.

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Impaired Loans — Covered and Non-Covered

The following table presents a summary of impaired loans:

| | September 30, 2013 | | | For the Nine Months Ended September 30, 2013 | |
|--|--|--------------------------|-------------------|--|----------------------------|
| | Recorded Investment Net of Charge Offs | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | (dollars in thousands) | | | | |
| With no related allowance recorded: | | | | | |
| Commercial and industrial | \$ 16,829 | \$16,891 | | \$ 6,697 | \$ 362 |
| Commercial real estate | 16,223 | 17,075 | | 23,271 | 548 |
| Construction | 2,830 | 4,100 | | 6,545 | 14 |
| Consumer | 21 | 21 | | 133 | 0 |
| Residential real estate | 2,827 | 2,827 | | 2,791 | 36 |
| With an allowance recorded: | | | | | |
| Commercial and industrial | 3,333 | 4,603 | \$ 961 | 1,192 | 157 |
| Commercial real estate | 6,687 | 7,637 | 2,233 | 7,919 | 169 |
| Construction | 1,148 | 1,148 | 368 | 5,544 | 46 |
| Consumer | 54 | 54 | 1 | 46 | 4 |
| Residential real estate | 378 | 378 | 187 | 953 | 2 |
| Total | <u>\$ 50,330</u> | <u>\$54,734</u> | <u>\$ 3,750</u> | <u>\$ 55,091</u> | <u>\$ 1,338</u> |

| | December 31, 2012 | | | For the Nine Months Ended September 30, 2012 | |
|--|--|--------------------------|-------------------|--|----------------------------|
| | Recorded Investment Net of Charge Offs | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | (dollars in thousands) | | | | |
| With no related allowance recorded: | | | | | |
| Commercial and industrial | \$ 3,844 | \$ 3,844 | | \$ 5,191 | \$ 160 |
| Commercial real estate | 26,626 | 27,477 | | 22,205 | 748 |
| Construction | 6,588 | 6,618 | | 7,627 | 19 |
| Consumer | 101 | 101 | | 105 | 3 |
| Residential real estate | 3,188 | 3,188 | | 2,382 | 55 |
| With an allowance recorded: | | | | | |
| Commercial and industrial | 374 | 374 | \$ 295 | 748 | 9 |
| Commercial real estate | 8,708 | 10,022 | 2,505 | 9,071 | 205 |
| Construction | 5,116 | 6,022 | 1,541 | 6,903 | 154 |
| Consumer | 100 | 100 | 14 | 29 | 4 |
| Residential real estate | 1,331 | 1,331 | 270 | 967 | 13 |
| Total | <u>\$ 55,976</u> | <u>\$59,077</u> | <u>\$ 4,625</u> | <u>\$ 55,228</u> | <u>\$ 1,370</u> |

Troubled Debt Restructurings

At September 30, 2013, there were \$6.9 million in loans reported as troubled debt restructurings (“TDR”), and at September 30, 2012, there were \$8.2 million in loans reported as troubled debt restructurings. All TDRs are reported as impaired loans in the calendar year of their restructuring. In subsequent years, a TDR may cease being reported as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least nine months. A loan that has been modified at a below-market rate will be returned to performing status if it satisfies the six-month performance requirement; however, it will remain classified as impaired.

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

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The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three and nine months ended September 30, 2013 and 2012. There were no modifications that involved forgiveness of debt.

| | TDRs in Compliance with Their Modified Terms and Accruing Interest | TDRs in Compliance with Their Modified Terms and Not Accruing Interest | Total |
|---|--|--|----------------|
| | (dollars in thousands) | | |
| <u>Three months ended September 30, 2013</u> | | | |
| Extended under forbearance | \$ 0 | \$ 0 | \$ 0 |
| Multiple extensions resulting from financial difficulty | 0 | 0 | 0 |
| Interest-rate reductions | 0 | 12 | 12 |
| Total | \$ 0 | \$ 12 | \$ 12 |
| <u>Nine months ended September 30, 2013</u> | | | |
| Extended under forbearance | \$ 0 | \$ 0 | \$ 0 |
| Multiple extensions resulting from financial difficulty | 0 | 0 | 0 |
| Interest-rate reductions | 93 | 1,179 | 1,272 |
| Total | \$ 93 | \$ 1,179 | \$1,272 |
| <u>Three months ended September 30, 2012</u> | | | |
| Extended under forbearance | \$ 0 | \$ 471 | \$ 471 |
| Multiple extensions resulting from financial difficulty | 0 | 0 | 0 |
| Interest-rate reductions | 0 | 61 | 61 |
| Total | \$ 0 | \$ 532 | \$ 532 |
| <u>Nine months ended September 30, 2012</u> | | | |
| Extended under forbearance | \$ 0 | \$ 471 | \$ 471 |
| Multiple extensions resulting from financial difficulty | 47 | 0 | 47 |
| Interest-rate reductions | 268 | 61 | 329 |
| Total | \$ 315 | \$ 532 | \$ 847 |

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The following table provides, by class, the number of loans modified in troubled debt restructurings and the recorded investments and unpaid principal balances during the three and nine months ended September 30, 2013 and 2012.

| | TDRs in Compliance with Their Modified Terms and Accruing Interest | | TDRs in Compliance with Their Modified Terms and Not Accruing Interest | |
|--|--|--|---|------------------------|
| | Number of Loans | Recorded Investment (dollars in thousands) | Number of Loans | Recorded Investment |
| Three months ended September 30, 2013 | | | | |
| Commercial and industrial | 0 | \$ 0 | 0 | \$ 0 |
| Commercial real estate | 0 | 0 | 0 | 0 |
| Construction | 0 | 0 | 0 | 0 |
| Manufactured housing | 0 | 0 | 1 | 12 |
| Residential real estate | 0 | 0 | 0 | 0 |
| Consumer | 0 | 0 | 0 | 0 |
| Total | 0 | \$ 0 | 1 | \$ 12 |
| Nine months ended September 30, 2013 | | | | |
| Commercial and industrial | 0 | \$ 0 | 0 | \$ 0 |
| Commercial real estate | 0 | 0 | 0 | 0 |
| Construction | 0 | 0 | 0 | 0 |
| Manufactured housing | 2 | 60 | 11 | 1,179 |
| Residential real estate | 0 | 0 | 0 | 0 |
| Consumer | 1 | 33 | 0 | 0 |
| Total | 3 | \$ 93 | 11 | \$ 1,179 |
| Three months ended September 30, 2012 | | | | |
| Commercial and industrial | 0 | \$ 0 | 0 | \$ 0 |
| Commercial real estate | 0 | 0 | 0 | 0 |
| Construction | 0 | 0 | 0 | 0 |
| Manufactured housing | 0 | 0 | 1 | 61 |
| Residential real estate | 0 | 0 | 2 | 141 |
| Consumer | 0 | 0 | 1 | 330 |
| Total | 0 | \$ 0 | 4 | \$ 532 |
| Nine months ended September 30, 2012 | | | | |
| Commercial and industrial | 0 | \$ 0 | 0 | \$ 0 |
| Commercial real estate | 0 | 0 | 0 | 0 |
| Construction | 0 | 0 | 0 | 0 |
| Manufactured housing | 6 | 315 | 1 | 61 |
| Residential real estate | 0 | 0 | 2 | 141 |
| Consumer | 0 | 0 | 1 | 330 |
| Total | 6 | \$ 315 | 4 | \$ 532 |

At September 30, 2013 and 2012, there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt restructuring.

All loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses. There was \$0 in specific reserves resulting from the addition of TDR modifications for both the three and nine months ended September 30, 2013 and 2012. There were no TDRs that defaulted in the three and nine month periods ended September 30, 2013 and 2012.

Credit Quality Indicators

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

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To facilitate the monitoring of credit quality within the commercial and industrial, commercial real estate, construction portfolio, and residential real estate classes, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective portfolio class, the Bank utilizes the following categories of risk ratings: pass/satisfactory, special mention, substandard, doubtful, and loss. The risk rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass/satisfactory ratings, which are assigned to those borrowers 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 judgment and estimates, the risk rating process is intended to permit 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 and the Bank's credit position.

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 category 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 that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

When it is determined that these loans are uncollectible they are charged off in the period in which they are determined to be uncollectible. Loans, or portions of loans, classified as loss indicate that the Bank does not expect to collect the amounts classified as a loss.

Risk ratings are not established for home equity loans, consumer loans, and installment loans, mainly because these portfolios consist of a larger number of homogenous 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 and are classified as performing and nonperforming.

The following presents the credit quality tables as of September 30, 2013 and December 31, 2012 for the **non-covered** loan portfolio:

| | September 30, 2013 | | | |
|-------------------|---------------------------------|---------------------------|------------------|----------------------------|
| | Commercial and Industrial | Commercial Real Estate | Construction | Residential Real Estate |
| | (dollars in thousands) | | | |
| Pass/Satisfactory | \$ 200,651 | \$1,460,484 | \$ 32,499 | \$ 130,504 |
| Special Mention | 12,861 | 16,200 | 88 | 1,380 |
| Substandard | 282 | 14,246 | 2,087 | 1,619 |
| Doubtful | 0 | 0 | 0 | 0 |
| Total | \$ 213,794 | \$1,490,930 | \$ 34,674 | \$ 133,503 |

| | Consumer | Mortgage Warehouse | Manufactured Housing |
|-------------------|------------------------|-----------------------|-------------------------|
| | (dollars in thousands) | | |
| Performing | \$ 1,889 | \$ 1,006 | \$ 141,576 |
| Nonperforming (1) | 0 | 0 | 1,101 |
| Total | \$ 1,889 | \$ 1,006 | \$ 142,677 |

(1) Includes loans that are on nonaccrual status at September 30, 2013.

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| | December 31, 2012 | | | |
|-------------------|-------------------|------------------------|------------------|-------------------|
| | Commercial | Commercial | | Residential |
| | and | Real Estate | Construction | Real Estate |
| | Industrial | (dollars in thousands) | | |
| Pass/Satisfactory | \$ 70,955 | \$ 794,187 | \$ 26,020 | \$ 105,490 |
| Special Mention | 3,836 | 18,737 | 454 | 1,017 |
| Substandard | 327 | 21,801 | 1,971 | 2,919 |
| Doubtful | 0 | 763 | 452 | 4 |
| Total | <u>\$ 75,118</u> | <u>\$ 835,488</u> | <u>\$ 28,897</u> | <u>\$ 109,430</u> |

| | Consumer | Mortgage Warehouse | Manufactured |
|-------------------|-----------------|------------------------|-------------------|
| | | (dollars in thousands) | Housing |
| Performing | \$ 2,005 | \$ 9,565 | \$ 154,562 |
| Nonperforming (1) | 56 | 0 | 141 |
| Total | <u>\$ 2,061</u> | <u>\$ 9,565</u> | <u>\$ 154,703</u> |

(1) Includes loans that are on nonaccrual status at December 31, 2012.

The following presents the credit quality tables as of September 30, 2013 and December 31, 2012 for the **covered** loan portfolio:

| | September 30, 2013 | | | |
|-------------------|--------------------|------------------------|------------------|------------------|
| | Commercial | Commercial | | Residential |
| | and | Real Estate | Construction | Real Estate |
| | Industrial | (dollars in thousands) | | |
| Pass/Satisfactory | \$ 4,730 | \$ 17,920 | \$ 1,972 | \$ 14,245 |
| Special Mention | 119 | 3,020 | 3,949 | 455 |
| Substandard | 1,977 | 8,683 | 16,271 | 4,533 |
| Doubtful | 0 | 0 | 0 | 0 |
| Total | <u>\$ 6,826</u> | <u>\$ 29,623</u> | <u>\$ 22,192</u> | <u>\$ 19,233</u> |

| | Manufactured |
|-------------------|------------------------|
| | Housing |
| | (dollars in thousands) |
| | |
| Performing | \$ 3,274 |
| Nonperforming (1) | 107 |
| Total | <u>\$ 3,381</u> |

(1) Includes loans that are on nonaccrual status at September 30, 2013.

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| December 31, 2012 | | | | |
|-------------------|---------------------------------|---------------------------|------------------|----------------------------|
| | Commercial and Industrial | Commercial Real Estate | Construction | Residential Real Estate |
| | (dollars in thousands) | | | |
| Pass/Satisfactory | \$ 8,888 | \$ 26,195 | \$ 2,434 | \$ 14,021 |
| Special Mention | 51 | 225 | 4,038 | 455 |
| Substandard | 2,214 | 18,481 | 21,320 | 5,476 |
| Doubtful | 0 | 0 | 0 | 0 |
| Total | <u>\$ 11,153</u> | <u>\$ 44,901</u> | <u>\$ 27,792</u> | <u>\$ 19,952</u> |

| | Manufactured Housing |
|-------------------|-------------------------|
| | (dollars in thousands) |
| Performing | \$ 3,638 |
| Nonperforming (1) | 90 |
| Total | <u>\$ 3,728</u> |

(1) Includes loans that are on nonaccrual status at December 31, 2012.

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Allowance for loan losses

The changes in the allowance for loan losses for the three and nine months ended September 30, 2013 and 2012 and the loans and allowance for loan losses by loan segment based on impairment evaluation method are as follows. Please read in conjunction with disclosures in the Bancorp's 2012 Annual Report on Form 10-K.

| | Commercial | | | Residential | Manufactured | | | Residual | | |
|---|-------------------|---------------------------|-----------------|-----------------|---------------|---------------|-----------------------|---------------|--------------------|--|
| | and Industrial | Commercial Real Estate | Construction | Real Estate | Housing (1) | Consumer | Mortgage Warehouse | Reserve | Total | |
| (dollars in thousands) | | | | | | | | | | |
| Three months ended September 30, 2013 | | | | | | | | | | |
| Beginning Balance, July 1, 2013 | \$ 2,485 | \$ 16,685 | \$ 4,317 | \$ 3,552 | \$ 678 | \$ 106 | \$ 56 | \$ 263 | \$ 28,142 | |
| Charge-offs | 1,311 | 851 | 0 | 116 | 0 | 16 | 0 | 0 | 2,294 | |
| Recoveries | 16 | 186 | 0 | 0 | 0 | 0 | 0 | 0 | 202 | |
| Provision for loan losses | 2,029 | (349) | (1,163) | (216) | 1 | 13 | (14) | 449 | 750 | |
| Ending Balance, September 30, 2013 | <u>\$ 3,219</u> | <u>\$ 15,671</u> | <u>\$ 3,154</u> | <u>\$ 3,220</u> | <u>\$ 679</u> | <u>\$ 103</u> | <u>\$ 42</u> | <u>\$ 712</u> | <u>\$ 26,800</u> | |
| Nine months ended September 30, 2013 | | | | | | | | | | |
| Beginning Balance, January 1, 2013 | \$ 1,477 | \$ 15,439 | \$ 3,991 | \$ 3,233 | \$ 750 | \$ 154 | \$ 71 | \$ 722 | \$ 25,837 | |
| Charge-offs | 1,407 | 2,742 | 1,470 | 315 | 0 | 16 | 0 | 0 | 5,950 | |
| Recoveries | 181 | 246 | 0 | 7 | 0 | 9 | 0 | 0 | 443 | |
| Provision for loan losses | 2,968 | 2,728 | 633 | 295 | (71) | (44) | (29) | (10) | 6,470 | |
| Ending Balance, September 30, 2013 | <u>\$ 3,219</u> | <u>\$ 15,671</u> | <u>\$ 3,154</u> | <u>\$ 3,220</u> | <u>\$ 679</u> | <u>\$ 103</u> | <u>\$ 42</u> | <u>\$ 712</u> | <u>\$ 26,800</u> | |
| At September 30, 2013 | | | | | | | | | | |
| Loans: | | | | | | | | | | |
| Individually evaluated for impairment | \$ 20,162 | \$ 22,910 | \$ 3,978 | \$ 3,205 | \$ 0 | \$ 75 | \$ 0 | \$ 0 | \$ 50,330 | |
| Collectively evaluated for impairment | 195,857 | 1,449,009 | 39,058 | 134,582 | 140,869 | 1,258 | 1,006 | 0 | 1,961,639 | |
| Loans acquired with credit deterioration | 4,601 | 48,634 | 13,830 | 14,949 | 5,189 | 556 | 0 | 0 | 87,759 | |
| Market discounts/premiums/valuation adjustments | | | | | | | | | 59 | |
| | | | | | | | | | <u>\$2,099,787</u> | |
| Allowance for loan losses: | | | | | | | | | | |
| Individually evaluated for impairment | \$ 961 | \$ 2,233 | \$ 368 | \$ 187 | \$ 0 | \$ 1 | \$ 0 | \$ 0 | \$ 3,750 | |
| Collectively evaluated for impairment | 1,991 | 8,315 | 241 | 1,115 | 80 | 40 | 42 | 712 | 12,536 | |
| Loans acquired with credit deterioration | 267 | 5,123 | 2,545 | 1,918 | 599 | 62 | 0 | 0 | 10,514 | |
| | <u>\$ 3,219</u> | <u>\$ 15,671</u> | <u>\$ 3,154</u> | <u>\$ 3,220</u> | <u>\$ 679</u> | <u>\$ 103</u> | <u>\$ 42</u> | <u>\$ 712</u> | <u>\$ 26,800</u> | |

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| | Commercial and Industrial | Commercial Real Estate | Construction | Residential Real Estate | Manufactured Housing (1) | Consumer | Mortgage Warehouse | Residual Reserve | Total |
|---|---------------------------------|---------------------------|-----------------|----------------------------|-----------------------------|---------------|-----------------------|---------------------|--------------------|
| (dollars in thousands) | | | | | | | | | |
| Three months ended September 30, 2012 | | | | | | | | | |
| Beginning Balance, July 1, 2012 | \$ 1,503 | \$ 8,266 | \$ 4,352 | \$ 1,080 | \$ 40 | \$ 75 | \$ 802 | \$ 0 | \$ 16,118 |
| Charge-offs | 266 | 283 | 475 | 365 | 0 | 27 | 0 | 0 | 1,416 |
| Recoveries | 98 | 33 | 3 | 0 | 0 | 22 | 0 | 0 | 156 |
| Provision for loan losses | 387 | 5,923 | 1,139 | 2,262 | 858 | 279 | (732) | 0 | 10,116 |
| Ending Balance, September 30, 2012 | <u>\$ 1,722</u> | <u>\$ 13,939</u> | <u>\$ 5,019</u> | <u>\$ 2,977</u> | <u>\$ 898</u> | <u>\$ 349</u> | <u>\$ 70</u> | <u>\$ 0</u> | <u>\$ 24,974</u> |
| Nine months ended September 30, 2012 | | | | | | | | | |
| Beginning Balance, January 1, 2012 | \$ 1,441 | \$ 7,029 | \$ 4,656 | \$ 844 | \$ 18 | \$ 61 | \$ 929 | \$ 54 | \$ 15,032 |
| Charge-offs | 300 | 1,426 | 2,666 | 565 | 0 | 37 | 0 | 0 | 4,994 |
| Recoveries | 164 | 83 | 3 | 5 | 0 | 27 | 0 | 0 | 282 |
| Provision for loan losses | 417 | 8,253 | 3,026 | 2,693 | 880 | 298 | (859) | (54) | 14,654 |
| Ending Balance, September 30, 2012 | <u>\$ 1,722</u> | <u>\$ 13,939</u> | <u>\$ 5,019</u> | <u>\$ 2,977</u> | <u>\$ 898</u> | <u>\$ 349</u> | <u>\$ 70</u> | <u>\$ 0</u> | <u>\$ 24,974</u> |
| At September 30, 2012 | | | | | | | | | |
| Loans: | | | | | | | | | |
| Individually evaluated for impairment | \$ 4,558 | \$ 37,250 | \$ 13,169 | \$ 4,540 | \$ 0 | \$ 273 | \$ 0 | \$ 0 | \$ 59,790 |
| Collectively evaluated for impairment | 79,448 | 543,772 | 11,056 | 100,751 | 150,876 | 11,356 | 9,321 | 0 | 906,580 |
| Loans acquired with credit deterioration | 5,774 | 70,915 | 18,904 | 15,819 | 13,113 | 2,125 | 0 | 0 | 126,650 |
| Market discounts/premiums/valuation adjustments | | | | | | | | | (5,921) |
| | | | | | | | | | <u>\$1,087,099</u> |
| Allowance for loan losses: | | | | | | | | | |
| Individually evaluated for impairment | \$ 349 | \$ 2,787 | \$ 2,450 | \$ 250 | \$ 0 | \$ 3 | \$ 0 | \$ 0 | \$ 5,839 |
| Collectively evaluated for impairment | 877 | 5,379 | 262 | 878 | 757 | 93 | 70 | 0 | 8,316 |
| Loans acquired with credit deterioration | 496 | 5,773 | 2,307 | 1,849 | 141 | 253 | 0 | 0 | 10,819 |
| | <u>\$ 1,722</u> | <u>\$ 13,939</u> | <u>\$ 5,019</u> | <u>\$ 2,977</u> | <u>\$ 898</u> | <u>\$ 349</u> | <u>\$ 70</u> | <u>\$ 0</u> | <u>\$ 24,974</u> |

- (1) The non-covered manufactured housing portfolio was purchased in August 2010. A portion of the purchase price may be used to reimburse the Bank under the specified terms in the Purchase Agreement for defaults of the underlying borrower and other specified items. At September 30, 2013 and 2012, funds available for reimbursement, if necessary, were \$2.9 million and \$4.1 million, respectively. Quarterly, these funds are evaluated to determine if they would be sufficient to absorb probable losses within the manufactured housing portfolio.

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The changes in accretable yield related to purchased-credit-impaired loans for the three and nine months ended September 30, 2013 and 2012 were as follows:

| <u>For the Three Months Ended September 30,</u> | <u>2013</u> | <u>2012</u> |
|---|------------------------|-----------------|
| | (dollars in thousands) | |
| Accretable yield balance, beginning of period | \$27,649 | \$43,230 |
| Accretion to interest income | (1,362) | (7,384) |
| Reclassification from nonaccretable difference and disposals, net | (754) | (147) |
| Accretable yield balance, end of period | <u>\$25,533</u> | <u>\$35,699</u> |

| <u>For the Nine Months Ended September 30,</u> | <u>2013</u> | <u>2012</u> |
|---|------------------------|-----------------|
| | (dollars in thousands) | |
| Accretable yield balance, beginning of period | \$32,174 | \$45,358 |
| Accretion to interest income | (5,034) | (9,443) |
| Reclassification from nonaccretable difference and disposals, net | (1,607) | (216) |
| Accretable yield balance, end of period | <u>\$25,533</u> | <u>\$35,699</u> |

NOTE 8 — FDIC LOSS SHARING RECEIVABLE

The following table summarizes the activity related to the FDIC loss sharing receivable for the three and nine months ended September 30, 2013 and 2012:

| <u>Three Months Ended September 30,</u> | <u>2013</u> | <u>2012</u> |
|---|------------------------|-----------------|
| | (dollars in thousands) | |
| Balance, beginning of period | \$14,169 | \$12,376 |
| Change in FDIC loss sharing receivable | (125) | 3,796 |
| Reimbursement from the FDIC | (3,006) | (3,866) |
| Balance, end of period | <u>\$11,038</u> | <u>\$12,306</u> |

| <u>Nine Months Ended September 30,</u> | <u>2013</u> | <u>2012</u> |
|--|------------------------|-----------------|
| | (dollars in thousands) | |
| Balance, beginning of period | \$12,343 | \$13,077 |
| Change in FDIC loss sharing receivable | 4,829 | 4,537 |
| Reimbursement from the FDIC | (6,134) | (5,308) |
| Balance, end of period | <u>\$11,038</u> | <u>\$12,306</u> |

NOTE 9 — BORROWINGS

During July 2013 (\$55.0 million) and August 2013 (\$8.3 million), Customers Bancorp issued five-year senior unsecured notes aggregating \$63.25 million at 6.375%. Interest on the debt is payable quarterly. Net proceeds to Customers Bancorp after issuance costs were \$60.4 million.

NOTE 10 — SHAREHOLDERS' EQUITY

During the nine months ended September 30, 2013, the Bancorp issued 23,413 shares of common stock under share-based compensation arrangements. In the third quarter of 2013, 31,904 shares of Class B Non-Voting common stock were issued upon exercise of outstanding warrants, and 3.7 million shares of Class B Non-Voting common stock were converted into 3.7 million shares of Voting common stock. In addition, warrants to purchase 17,227 shares of voting common stock and 17,227 shares of Class B Non-Voting stock were repurchased in the third quarter of 2013.

On May 22, 2013, the Bancorp sold 6,179,104 shares of new issue voting common stock at a price to the public of \$16.75 per share. The net proceeds to Customers after deducting underwriting discounts and commissions and offering expenses were \$97.5 million.

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During the third quarter of 2012, the Bancorp sold 7,111,819 shares of its common stock in private offerings. The net proceeds to Customers after deducting underwriting discounts and commissions and offering expenses were \$94.8 million.

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

NOTE 11 — SHARE-BASED COMPENSATION

Stock Options

Options to purchase an aggregate of 617,910 and 92,687 shares of voting common stock, representing 10% and 1.5% of the number of shares issued in the May 2013 offering of voting common stock, were granted to the Chief Executive Officer and the Chief Operating Officer in connection with the completion of the offering pursuant to their existing employment agreements, respectively. The options will vest over five years from the date of grant, subject to a 50% increase in the value of the Bancorp's Voting Common Stock and have a term of 10 years. In addition, in matters unrelated to the May 2013 offering, options to purchase an aggregate of 70,000 shares of Voting Common Stock were granted to certain other officers. The fair values of the options were estimated using the Black-Scholes option pricing model. The following table presents the weighted-average assumptions used and the resulting weighted-average fair value of an option.

| | September 30, 2013 | December 31, 2012 |
|--|--------------------|-------------------|
| Weighted-average risk-free interest rate | 1.41% | 1.15% |
| Expected dividend yield | 0.00% | 0.00% |
| Weighted-average expected volatility | 13.77% | 17.47% |
| Expected life (in years) | 7.00 | 6.98 |
| Weighted-average fair value | \$ 3.16 | \$ 3.04 |

The following table summarizes stock option activity for the nine months ended September 30, 2013.

| | Number of Options | Weighted- average Exercise Price (aggregate intrinsic value in thousands) | Weighted- average Remaining Contractual Term in Years | Aggregate Intrinsic Value |
|---|----------------------|---|---|---------------------------------|
| Outstanding at January 1, 2013 | 2,003,889 | \$ 12.49 | | |
| Granted | 780,597 | 16.67 | | |
| Forfeited | (5,000) | 14.94 | | |
| Outstanding at September 30, 2013 | 2,779,486 | \$ 13.66 | 8.16 | \$ 7,480 |
| Vested and expected to vest at September 30, 2013 | 2,779,486 | \$ 13.66 | 8.16 | \$ 7,480 |
| Exercisable at September 30, 2013 | 14,438 | 20.06 | 3.57 | 12 |

NOTE 12 — REGULATORY MATTERS

The Bank and the Bancorp are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bancorp's consolidated financial statements. At September 30, 2013, the Bank and the Bancorp exceeded all capital adequacy requirements to which they are subject.

The Bank experienced rapid loan growth during the final days of 2012. During the standard closing process of the Bank's December 2012 financial statements, management determined on January 30, 2013 that the rapid loan growth resulted in a reduction in the Bank's capital ratios, causing the Bank to become adequately capitalized as of December 31, 2012. Management immediately transferred sufficient capital from the Bancorp to the Bank which returned the Bank to well-capitalized status. Sufficient cash is maintained at the Bancorp to ensure that the Bank remains well capitalized, and management remains committed to taking all steps necessary to ensure that both the Bancorp and the Bank remain well capitalized going forward. The Bank met the regulatory standards to be considered well capitalized as of September 30, 2013. Since the Bank was adequately capitalized at December 31, 2012, regulatory approval was required to accept, renew or roll over any brokered deposits. Effective January 1, 2013, the interest rate paid for deposits by institutions that are less than well capitalized was limited to 75 basis points above the national rate for similar products unless the institution can support to the FDIC that prevailing rates in its market area exceed the national average. This limitation on rates paid for deposits was removed effective with the Bank complying with the well capitalized thresholds, and as the Bank exceeds the well capitalized thresholds as of September 30, 2013, the Bank is not subject to any limits on interest rates paid for deposits.

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The Bancorp's and the Bank's capital amounts and ratios at September 30, 2013 and December 31, 2012 are as follows:

| (dollars in thousands) | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2013: | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$413,900 | 13.60% | \$ 243,500 | 8.0% | N/A | N/A |
| Customers Bank | \$427,809 | 14.18% | \$ 241,298 | 8.0% | \$ 301,622 | 10.0% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$386,517 | 12.70% | \$ 121,750 | 4.0% | N/A | N/A |
| Customers Bank | \$400,426 | 13.28% | \$ 120,649 | 4.0% | \$ 180,973 | 6.0% |
| Tier 1 capital (to average assets) | | | | | | |
| Customers Bancorp, Inc. | \$386,517 | 10.63% | \$ 145,388 | 4.0% | N/A | N/A |
| Customers Bank | \$400,426 | 11.04% | \$ 145,043 | 4.0% | \$ 181,303 | 5.0% |
| As of December 31, 2012: | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$289,035 | 11.26% | \$ 205,443 | 8.0% | N/A | N/A |
| Customers Bank | \$244,710 | 9.53% | \$ 205,442 | 8.0% | \$ 256,802 | 10.0% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$262,719 | 10.23% | \$ 102,722 | 4.0% | N/A | N/A |
| Customers Bank | \$218,394 | 8.50% | \$ 102,721 | 4.0% | \$ 154,081 | 6.0% |
| Tier 1 capital (to average assets) | | | | | | |
| Customers Bancorp, Inc. | \$262,719 | 9.30% | \$ 112,939 | 4.0% | N/A | N/A |
| Customers Bank | \$218,394 | 7.74% | \$ 112,896 | 4.0% | \$ 141,120 | 5.0% |

NOTE 13 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and cash equivalents:

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate these assets' fair values. These assets are included as Level 1 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Investment Securities:

The fair value of investment securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices, or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). These assets are included as Level 1 and 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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The carrying amount of FHLB, Federal Reserve Bank and other stock approximates fair value, and considers the limited marketability of such securities. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale:

The fair value of loans receivable held for sale is based on commitments on hand from investors within the secondary market for loans with similar characteristics. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans held for sale — Mortgage warehouse loans:

The Fair Value Option

The Bancorp elected the fair value option for warehouse lending transactions documented under a Master Repurchase Agreement originated after July 1, 2012 in order to more accurately represent the short-term nature of the transaction and its inherent credit risk. This adoption was in accordance with the parameters established by Accounting Standards Codification (“ASC”) 825-10-25, *Financial Instruments-Overall-Recognition: The Fair Value Option*. Warehouse lending transactions are classified as “Loans held for sale” on the balance sheet. The interest income from the warehouse lending transactions is classified in “Interest Income — Loans held for sale on the income statement. An allowance for loan losses is not recorded for the warehouse lending transactions when measured at fair value since the exit price (the repurchase price) for warehouse lending transactions considers the effect of expected credit losses.

The fair value of mortgage warehouse loans is the amount of cash initially advanced to fund the mortgage, plus accrued interest and fees, as specified in the respective agreements. The loan is used by the mortgage company as short-term bridge financing between the funding of mortgage loans and the finalization of the sale of the loans to an investor. Changes in fair value are not expected to be recognized since at inception of the transaction the underlying loans have already been sold to an approved investor or they have been hedged by the mortgage company. Additionally, the interest rate is variable, and the transaction is short-term, with an average life of 17 days from purchase to sale. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Loans receivable, net:

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Impaired loans:

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

FDIC loss sharing receivable:

The FDIC loss sharing receivable is measured separately from the related covered assets, as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. Fair value is estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment. These cash flows are discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other real estate owned:

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

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Accrued interest receivable and payable:

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Deposit liabilities:

The fair values disclosed for deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. These assets are included as Level 1 and 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Federal funds purchased:

For these short-term instruments, the carrying amount is considered a reasonable estimate of fair value. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Borrowings:

The carrying amount of short-term FHLB borrowings approximates its fair value. Fair values of long-term FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party. Also included in Other Borrowings is long-term senior debt the fair value of which is determined using discounted cash flow analysis. Long-term senior debt is included in Level 3. These liabilities are included as Level 2 and 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Subordinated debt:

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Derivatives (Assets and Liabilities):

The fair values of interest rate swaps are determined using models that incorporate readily observable market data into a market standard methodology. The methodology nets the discounted future fixed cash receipts and the discounted expected variable cash payments. The discounted variable cash payments are based on expectations of future interest rates derived from observable market interest rate curves. In addition, fair value is adjusted for the effect of nonperformance risk by incorporating credit valuation adjustments for the Bancorp and its counterparties. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Off-balance-sheet financial instruments:

Fair values for the Bancorp's off-balance-sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These assets are included as Level 2 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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

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The estimated fair values of the Bancorp's financial instruments were as follows at September 30, 2013 and December 31, 2012.

| Fair Value Measurements at September 30, 2013 | | | | | |
|---|-----------------|----------------------|--|---|---|
| | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands) | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 255,653 | \$ 255,653 | \$ 255,653 | \$ 0 | \$ 0 |
| Investment securities, available for sale | 497,566 | 497,566 | 22,905 | 474,661 | 0 |
| Loans held for sale | 917,939 | 917,939 | 0 | 917,939 | 0 |
| Loans receivable, net | 2,072,987 | 2,088,789 | 0 | 0 | 2,088,789 |
| FHLB, Federal Reserve Bank and other stock | 19,113 | 19,113 | 0 | 19,113 | 0 |
| FDIC loss sharing receivable | 11,038 | 11,038 | 0 | 11,038 | 0 |
| Derivatives not designated as hedging instruments | 1,911 | 1,911 | 0 | 1,911 | 0 |
| Fraudulent loans receivable (1) | 669 | 669 | 0 | 0 | 669 |
| Accrued interest receivable | 7,866 | 7,866 | 7,866 | 0 | 0 |
| Liabilities: | | | | | |
| Deposits | \$3,243,312 | \$3,247,129 | \$ 671,211 | \$ 2,575,918 | \$ 0 |
| Other borrowings | 235,250 | 238,251 | 0 | 238,251 | 0 |
| Subordinated debt | 2,000 | 2,000 | 0 | 2,000 | 0 |
| Derivatives not designated as hedging instruments | 1,871 | 1,871 | 0 | 1,871 | 0 |
| Accrued interest payable | 1,761 | 1,761 | 1,761 | 0 | 0 |

(1) Included in Other Assets

| Fair Value Measurements at December 31, 2012 | | | | | |
|--|-----------------|----------------------|--|---|---|
| | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands) | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 186,016 | \$ 186,016 | \$ 186,016 | \$ 0 | \$ 0 |
| Investment securities, available for sale | 129,093 | 129,093 | 6 | 129,087 | 0 |
| Loans held for sale | 1,439,889 | 1,439,889 | 0 | 1,439,889 | 0 |
| Loans receivable, net | 1,298,630 | 1,307,049 | 0 | 0 | 1,307,049 |
| FHLB, Federal Reserve Bank and other stock | 30,163 | 30,163 | 0 | 30,163 | 0 |
| FDIC loss sharing receivable | 12,343 | 12,343 | 0 | 12,343 | 0 |
| Accrued interest receivable | 5,790 | 5,790 | 5,790 | 0 | 0 |
| Liabilities: | | | | | |
| Deposits | \$2,440,818 | \$2,674,765 | \$ 219,687 | \$ 2,455,078 | \$ 0 |
| Federal funds purchased | 5,000 | 5,000 | 5,000 | 0 | 0 |
| Other borrowings | 471,000 | 471,432 | 0 | 471,432 | 0 |
| Subordinated debt | 2,000 | 2,000 | 0 | 2,000 | 0 |
| Accrued interest payable | 1,530 | 1,530 | 1,530 | 0 | 0 |

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

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

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

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

For financial assets and liabilities measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2013 and December 31, 2012 were as follows:

| | September 30, 2013 | | | |
|--|--|--|-----------------------------|-------------|
| | Fair Value Measurements at the End of the Reporting Period Using | | | |
| | Quoted Prices in Active Markets for | Significant Other Observable Inputs | Significant Unobservable | |
| | Identical Assets (Level 1) | (Level 2) | Inputs (Level 3) | Total |
| | (dollars in thousands) | | | |
| Measured at Fair Value on a Recurring Basis: | | | | |
| Assets | | | | |
| Available-for-sale securities: | | | | |
| Mortgage-backed securities | \$ 0 | \$ 449,521 | \$ 0 | \$ 449,521 |
| Corporate notes | 0 | 25,140 | 0 | 25,140 |
| Equity securities | 22,905 | 0 | 0 | 22,905 |
| Derivatives not designated as hedging instruments (1) | 0 | 1,911 | 0 | 1,911 |
| Mortgage warehouse loans held for sale | 0 | 840,425 | 0 | 840,425 |
| Total assets - recurring fair value measurements | \$ 22,905 | \$ 1,316,997 | \$ 0 | \$1,339,902 |
| Liabilities | | | | |
| Derivatives not designated as hedging instruments (2) | \$ 0 | \$ 1,871 | \$ 0 | \$ 1,871 |
| Measured at Fair Value on a Nonrecurring Basis: | | | | |
| Assets | | | | |
| Impaired loans, net of specific reserves of \$3,750 | \$ 0 | \$ 0 | \$ 7,850 | \$ 7,850 |
| Other real estate owned | 0 | 0 | 10,259 | 10,259 |
| Total assets - nonrecurring fair value measurements | \$ 0 | \$ 0 | \$ 18,109 | \$ 18,109 |

(1) Included in Other Assets

(2) Included in Other Liabilities

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| | December 31, 2012 | | | |
|---|--|--|-----------------------------|---------------------|
| | Fair Value Measurements at the End of the Reporting Period Using | | | |
| | Quoted Prices in Active Markets for | Significant Other Observable Inputs | Significant Unobservable | |
| | Identical Assets (Level 1) | (Level 2) | Inputs (Level 3) | Total |
| | (dollars in thousands) | | | |
| Measured at Fair Value on a Recurring Basis: | | | | |
| Assets | | | | |
| Available-for-sale securities: | | | | |
| Mortgage-backed securities | \$ 0 | \$ 104,135 | \$ 0 | \$ 104,135 |
| Corporate notes | 0 | 24,952 | 0 | 24,952 |
| Equity securities | 6 | 0 | 0 | 6 |
| Mortgage warehouse loans held for sale | 0 | 1,248,935 | 0 | 1,248,935 |
| Total assets - recurring fair value measurements | <u>\$ 6</u> | <u>\$ 1,378,022</u> | <u>\$ 0</u> | <u>\$ 1,378,028</u> |
| Measured at Fair Value on a Nonrecurring Basis: | | | | |
| Assets | | | | |
| Impaired loans, net of specific reserves of \$4,625 | \$ 0 | \$ 0 | \$ 11,004 | \$ 11,004 |
| Other real estate owned | 0 | 0 | 5,737 | 5,737 |
| Total assets - nonrecurring fair value measurements | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 16,741</u> | <u>\$ 16,741</u> |

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2013 and 2012 are summarized as follows.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis during the three months ended September 30, 2013.

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

The changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2013 and 2012 are summarized as follows.

| | Loans Held for Sale (1) |
|---|-------------------------------|
| | (dollars in thousands) |
| Balance at January 1, 2013 | \$ 0 |
| Transfer from Level 2 to Level 3 (1) | 3,173 |
| Recoveries | (1,463) |
| Sales | (1,013) |
| Transfer from loans held for sale to other assets (1) | (697) |
| Balance at September 30, 2013 | <u>\$ 0</u> |

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

- (1) The Bancorp's policy is to recognize transfers between levels when events or circumstances warrant transfers. During the first quarter of 2013, a suspected fraud was discovered in the Bank's loans held-for-sale portfolio. Total loans involved in this fraud initially appeared to be \$5.2 million, and management believed the range of possible loss to have been between \$1.5 million and \$3.2 million. Accordingly, management provided a loss contingency of \$2.0 million at March 31, 2013. Due to the uncertainty surrounding the amount of loss, management transferred these loans and the related loss contingency from Level 2 to Level 3. During the second quarter of 2013, the Bank determined that an aggregate of \$1.0 million of the loans were not involved in the fraud, and these loans were subsequently sold. In addition, the Bank recovered \$1.5 million in cash from the alleged perpetrator. Since it was resolved that the loans no longer met the definition of "a loan," and since the Bank is pursuing restitution through the involved parties, the Bank determined this to be a receivable. As a result, the remaining aggregate of \$2.7 million of loans and the related \$2.0 million reserve were transferred to Other assets.

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2013 on a recurring and nonrecurring basis for which the Bancorp utilized Level 3 inputs to measure fair value. The valuation techniques, unobservable inputs, and ranges (weighted average) are the same as those disclosed at December 31, 2012.

| September 30, 2013 | Quantitative Information about Level 3 Fair Value Measurements | | | |
|-------------------------|--|--------------------------|--|------------------------------|
| | Fair Value | | | Range (Weighted Average) (3) |
| | Estimate | Valuation Technique | Unobservable Input (dollars in thousands) | |
| Impaired loans | \$ 7,850 | Collateral appraisal (1) | Liquidation expenses (2) | -3% to -8% (-5.5%) |
| Other real estate owned | \$ 10,259 | Collateral appraisal (1) | Liquidation expenses (2) | -3% to -8% (-5.5%) |

- (1) Obtained from independent third-parties approved appraisers. Appraisals are current and in compliance with credit policy. The Bancorp does not discount appraisals.
(2) Fair value is adjusted for costs to sell.
(3) Presented as a percentage of the value determined by appraisal.

NOTE 14 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Accounting Policy for Derivative Instruments and Hedging Activities

The Bancorp records all derivatives on the balance sheet at fair value. Currently, none of the derivatives are designated in qualifying hedging relationships. As such, all changes in fair value of the derivatives are recognized directly in earnings.

In accordance with U.S. GAAP, the Bancorp made an accounting policy election to measure credit risk of its derivative financial instruments that are subject to master netting agreements on a gross basis.

Risk Management Objectives of Using Derivatives

The Bancorp is exposed to certain risks arising from both its business operations and economic conditions. The Bancorp manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and durations of its assets and liabilities. The Bank's existing interest-rate derivatives result from a service provided to certain qualifying customers, and therefore, are not used to manage interest-rate risk in assets or liabilities. The Bank manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

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Derivatives Not Designated as Hedging Instruments

None of the Bancorp's derivatives are designated in qualifying hedging relationships. The derivatives not designated as hedges are not speculative and result from a service implemented in the first quarter of 2013 that the Bank provides to certain customers. The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies (typically the loan customers will swap a floating rate loan to fixed rate loan). The customer interest rate swaps are simultaneously offset by interest rate swaps that the Bank executes with a third party in order to minimize risk exposure resulting from such transactions. Since the interest rate swaps associated with this program do not meet the hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting market swaps are recognized directly in earnings. At September 30, 2013, the Bancorp had 16 interest rate swaps with an aggregate notional amount of \$99.9 million related to this program.

Fair Value of Derivative Instruments on the Balance Sheet

The following table presents the fair value of the Bancorp's derivative financial instruments as well as the classification on the balance sheet.

| Fair Value of Derivative Instruments September 30, 2013 | | | | |
|--|--------------|------------------------|-------------------|----------|
| Asset Derivatives | | Liability Derivatives | | |
| Balance sheet location | Fair value | Balance sheet location | Fair value | |
| (dollars in thousands) | | | | |
| Derivatives not designated as hedging instruments | | | | |
| Interest rate swap products | Other assets | \$ 1,911 | Other liabilities | \$ 1,871 |

Effect of Derivative Instruments on Comprehensive Income

The following table presents the effect of the Bancorp's derivative financial instruments on comprehensive income for the three and nine months ended September 30, 2013.

| Effect of Derivative Instruments on Comprehensive Income Three Months Ended September 30, 2013 | | |
|---|--|--------|
| Location of loss recognized in income on derivatives | Amount of loss recognized in income on derivatives | |
| (dollars in thousands) | | |
| Derivatives not designated as hedging instruments | | |
| Interest rate swap products | Other non-interest income | \$ 38 |
| Effect of Derivative Instruments on Comprehensive Income Nine Months Ended September 30, 2013 | | |
| Location of gain recognized in income on derivatives | Amount of gain recognized in income on derivatives | |
| (dollars in thousands) | | |
| Derivatives not designated as hedging instruments | | |
| Interest rate swap products | Other non-interest income | \$ 236 |

Credit-risk-related Contingent Features

By entering into derivative contracts, the Bank is exposed to credit risk. The credit risk associated with derivatives executed with Bank customers is the same as that involved in extending the related loans and is subject to the same standard credit policies. To mitigate the credit-risk exposure to major derivative dealer counterparties, the Bancorp only enters into agreements with those that maintain credit ratings of high quality.

Agreements with major derivative dealer counterparties contain provisions whereby default on any of the Bancorp's indebtedness would be considered a default on its derivative obligations. The Bancorp also has entered into agreements that contain provisions under which the counterparty could require the Bancorp to settle its obligations if the Bancorp fails to maintain its status as a well/adequately-capitalized institution. As of September 30, 2013, the termination value of derivatives in a net liability position (which includes accrued interest but excludes any adjustment for nonperformance-risk) related to these agreements was \$1.8 million. In addition, the Bancorp has minimum collateral posting thresholds with certain of these counterparties, and at September 30, 2013 had posted \$2.2 million as collateral.

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NOTE 15 — DISCLOSURES ABOUT OFFSETTING ASSETS AND LIABILITIES

The following tables present derivative instruments that are subject to enforceable master netting arrangements. The Bancorp has not made a policy election to offset its derivative positions.

| Offsetting of Financial Assets and Derivative Assets For the Nine Months Ended September 30, 2013 | | | | | | |
|--|--------------------------------------|---|--|---|-----------------------------|------------|
| Description | Gross amount of recognized assets | Gross amounts offset in the consolidated balance sheet | Net amounts of assets presented in the consolidated balance sheet (dollars in thousands) | Gross amounts not offset in the consolidated balance sheet | | |
| | | | | Financial instruments | Cash collateral received | Net amount |
| Interest rate swap derivatives with institutional counterparties | \$ 177 | \$ 0 | \$ 177 | \$ 177 | \$ 0 | \$ 0 |

| Offsetting of Financial Liabilities and Derivative Liabilities For the Nine Months Ended September 30, 2013 | | | | | | |
|--|---|---|---|---|----------------------------|------------|
| Description | Gross amount of recognized liabilities | Gross amounts offset in the consolidated balance sheet | Net amounts of liabilities presented in the consolidated balance sheet (dollars in thousands) | Gross amounts not offset in the consolidated balance sheet | | |
| | | | | Financial instruments | Cash collateral pledged | Net amount |
| Interest rate swap derivatives with institutional counterparties | \$ 1,746 | \$ 0 | \$ 1,746 | \$ 177 | \$ 1,569 | \$ 0 |

NOTE 16 — LOSS CONTINGENCY

During the first quarter of 2013, a suspected fraud was discovered in the Bank's loans held-for-sale portfolio. Total loans involved in this fraud initially appeared to be \$5.2 million, and management believed the range of possible loss to have been between \$1.5 million and \$3.2 million. Accordingly, management provided a loss contingency of \$2.0 million at March 31, 2013. During the second quarter of 2013, the Bank determined that an aggregate of \$1.0 million of the loans were not involved in the fraud, and these loans were subsequently sold. In addition, the Bank recovered \$1.5 million in cash from the alleged perpetrator. Since it was resolved that the loans no longer met the definition of "a loan," and since the Bank is pursuing restitution through the involved parties, the Bank determined this to be a receivable. As a result, the remaining aggregate of \$2.7 million of loans and the related \$2.0 million reserve were transferred to Other assets.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**Cautionary Note Regarding Forward-Looking Statements**

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

Management’s discussion and analysis represents an overview of the financial condition and results of operations, and highlights the significant changes in the financial condition and results of operations, as presented in the accompanying consolidated financial statements for Customers Bancorp, a financial holding company, and its wholly owned subsidiaries, including Customers Bank. This information is intended to facilitate your understanding and assessment of significant changes and trends related to Customers Bancorp’s financial condition and results of operations as of and for the three and nine months ended September 30, 2013. All quarterly information in this Management’s Discussion and Analysis is unaudited. You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operation” for the year ended December 31, 2012 included in Customers Bancorp’s filing on Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2012.

Critical Accounting Policies

We have 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 our financial statements. Our significant accounting policies are described in “NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES” to our audited financial statements for the year ended December 31, 2012 included in our 2012 Form 10-K, as supplemented by “Note 3 – Significant Accounting Policies” to our unaudited financial statements for the three and nine months ended September 30, 2013.

Certain accounting policies involve significant judgments and assumptions by Customers Bancorp that have a material impact on the carrying value of certain assets and liabilities. We consider 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 our assets and liabilities and our results of operations. Actual results could differ from these estimates. There have been no material changes in our critical accounting policies, judgments and estimates, including assumptions or estimation techniques utilized, as compared to those disclosed in our 2012 Form 10-K.

Third Quarter Events of Note

On August 17, 2013, we acquired \$1 million of Religare common stock from Religare Enterprises, Ltd. (“Religare”), and on September 18, 2013 we purchased \$22 million of Religare common stock from one of its promoters. Religare is a diversified financial services company in India that is applying for a banking license. Customers Bancorp is considering acquiring a warrant providing for Customers to purchase an additional 3.3 million shares of Religare Enterprises while maintaining its ownership of Religare Enterprises below 5%. Customers Bancorp would be required to fund 25% of the warrant exercise price at the time the warrant is acquired, and the balance of the purchase price upon execution of the warrant. The warrant would expire in 18 months. The warrant would be accounted for as a derivative.

Working with Religare, we also plan to establish a small group of personnel at Customers Bank that will cater to professionals from South Asia living in the United States and U.S. domiciled businesses that want to take advantage of opportunities in South East Asia. This is a rapidly growing niche in our core markets from Boston to Washington. We also expect to refer business opportunities in India to Religare and expect that Religare will refer business opportunities within the United States to us. We expect this investment and collaboration to enhance our shareholder value.

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Acquisition Activity

CMS Bancorp Acquisition

Customers Bancorp entered into an Amendment to Agreement and Plan of Merger (“Amendment”) to that certain Agreement and Plan of Merger, dated as of August 10, 2012 (“Merger Agreement”), by and between the Bancorp and CMS Bancorp, Inc. (“CMS”) on April 22, 2013.

The Amendment extended from April 30, 2013 to December 31, 2013 the initial date at which, if the merger of CMS with and into the Bancorp pursuant to the Merger Agreement, as amended, has not closed, either the Bancorp or CMS may terminate the Agreement, subject to the termination date being extended until March 31, 2014 under certain specified circumstances.

The Amendment also updated the definitions of “CMS Valuation” and “Customers Valuation,” establishing the valuation date for book value as of March 31, 2013. The exchange ratio will remain fixed until settlement, using the multiples of 0.95x for CMS common equity, and 1.25x for Customers common equity for purposes of calculating the exchange ratio.

Other key terms agreed to by the Bancorp and CMS under the Amendment provided for:

- CMS’s ability to have terminated the Merger Agreement, as amended, exercisable at any time after May 20, 2013, if either (i) the Bancorp had not made an investment in CMS of \$1.5 million of CMS Preferred Stock, or (ii) the Bancorp and CMS had not agreed upon the terms of a \$2.0 million senior secured lending facility that the Bancorp will make available to CMS;
- the Bancorp’s payment of \$300,000 to CMS as partial reimbursement for merger-related expenses incurred as of March 31, 2013; and
- the Bancorp to pay to CMS a termination fee of \$1.0 million in the event the Merger Agreement, as amended, is terminated under certain provisions primarily relating to failure to consummate the Parent Merger due to non-receipt of required government approvals.

On May 22, 2013, the Bancorp purchased \$1.5 million (1,500 shares) of CMS Series A Noncumulative Perpetual Preferred Stock, satisfying the first obligation listed above. On April 23, 2013, the Bancorp paid to CMS \$300,000, satisfying the second obligation listed above. The third obligation has not been triggered at this time.

Acacia Federal Savings Bank Acquisition

On April 4, 2013, Customers Bancorp, Acacia Life Insurance Company (“Acacia”) and Ameritas Life Insurance Corp. (together with Acacia, “Sellers”) announced a mutual decision, due to delays in the receipt of regulatory approvals, not to extend the term of that certain Stock Purchase Agreement, dated as of June 20, 2012, as amended by those certain Amendment to Stock Purchase Agreement, dated as of December 18, 2012, Amendment No. 2 to Stock Purchase Agreement dated as of January 30, 2013, and Amendment No. 3 to Stock Purchase Agreement dated as of February 28, 2013, by and among the Bancorp and Sellers (the “Purchase Agreement”). Instead, on April 4, 2013, the parties entered into a Termination and Non-Renewal Agreement to terminate the Purchase Agreement and the transactions contemplated thereby (the “Termination Agreement”). Each party will bear its own costs and expenses in connection with the terminated transaction, without penalties. The parties mutually agreed that the termination was in each company’s best interest. All of Bancorp’s costs related to this proposed transaction have been expensed.

New England Commercial Lending Acquisition

On March 28, 2013, Customers Bank completed the purchase of certain commercial loans from Michigan-based Flagstar Bank. Under the terms of the agreement, Customers Bank acquired \$182.3 million in commercial loan commitments, of which \$155.1 million had been drawn at March 28, 2013. Also, as part of the agreement, Customers Bank assumed the leases for two of Flagstar’s commercial lending offices in New England. The purchase price was 98.7% of loans outstanding.

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Results of Operations

Third Quarter 2013 Compared to Third Quarter 2012

Customers reported net income of \$8.2 million for the three months ended September 30, 2013 compared to net income of \$6.6 million for the three months ended September 30, 2012, an increase of \$1.6 million or 24.6%. Diluted earnings per share were \$0.33 for the three months ended September 30, 2013 and \$0.51 for the three months ended September 30, 2012, a decrease of \$0.18 per share or 35.0%. The decrease in diluted earnings per share was primarily the result of the inclusion of the 6.2 million shares issued in the public offering in May 2013 and the 7.1 million shares issued in the private offering in the third quarter of 2012 in the 2013 calculations of earnings per share which combined, significantly increased the number of shares used to calculate earnings per share. See “**NOTE 5 — EARNINGS PER SHARE.**”

Net Interest Income

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

| | Three Months Ended September 30, | | | | | |
|--|----------------------------------|-----------------------|----------|--------------------|-----------------------|----------|
| | 2013 | | | 2012 | | |
| | Average Balance | Interest Income or | Average | Average Balance | Interest Income or | Average |
| | | Expense | Yield or | | Expense | Yield or |
| | | | Cost | | | Cost |
| (dollars in thousands) | | | | | | |
| Assets | | | | | | |
| Interest earning deposits | \$ 231,378 | \$ 148 | 0.26% | \$ 144,892 | \$ 91 | 0.25% |
| Investment securities, taxable (A) | 235,913 | 1,423 | 2.41% | 129,848 | 805 | 2.48% |
| Investment securities, non-taxable (A) | 0 | 0 | 0.00% | 2,061 | 21 | 4.15% |
| Loans held for sale | 984,885 | 9,495 | 3.83% | 189,744 | 1,622 | 3.40% |
| Loans, taxable (B) | 1,982,282 | 22,363 | 4.48% | 1,900,313 | 25,368 | 5.31% |
| Loans, non-taxable (B) | 17,729 | 122 | 2.73% | 9,936 | 55 | 2.23% |
| Less: Allowance for loan losses | (27,725) | | | (14,574) | | |
| Total interest earning assets | 3,424,462 | 33,551 | 3.89% | 2,362,220 | 27,962 | 4.71% |
| Non-interest earning assets | 208,819 | | | 117,195 | | |
| Total assets | \$3,633,281 | | | \$2,479,415 | | |
| Liabilities | | | | | | |
| Interest checking | \$ 47,569 | 47 | 0.38% | \$ 36,253 | 47 | 0.51% |
| Money market | 1,154,541 | 2,055 | 0.71% | 930,935 | 1,720 | 0.74% |
| Other savings | 26,930 | 30 | 0.45% | 20,049 | 27 | 0.53% |
| Certificates of deposit | 1,332,815 | 3,338 | 0.99% | 947,607 | 3,397 | 1.43% |
| Total interest bearing deposits | 2,561,855 | 5,470 | 0.85% | 1,934,844 | 5,191 | 1.07% |
| Other borrowings | 244,149 | 1,077 | 1.75% | 164,163 | 216 | 0.52% |
| Total interest-bearing liabilities | 2,806,004 | 6,547 | 0.93% | 2,099,007 | 5,407 | 1.02% |
| Non-interest-bearing deposits | 439,271 | | | 190,977 | | |
| Total deposits & borrowings | 3,245,275 | | 0.80% | 2,289,984 | | 0.94% |
| Other non-interest bearing liabilities | 4,998 | | | 11,098 | | |
| Total liabilities | 3,250,273 | | | 2,301,082 | | |
| Shareholders' Equity | 383,008 | | | 178,333 | | |
| Total liabilities and shareholders' equity | \$3,633,281 | | | \$2,479,415 | | |
| Net interest earnings | | 27,004 | | | 22,555 | |
| Tax equivalent adjustment (C) | | 66 | | | 41 | |
| Net interest earnings | | \$ 27,070 | | | \$ 22,596 | |
| Interest spread | | | 3.09% | | | 3.77% |
| Net interest margin | | | 3.13% | | | 3.80% |
| Net interest margin tax equivalent (C) | | | 3.14% | | | 3.81% |

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

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

(C) Full tax equivalent basis, using a 35% statutory tax rate to approximate interest income as a taxable asset.

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Net interest income was \$27.0 million for the three months ended September 30, 2013, compared to \$22.6 million for the three months ended September 30, 2012, an increase of \$4.4 million or 19.7%. This net increase was attributable to increases of \$1.1 billion in average volume of average interest-earning assets, offset by an increase of \$707,000 in average interest-bearing liabilities. The primary driver of the increase in net interest income was higher loan volume from the following:

- \$368.9 million increase in average commercial loans primarily due to growth of the commercial real estate loan portfolio; and
- \$614.4 million increase in average multi-family loans due to growth of the multi-family lending business.

The key measure of our net interest income is net interest margin. Our net interest margin decreased to 3.14% for the three months ended September 30, 2013 from 3.81% for the same period in 2012. The decrease was driven by a decrease in the average yield on loans from 4.71% to 3.89%, primarily due to interest income of \$4.5 million recorded in the third quarter of 2012 attributable to the change in estimates of cash flows for purchased-credit-impaired loans. The effect of this decrease was somewhat offset by the decrease in the cost of deposits and borrowings which decreased from 0.94% to 0.80%.

Additionally, interest income from multi-family loans, and commercial real estate loans increased by \$5.6 million and \$1.1 million, respectively in addition to an increase in interest income from investment securities of \$597.4 million. Driving the rise in interest income was higher average loan volume for multi-family loans of \$614.4 million, and commercial loan volume of \$368.9 million. The higher loan volume was a result of our strategy to grow our multi-family and commercial real estate businesses. The purchase of approximately \$321.0 million of investment securities in the third quarter of 2013 led to their higher average volume in the third quarter of 2013 compared to the same quarter in 2012. Interest expense for borrowings increased by \$861,000. The average balance of borrowings increased by \$80.0 million which was primarily driven by the addition of the five year senior unsecured notes ("Senior Notes") in the amount of \$63.3 million during the third quarter of 2013. The Senior Notes carry a stated interest rate of 6.375% which led to the overall increase in borrowings costs of 1.23% when comparing the cost of 1.75% for the quarter ended September 30, 2013 versus 0.52% for the period ended September 30, 2012.

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as an expense on the consolidated statement of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. At September 30, 2013, approximately 2.69% of the loan portfolio was covered under loss sharing agreements with the FDIC. Charge-offs incurred above the original estimated value are taken as additional provisions, and a corresponding receivable due from the FDIC is recorded through non-interest income for the portion anticipated to be recovered under the loss sharing agreements.

The provision for loan losses decreased by \$9.4 million to \$750,000 for the three months ended September 30, 2013, compared to \$10.1 million for the same period in 2012. The decrease in the 2013 provision compared to the same period in 2012 results primarily from (i) \$7.5 million of impairment related to the purchased-credit-impaired adjustments made in 2012, and (ii) \$1.4 million in the third quarter of 2013 due to reduced loss factors resulting from sustained asset-quality and market improvements.

For more information about our provision and allowance for loan losses and our loss experience, see "Credit Risk" and "Asset Quality" herein.

Non-Interest Income

The chart below shows our results in the various components of non-interest income for the three months ended September 30, 2013 and 2012.

| | Three Months Ended September 30, | |
|--|---|-----------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Mortgage warehouse transactional fees | \$ 3,090 | \$ 3,346 |
| Bank-owned life insurance | 615 | 359 |
| Deposit fees | 198 | 124 |
| Gain on sale of investment securities, net | 0 | 0 |
| Accretion of FDIC loss sharing receivable | 0 | 1,296 |
| Loss on sale of loans | (6) | (71) |
| Other | 958 | 4,723 |
| Total non-interest income | <u>\$ 4,855</u> | <u>\$ 9,777</u> |

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Non-interest income was \$4.9 million for the three months ended September 30, 2013, a decrease of \$4.9 million from \$9.8 million for the three months ended September 30, 2012. Mortgage warehouse transactional fees decreased by \$256,000 due to a decline in this line of business which was driven by an increase in long-term rates in the market. This increase in rates resulted in a decrease in refinancing of mortgage loan volumes. Bank-owned life insurance (BOLI) income increased \$256,000 from the third quarter ended September 30, 2012 to September 30, 2013. This was the direct result of additional earnings on BOLI which was initiated by several purchases of BOLI throughout 2013 for a total amount of \$28.0 million. There was also a decrease in accretion of the FDIC loss sharing receivable in the amount of \$1.3 million for the quarter ended September 30, 2013 compared to September 30, 2012. This was the result of a one-time benefit from FDIC indemnification of losses on loans in 2012. Lastly, the majority of the \$3.8 million decrease in other non-interest income from \$4.7 million for the quarter ended September 30, 2012 to \$958,000 for the quarter ended September 30, 2013 was the result of \$4.4 million related to the change in accounting estimate for the purchased-credit-impaired loans during the quarter ended September 30, 2012.

Non-Interest Expense

The below chart shows our results in the various components of non-interest expense for the three months ended September 30, 2013 and 2012.

| | Three Months Ended September 30, | |
|--|----------------------------------|-----------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Salaries and employee benefits | \$ 8,963 | \$ 5,978 |
| Occupancy | 2,289 | 1,709 |
| Professional services | 1,191 | 819 |
| Technology, communications and bank operations | 1,121 | 699 |
| FDIC assessments, taxes and regulatory fees | 1,105 | 669 |
| Loan workout | 928 | 617 |
| Advertising and promotion | 450 | 270 |
| Other real estate owned | 401 | (276) |
| Stock-offering expenses | 0 | 97 |
| Other | 1,899 | 1,424 |
| Total non-interest expenses | \$ 18,347 | \$ 12,006 |

Non-interest expense was \$18.3 million for the three months ended September 30, 2013, an increase of \$6.3 million as compared to non-interest expense of \$12.0 million for the same period in 2012.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased by 49.9% or \$3.0 million to \$9.0 million in the third quarter of 2013 versus \$6.0 million in the same period in 2012. The primary reason for this increase was the addition of 109 full-time equivalent employees since September 30, 2012. This was directly related to the need for additional employees to support our organic growth and the expansion into new markets. Specifically, the increased headcount is needed to support our growing commercial loan, commercial real estate, and mortgage banking businesses and the related administrative support.

Occupancy expense increased by 33.9%, or \$580,000, rising from \$1.7 million in the third quarter of 2012 to \$2.3 million in the third quarter of 2013. The increase was related to building the infrastructure to support our growth as well as the cost of expansion into new markets.

Technology communication and bank operations increased by 60.4% or \$422,000, from \$699,000 in the third quarter of 2012 to \$1.1 million in the third quarter of 2013. The primary reason for this increase was related to building the infrastructure to support the growth through increased technology improvements and upgrades as well as the costs related to expanding of technological platforms into new markets. This corresponds with our philosophy of “high touch, high tech”, whereby we provide an exceptional level of customer service supported by state-of-the-art technology.

Professional services expense increased to \$1.2 million in the third quarter of 2013 from \$819,000 for the same period of 2012. This increase was primarily attributable to higher legal and consulting expenses in 2013 related to regulatory filings and other matters resulting from a growing business.

FDIC assessments, taxes and regulatory fees increased by 65.1% or \$436,000 from \$669,000 in the third quarter of 2012 to \$1.1 million in the third quarter of 2013. The primary reason for this increase was related to higher Pennsylvania bank shares tax expense that resulted from legislative changes to the tax calculation, in the amount of \$585,000 during the third quarter of 2013 compared to \$86,000 in the same period of 2012. This was offset in part by a decrease in state franchise and sales and use tax in the amount of \$43,000 from the third quarter of 2012 as compared to the same quarter of 2013. Lastly, other regulatory and filing fees decreased by \$23,000 to \$15,000 in the third quarter of 2013 as compared to \$38,000 during the third quarter of 2012.

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Loan workout expenses increased \$311,000 to \$928,000 in the third quarter of 2013 from \$617,000 in the third quarter of 2012 as a result of certain unreimbursed costs incurred to pursue collection and recovery of non-performing assets.

Other expenses increased to \$1.9 million in the third quarter of 2013 compared to \$1.4 million in the third quarter of 2012. Loan origination expense increased by \$355,000 for the three months ended September 30, 2013, compared to the same period in 2012. This increase correlates to the growth in the commercial real estate and multi-family portfolios. Business development, which includes travel and entertainment expenses, also increased ratably to \$382,000 in the third quarter of 2013 from \$219,000 in the third quarter of 2012, \$162,000 period over period increase. In addition, postage and shipping costs were \$289,000 in the third quarter ended 2013 compared to \$144,000, a \$145,000 increase. This was offset by a decrease of \$301,000, \$31,000 and \$35,000 in loan insurance expense, supplies and uninsured loss expenses, respectively, for the quarter ended September 30, 2013 in contrast to the quarter ended September 30, 2012.

Income Taxes

The income tax expense was \$4.5 million and \$3.6 million for the three months ended September 30, 2013 and 2012, respectively. The increase in the income tax provision is primarily due to the increase in net income before taxes of approximately \$2.6 million.

The effective tax rate for the three months ended September 30, 2013 and 2012 was approximately 35 percent.

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Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012

We had net income of \$23.7 million for the nine months ended September 30, 2013 and net income of \$16.3 million for the nine months ended September 30, 2012, an increase of \$7.4 million or 45.7%. Diluted earnings per share were \$1.07 for the nine months ended September 30, 2013 and \$1.35 per share for the nine months ended September 30, 2012, a comparative decrease of \$0.28 per share or 21.1%. The decrease in diluted earnings per share was primarily the result of the inclusion of the 6.2 million shares issued in the public offering in May 2013 and the 7.1 million shares issued in the private offering in the third quarter of 2012 in the 2013 calculations of earnings per share. See “**NOTE 5 — EARNINGS PER SHARE.**”

Net-Interest Income

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

| | For the Nine Months Ended September 30, | | | | | |
|---|---|----------------------------|------------------------|--------------------|----------------------------|-----------------------|
| | 2013 | | | 2012 | | |
| | Average Balance | Interest Income or Expense | Average Yield or Cost | Average Balance | Interest Income or Expense | Average Yield or Cost |
| | | | (dollars in thousands) | | | |
| Assets | | | | | | |
| Interest earning deposits | \$ 195,164 | \$ 370 | 0.25% | \$ 117,326 | \$ 225 | 0.26% |
| Investment securities, taxable (A) | 187,173 | 3,334 | 2.37% | 255,804 | 5,936 | 3.09% |
| Investment securities, non taxable (A) | 0 | 0 | 0.00% | 2,065 | 64 | 4.15% |
| Loans held for sale | 1,088,585 | 31,536 | 3.87% | 151,518 | 4,113 | 3.63% |
| Loans, taxable (B) | 1,688,372 | 57,489 | 4.55% | 1,522,979 | 55,850 | 4.90% |
| Loans, non-taxable (B) | 14,604 | 291 | 2.66% | 6,581 | 110 | 2.24% |
| Less: Allowance for loan losses | (26,858) | | | (15,262) | | |
| Total interest earning assets | 3,147,040 | 93,020 | 3.95% | 2,041,011 | 66,298 | 4.34% |
| Non-interest earning assets | 180,150 | | | 115,109 | | |
| Total assets | \$3,327,190 | | | \$2,156,120 | | |
| Liabilities | | | | | | |
| Interest checking | \$ 42,561 | 131 | 0.41% | \$ 35,162 | 146 | 0.55% |
| Money market | 1,072,581 | 5,623 | 0.70% | 814,935 | 5,717 | 0.94% |
| Other savings | 24,359 | 86 | 0.47% | 19,561 | 86 | 0.59% |
| Certificates of deposit | 1,268,529 | 9,902 | 1.04% | 859,036 | 9,738 | 1.51% |
| Total interest bearing deposits | 2,408,030 | 15,742 | 0.87% | 1,728,694 | 15,687 | 1.21% |
| Other borrowings | 258,021 | 1,757 | 0.91% | 98,699 | 494 | 0.67% |
| Total interest-bearing liabilities | 2,666,051 | 17,499 | 0.88% | 1,827,393 | 16,181 | 1.18% |
| Non-interest-bearing deposits | 321,925 | | | 158,839 | | |
| Total deposits & borrowings | 2,987,976 | | 0.78% | 1,986,232 | | 1.09% |
| Other non-interest bearing liabilities | 10,908 | | | 8,506 | | |
| Total liabilities | 2,998,884 | | | 1,994,738 | | |
| Shareholders' Equity | 328,306 | | | 161,382 | | |
| Total liabilities and shareholders' equity | \$3,327,190 | | | \$2,156,120 | | |
| Net interest earnings | | 75,521 | | | 50,117 | |
| Tax equivalent adjustment (C) | | 157 | | | 94 | |
| Net interest earnings | | <u>\$75,678</u> | | | <u>\$50,211</u> | |
| Interest spread | | | <u>3.17%</u> | | | <u>3.25%</u> |
| Net interest margin (D) | | | <u>3.21%</u> | | | <u>3.28%</u> |
| Net interest margin tax equivalent (C) | | | <u>3.21%</u> | | | <u>3.29%</u> |

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

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

(C) Full tax equivalent basis, using a 35% statutory tax rate to approximate interest income as a taxable asset.

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Net interest income was \$75.5 million for the nine months ended September 30, 2013, compared to \$50.1 million for the three months ended September 30, 2012, an increase of \$25.4 million or 50.1%. This net increase was attributable to increases of \$1.1 billion in level of average interest-earning assets, offset in part by an increase of \$839,000 in average interest-bearing liabilities. The primary driver of the increase in net interest income was from higher loan volume from the following:

- \$368.9 million increase in average commercial loans primarily due to growth of the commercial real estate loan portfolio, and
- \$614.4 million increase in average multi-family loans due to growth of the multi-family lending business.

The key measure of our net interest income is net interest margin. Our net interest margin decreased to 3.21% for the nine months ended September 30, 2013 from 3.29% for the same period in 2012. The decrease was driven by a decrease in the average yield on loans from 4.34% to 3.95%, primarily due to interest income of \$4.5 million recorded in the third quarter of 2012 attributable to the change in estimates of cash flows for purchased-credit-impaired loans. The effect of this decrease was somewhat offset by the decrease in the cost of deposits and borrowings which decreased from 1.09% to 0.78%.

Additionally, interest income from multi-family loans, and commercial real estate loans increased by \$12.9 million and \$7.9 million, respectively, offset by a decrease in interest income from investment securities of \$2.7 million. The reduction in investment interest income was the result of the sale of investment securities in the amount of \$306.6 million for the nine months ended September 30, 2012. Driving the rise in interest income was higher average loan volume for multi-family loans of \$614.4 million, and commercial loan volume of \$368.9 million. The higher loan volume was a result of our strategy to grow our multi-family and commercial real estate businesses. The purchase of approximately \$321.0 million of investment securities during the quarter ended September 30, 2013 had minimal effect on average volume for the nine months ended September 30, 2013 as compared to the same period in 2012. Interest expense for borrowings increased by \$1.3 million. The average balance of borrowings increased by \$80.0 million which was primarily driven by the addition of the Senior Notes in the amount of \$63.3 million during the third quarter of 2013. The Senior Notes carry a stated interest rate of 6.375% which led to an overall increase in borrowings costs of 0.24% when comparing the cost of 0.91% for the nine months ended September 30, 2013 to 0.67% for the period ended September 30, 2012. The increased borrowing cost was offset in part by a \$339,000 decrease in short-term borrowed funds during the nine months ended September 30, 2013.

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as an expense on the statement of income. The loan portfolio is reviewed quarterly to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. At September 30, 2013, approximately 2.69% of the loan portfolio was covered under loss sharing agreements with the FDIC. Charge-offs incurred above the original estimated value are taken as additional provisions and a corresponding receivable due from the FDIC is recorded through non-interest income for the portion anticipated to be recovered under the loss sharing agreements.

The provision for loan losses decreased by \$8.2 million to \$6.5 million for the nine months ended September 30, 2013, compared to \$14.7 million for the same period in 2012. The decrease in the 2013 provision compared to the same period in 2012 results primarily from (i) \$7.5 million of impairment related to the purchased-credit-impaired adjustments made in 2012, and (ii) \$1.4 million in the third quarter of 2013 due to reduced loss factors resulting from sustained asset-quality and market improvements.

Non-Interest Income

The chart below shows our results in the various components of non-interest income for the nine months ended September 30, 2013 and 2012.

| | Nine Months Ended September 30, | |
|--|---------------------------------|------------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Mortgage warehouse transactional fees | \$ 10,626 | \$ 8,829 |
| Bank-owned life insurance | 1,658 | 948 |
| Deposit fees | 487 | 357 |
| Gain on sale of investment securities, net | 0 | 9,006 |
| Accretion of FDIC loss sharing receivable | 3,722 | 1,951 |
| Gain on sale of loans | 402 | 268 |
| Other | 2,253 | 5,388 |
| Total non-interest income | <u>\$ 19,148</u> | <u>\$ 26,747</u> |

Non-interest income was \$19.1 million for the nine months ended September 30, 2013, a decrease of \$8.0 million from \$26.7 million for the nine months ended September 30, 2012. The decrease was primarily the result of the \$9.0 million gain realized on the sale of

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available-for-sale securities, the majority of which were realized in the second quarter of 2012 in the amount of \$8.8 million, which was executed to provide funding for loan growth. Warehouse fee income was \$10.6 million for the nine months ended September 30, 2013, an increase of \$1.8 million from \$8.8 million for the nine months ended September 30, 2012. Although the overall warehouse loan balance has decreased significant from the prior year, there have been approximately 20,000 more loans funded as of September 30, 2013 compared to September 30, 2012 which increases the fee income (which is based on loan volume). In addition, bank owned life insurance as well as accretion of FDIC loss sharing receivable resulted in increases of \$710,000 and \$1.8 million, respectively, in non-interest income when comparing the nine months ended September 30, 2013 and 2012. Lastly, the majority of the \$3.1 million decrease in other non-interest income from \$5.4 million for the nine months ended September 30, 2012 to \$2.3 million for the nine months ended September 30, 2013 was the result of \$4.4 million related to the change in accounting estimate for the purchased-credit-impaired loans during the quarter ended September 30, 2012.

Non-Interest Expense

The below chart shows our results in the various components of non-interest expense for the nine months ended September 30, 2013 and 2012.

| | Nine Months Ended September 30, | |
|---|---------------------------------|------------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Salaries and employee benefits | \$ 24,868 | \$ 17,073 |
| Occupancy | 6,309 | 4,937 |
| Professional services | 3,149 | 2,474 |
| Technology, communications, and bank operations | 3,023 | 2,037 |
| FDIC assessments, taxes and regulatory fees | 3,510 | 2,205 |
| Loan workout | 1,674 | 1,519 |
| Advertising and promotion | 973 | 846 |
| Other real estate owned | 962 | 539 |
| Loss contingency | 2,000 | 0 |
| Stock-offering expenses | 0 | 1,437 |
| Other | 5,254 | 4,140 |
| Total non-interest expenses | <u>\$ 51,722</u> | <u>\$ 37,207</u> |

Non-interest expense was \$51.7 million for the nine months ended September 30, 2013, an increase of \$14.5 million as compared to non-interest expense of \$37.2 million for the same period in 2012.

Salaries and employee benefits, which represent the largest component of non-interest expense, increased by 45.7% or \$7.8 million to \$24.9 million for the nine months ended September 30, 2013 versus \$17.1 million in the same period in 2012. The primary reason for this increase was the addition of 109 full-time equivalent employees since September 30, 2012. This was directly related to the need for additional employees to support our organic growth and the expansion into new markets, including the need to support the growing commercial loan, commercial real estate, and mortgage banking businesses and the related administrative support.

Occupancy expense increased by 27.8% or \$1.4 million, rising from \$4.9 million for the nine months ended September 30, 2012 to \$6.3 million for the same period in 2013. The increase was related to building the infrastructure to support our growth as well as the cost of expansion into new markets.

Technology, communications and bank operations expense increased by 48.4% or \$1.0 million, from \$2.0 million for the nine months ended September 30, 2012 to \$3.0 million in the same period of 2013. The primary reason for this increase was related to building the infrastructure to support the growth through increased technology improvements and upgrades as well as the costs related to expanding of technological platforms into new markets. This corresponds with our philosophy of “high touch, high tech”, whereby we provide an exceptional level of customer service supported by state-of-the-art technology.

Professional services expense increased to \$0.7 million for the nine months ended September 30, 2013 when compared to \$2.5 million for the same period of 2012. This increase was primarily attributable to higher legal and consulting expenses in 2013 related to regulatory filings and other matters.

Management provided for a loss contingency of \$2.0 million during the nine months ended September 30, 2013, in relation to a suspected fraud. Due to the uncertainty surrounding the amount of loss, a range of possible loss could be as low as \$1.0 million or less to a maximum of \$2.7 million.

The stock-offering expenses of \$1.4 million recorded in 2012 were a result of the termination of Customers’ public offering of Voting Common Stock in May 2012.

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FDIC assessments, taxes and regulatory fees increased by 59.2% or \$1.3 million from \$2.2 million for the nine months ended September 30, 2012 to \$3.5 million for the same period of 2013. The primary reason for this increase was related to higher Pennsylvania bank shares tax expense that resulted from legislative changes to the tax calculation, in the amount of \$1.1 million during the third quarter of 2013 compared to the same period ended 2012 which approximated \$529,000 and the growth in assets. This was offset by a decrease in state franchise and sales and use tax in the amount of \$46,000 from the third quarter of 2012 as compared to the same quarter of 2013. Lastly, other regulatory and filing fees decreased by \$23,000 to \$33,000 in the third quarter of 2013 as compared to \$56,000 during the third quarter of 2012.

Income Taxes

The income tax expense was \$12.8 million and \$8.8 million for the nine months ended September 30, 2013 and 2012. The increase in the income tax provision is primarily due to the increase in net income before taxes of approximately \$11.5 million. The effective tax rate for the nine months ended September 30, 2013 and 2012 was approximately 35 percent.

Financial Condition

General

Total assets were \$3.9 billion at September 30, 2013, a \$723.9 million, or 22.6%, increase from total assets of \$3.2 billion at December 31, 2012. Total liabilities were \$3.5 billion at September 30, 2013, an increase of \$604.5 million, or 20.6%, from total liabilities of \$2.9 billion at December 31, 2012.

The major changes within our financial position occurred as the result of the growth in loans receivable not covered by loss sharing agreements with the FDIC, which increased by 65.9% or \$801.6 million to \$2.0 billion at September 30, 2013, from \$1.2 billion at December 31, 2012. Approximately 19.3% of the loan growth from December 31, 2012 was the result of the purchase of \$155.1 million of commercial loans from Flagstar Bank on March 28, 2013. In addition, as part of our organic growth strategy, we plan to establish a branch in the City of Philadelphia with the intention of servicing underserved and lower-and-moderate-income customers.

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

| | September 30, 2013 | December 31, 2012 |
|---|------------------------|----------------------|
| | (dollars in thousands) | |
| Cash and cash equivalents | \$ 255,653 | \$ 186,016 |
| Investment securities, available for sale | 497,566 | 129,093 |
| Loans held for sale (including \$840,425 and \$1,248,935 of mortgage warehouse loans at fair value at September 30, 2013 and December 31, 2012) | 917,939 | 1,439,889 |
| Loans receivable not covered under FDIC Loss Sharing Agreements | 2,018,532 | 1,216,941 |
| Loans receivable covered under FDIC Loss Sharing Agreements | 81,255 | 107,526 |
| Total loans receivable, net of the allowance for loan losses | 2,072,987 | 1,298,630 |
| Total assets | 3,925,112 | 3,201,234 |
| Total deposits | 3,243,312 | 2,440,818 |
| Federal funds purchased | 0 | 5,000 |
| Total other borrowings | 235,250 | 471,000 |
| Subordinated debt | 2,000 | 2,000 |
| Total liabilities | 3,536,227 | 2,931,759 |
| Total shareholders' equity | 388,885 | 269,475 |
| Total liabilities and shareholders' equity | 3,925,112 | 3,201,234 |

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash and due from banks and interest earning deposits. Cash and due from banks consisted mainly of vault cash and cash items in the process of collection which amounted to \$88.3 million and \$12.9 million at September 30, 2013 and December 31, 2012, respectively. In addition, the interest-bearing deposits portion of cash and cash equivalents is primarily comprised of balances at the Federal Reserve Bank in the amount of \$163.2 million and \$172.0 million at September 30, 2013 and December 31, 2012, as well as at the Federal Home Loan Bank of Pittsburgh in the amount of \$1.2 million at September 30, 2013 and \$1.1 million at December 31, 2012. In total, cash and cash equivalents increased \$69.6 million, or 37.4%, to \$255.7 million at September 30, 2013 when compared to \$186.0 million at December 31, 2012.

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Investment Securities

Our 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 or non-agency) and domestic corporate debt. In addition to generating revenue, the investment portfolio is maintained to manage interest-rate risk, provide liquidity, provide collateral for other borrowings, and diversify the credit risk of earning assets. The portfolio is structured to maximize net interest income, given changes in the economic environment, liquidity position, and balance sheet mix.

At September 30, 2013, our investment securities were \$497.6 million compared to \$129.1 million in December 31, 2012. During the nine months that ended September 30, 2013, the Bank used excess liquidity to purchase Agency Mortgage-Backed Securities, some of which qualified as CRA-eligible investments. The CRA-eligible securities are comprised of loans in our assessment area. During the third quarter, the Bank invested excess liquidity generated from a reduction in warehouse loan balances and increased non-interest bearing demand deposit account's into well-structured Agency Collateralized Mortgage-Backed Securities.

Unrealized gains and losses on available-for-sale securities are included in other comprehensive income and reported as a separate component of shareholders' equity, net of the related tax effect.

Loans

Existing lending relationships are primarily with small businesses and individual consumers largely in Bucks, Berks, Chester, Montgomery, Delaware, and Philadelphia Counties, Pennsylvania; Camden and Mercer Counties, New Jersey; and Westchester County and New York City, New York; and the New England area. The loan portfolio is primarily comprised of mortgage warehouse, commercial real estate, construction, and commercial and industrial loans.

Mortgage warehouse loans and certain residential loans expected to be sold are classified as loans held for sale. Loans held for sale totaled \$0.9 billion and \$1.4 billion at September 30, 2013 and December 30, 2012, respectively. Loans held for sale are not included in the loan receivable amounts. The mortgage warehouse product line provides financing to mortgage companies nationwide from the time of the home purchase or refinancing of a mortgage loan through the sale of the loan by the mortgage originator into the secondary market, either through a repurchase facility or the purchase of the underlying mortgages. As a mortgage warehouse lender, we provide a form of financing to mortgage bankers by purchasing for resale the underlying residential mortgages on a short-term basis under a master repurchase agreement. We are subject to the risks associated with such lending, including, but not limited to, the risks of fraud, bankruptcy and default of the mortgage banker or of the underlying residential borrower, any of which could result in credit losses. The mortgage warehouse lending division monitors these mortgage originators by obtaining financial and other relevant information to reduce these risks during the lending period.

Loans receivable, net, increased by \$744.4 million to \$2.1 billion at September 30, 2013 from \$1.3 billion at December 31, 2012. In the first quarter of 2013, the bank acquired \$182.3 million in commercial loan commitments from Michigan-based Flagstar Bank of which \$151.6 million is currently outstanding. In addition, the increase in Loans receivable, net, was also attributable to higher balances for commercial real estate of \$655.4 million. The commercial real estate loan balance is increasing due to execution of Customers' organic growth strategy. Offsetting these increases in part was normal loan runoff for purchased-credit-impaired and covered loans.

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On March 28, 2013, Customers Bank completed the purchase of certain commercial loans from Michigan-based Flagstar Bank. Under the terms of the agreement, Customers Bank acquired \$182.3 million in commercial loan commitments, of which \$155.1 million was outstanding. Also, as part of the agreement, Customers Bank assumed the leases for two of Flagstar's commercial lending offices in New England. The purchase price was 98.7% of loan principal balance outstanding. The composition of net loans receivable at September 30, 2013 and December 31, 2012 was as follows:

| | September 30, | December 31, |
|---|------------------------|---------------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Construction | \$ 22,192 | \$ 27,792 |
| Commercial real estate | 29,623 | 44,901 |
| Commercial and industrial | 6,826 | 11,153 |
| Residential real estate | 19,233 | 19,952 |
| Manufactured housing | 3,381 | 3,728 |
| Total loans receivable covered under FDIC loss sharing agreements (1) | 81,255 | 107,526 |
| Construction | 34,674 | 28,897 |
| Commercial real estate | 1,490,930 | 835,488 |
| Commercial and industrial | 213,794 | 75,118 |
| Mortgage warehouse | 1,006 | 9,565 |
| Manufactured housing | 142,677 | 154,703 |
| Residential real estate | 133,503 | 109,430 |
| Consumer | 1,889 | 2,061 |
| Total loans receivable not covered under FDIC loss sharing agreements | 2,018,473 | 1,215,262 |
| Total loans receivable | 2,099,728 | 1,322,788 |
| Deferred (fees) costs, net | 59 | 1,679 |
| Allowance for loan losses | (26,800) | (25,837) |
| Loans receivable, net | <u>\$ 2,072,987</u> | <u>\$ 1,298,630</u> |

- (1) Loans that were acquired in two FDIC assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as "covered" loans throughout this Management's Discussion and Analysis.

The commercial and construction credit loan relationships are monitored on a periodic basis to evaluate the cash flows available for the repayment of loans. Management emphasizes loan quality and close monitoring of potential problem credits. Credit risk identification and review processes are utilized to assess and monitor the degree of risk in the loan portfolio. The lending and credit administration groups are charged with reviewing the loan portfolio and identifying changes in the economy or in a borrower's circumstances which may affect the borrower's ability to repay the loan, or the underlying value of the pledged collateral. Covered loans are monitored and evaluated in the same manner to address the provision of the loss sharing arrangements with the FDIC.

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

Other than the concentrations already addressed in warehouse lending, construction and commercial real estate, and manufactured housing, at September 30, 2013, we had no large exposures in other risky industries such as restaurants, home heating oil businesses or other industries that are typically viewed as high risk.

Credit Risk

Customers Bancorp manages credit risk by maintaining diversification in its loan portfolio, by establishing and enforcing rigorous underwriting standards, by intensive collection efforts and by establishing and performing periodic loan classification reviews. Management also considers credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged when they are identified and to which provisions are added when it is appropriate, or at least quarterly. The allowance for loan losses is evaluated periodically as management deems appropriate. The provision for loan losses was \$750 thousand and \$10.1 million for the three months ended September 30, 2013 and 2012, respectively and \$6.5 million and \$14.7 million for the nine months ended September 30, 2013 and 2012, respectively. The allowance for loan losses was \$26.8 million or 1.33% of total non-covered loans at September 30, 2013 and \$25.8 million, or 1.20% of total non-covered loans, at December 31, 2012.

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

Analysis of the Allowance for Loan Losses

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (dollars in thousands) | | | |
| Balance at the beginning of the period | \$28,142 | \$16,118 | \$25,837 | \$15,032 |
| Loan charge-offs | | | | |
| Construction | 0 | 475 | 1,470 | 2,666 |
| Commercial real estate | 851 | 283 | 2,742 | 1,426 |
| Commercial and industrial | 1,311 | 266 | 1,407 | 300 |
| Residential real estate | 116 | 365 | 315 | 565 |
| Consumer and other | 16 | 27 | 16 | 37 |
| Total Charge-offs | <u>2,294</u> | <u>1,416</u> | <u>5,950</u> | <u>4,994</u> |
| Loan recoveries | | | | |
| Construction | 0 | 3 | 0 | 3 |
| Commercial real estate | 186 | 33 | 246 | 83 |
| Commercial and industrial | 16 | 98 | 181 | 164 |
| Residential real estate | 0 | 0 | 7 | 5 |
| Consumer and other | 0 | 22 | 9 | 27 |
| Total Recoveries | <u>202</u> | <u>156</u> | <u>443</u> | <u>282</u> |
| Total net charge-offs | 2,092 | 1,260 | 5,507 | 4,712 |
| Provision for loan losses | 750 | 10,116 | 6,470 | 14,654 |
| Balance at the end of the period | <u>\$26,800</u> | <u>\$24,974</u> | <u>\$26,800</u> | <u>\$24,974</u> |

Asset Quality

Customers Bank reported impaired loans totaling \$50.3 million at September 30, 2013, compared to \$56.0 million at December 31, 2012. Non-accrual non-covered loans totaled \$14.9 million at September 30, 2013, down from \$22.3 million at December 31, 2012. Customers had net charge-offs of \$2.1 million for the third quarter of 2013 and \$1.3 million for the third quarter of 2012. Customers had net charge-offs of \$5.5 million for the nine months ended September 30, 2013 and \$4.7 million for the nine months ended September 30, 2012. There was \$5.8 million and \$4.0 million of non-covered other real estate owned as a result of foreclosure or voluntary transfer to us at September 30, 2013 and December 31, 2012, respectively.

To better understand our asset quality and related reserve adequacy, Customers breaks loan portfolio into two categories; loans that were originated and loans that were acquired. The analysis further divides purchased loans into categories for those purchased at a credit discount, and those not acquired with credit discount. Management believes that this additional information allows investors to better understand the risk in our portfolio and the various types of credit reserves that are available to support loan losses in the future. Originated loans risk of future losses are supported with the allowance for loan loss reserves. Acquired loans are supported with allowance for loan losses, non-accretable difference fair value marks, and cash reserves, as described below. This schedule includes both loans held for sale and loans held for investment.

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Asset Quality at September 30, 2013

| Asset Quality at September 30, 2015 | | | | | | | | | | NPLs to | |
|---|-------------|-----------|-------------|------------|-----------------------------------|-----------------------|----------|--------------|---------------------|--------------------------|------------------------|
| Loan Type | Total Loans | PCI Loans | Current | 30-89 Days | Greater than 90 Days and Accruing | Non-accrual/ NPLs (a) | OREO (b) | NPAs (a)+(b) | Total Loan Type (%) | NPAs to Loans + OREO (%) | |
| | | | | | | | | | | | (dollars in thousands) |
| Originated Loans | | | | | | | | | | | |
| Legacy (originated prior to September 2009) | \$ 80,685 | \$ 0 | \$ 69,679 | \$ 400 | \$ 0 | \$ 10,606 | \$ 4,128 | \$14,734 | 13.15 | 18.26 | |
| Warehouse - Repo | 5,606 | 0 | 5,606 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Warehouse and Mortgage Held for Sale | 917,939 | 0 | 917,939 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Manufactured | 4,008 | 0 | 3,998 | 10 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Commercial | 609,032 | 0 | 608,502 | 0 | 0 | 530 | 0 | 530 | 0.09 | 0.09 | |
| Multi-family | 860,634 | 0 | 860,634 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Consumer/Mortgage | 105,236 | 0 | 105,236 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| TDRs | 1,936 | 0 | 1,576 | 0 | 0 | 360 | 0 | 360 | 18.60 | 18.60 | |
| Total Originated Loans | 2,585,076 | 0 | 2,573,170 | 410 | 0 | 11,496 | 4,128 | 15,624 | 0.44 | 0.60 | |
| Acquired Loans | | | | | | | | | | | |
| Berkshire | 12,417 | 0 | 10,071 | 0 | 0 | 2,346 | 1,251 | 3,597 | 18.89 | 28.97 | |
| FDIC - Covered | 50,447 | 0 | 44,622 | 38 | 0 | 5,787 | 7,839 | 13,626 | 11.47 | 27.01 | |
| FDIC - Non-covered | 18 | 0 | 18 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Manufactured Housing 2010 | 76,638 | 0 | 72,813 | 3,825 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Manufactured Housing 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 384 | 384 | 0.00 | 100.00 | |
| Manufactured Housing 2012 | 54,612 | 0 | 49,088 | 2,429 | 3,095 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Flagstar | 148,570 | 0 | 148,570 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| TDRs | 2,987 | 0 | 1,791 | 95 | 0 | 1,101 | 0 | 1,101 | 36.86 | 36.89 | |
| Total Acquired Loans | 345,689 | 0 | 326,973 | 6,387 | 3,095 | 9,234 | 9,474 | 18,708 | 2.67 | 5.41 | |
| Acquired PCI Loans | | | | | | | | | | | |
| Berkshire | 51,688 | 51,688 | 46,841 | 327 | 4,520 | 0 | 0 | 0 | 0.00 | 0.00 | |
| FDIC - Covered | 30,187 | 30,187 | 4,402 | 0 | 25,785 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Manufactured Housing 2011 | 5,884 | 5,884 | 2,666 | 731 | 2,487 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Total Acquired PCI Loans | 87,759 | 87,759 | 53,909 | 1,058 | 32,792 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Subtotal | 3,018,524 | 87,759 | 2,954,052 | 7,855 | 35,887 | 20,730 | 13,602 | 34,332 | 0.00 | 0.00 | |
| Unearned Origination Fees | 59 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Fair Value Adjustment | (857) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | |
| Total Portfolio | \$3,017,726 | \$87,759 | \$2,954,052 | \$7,855 | \$35,887 | \$ 20,730 | \$13,602 | \$34,332 | 0.69 | 1.14 | |

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Asset Quality at September 30, 2013 (continued)

| Asset Quality at September 30, 2015 (continued) | | | | | | | Reserves | |
|---|-------------|----------|----------|--------------|--------------|-----------------------|--------------|----------------------|
| Loan Type | Total Loans | NPLs | ALL | Credit Marks | Cash Reserve | Total Credit Reserves | to Loans (%) | Reserves to NPLs (%) |
| (dollars in thousands) | | | | | | | | |
| Originated Loans | | | | | | | | |
| Legacy (originated prior to September 2009) | \$ 80,685 | \$10,606 | \$ 2,820 | \$ 0 | \$ 0 | \$ 2,820 | 3.50 | 26.59 |
| Warehouse - Repo | 5,606 | 0 | 42 | 0 | 0 | 42 | 0.75 | n/a |
| Warehouse and Mortgage Held for Sale | 917,939 | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| Manufactured | 4,008 | 0 | 79 | 0 | 0 | 80 | 2.00 | n/a |
| Commercial | 609,032 | 530 | 5,578 | 0 | 0 | 5,578 | 0.92 | 1,052.41 |
| Multi-family | 860,634 | 0 | 3,448 | 0 | 0 | 3,448 | 0.40 | n/a |
| Consumer/Mortgage | 105,236 | 0 | 788 | 0 | 0 | 788 | 0.75 | n/a |
| TDRs | 1,936 | 360 | 64 | 0 | 0 | 63 | 3.25 | 17.50 |
| Total Originated Loans | 2,585,076 | 11,496 | 12,819 | 0 | 0 | 12,819 | 0.50 | 111.50 |
| Acquired Loans | | | | | | | | |
| Berkshire | 12,417 | 2,346 | 512 | 0 | 0 | 512 | 4.12 | 21.82 |
| FDIC - Covered | 50,447 | 5,787 | 2,199 | 0 | 0 | 2,199 | 4.36 | 38.00 |
| FDIC - Non-covered | 18 | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| Manufactured Housing 2010 | 76,638 | 0 | 0 | 0 | 2,949 | 2,949 | 3.85 | n/a |
| Manufactured Housing 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| Manufactured Housing 2012 | 54,612 | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| Flagstar | 148,570 | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| TDRs | 2,987 | 1,101 | 42 | 0 | 0 | 42 | 1.41 | 3.81 |
| Total Acquired Loans | 345,689 | 9,234 | 2,753 | 0 | 2,949 | 5,702 | 1.65 | 61.75 |
| Acquired PCI Loans | | | | | | | | |
| Berkshire | 51,688 | 0 | 4,126 | 2,855 | 0 | 6,981 | 13.51 | n/a |
| FDIC - Covered | 30,187 | 0 | 5,790 | 2,167 | 0 | 7,957 | 26.36 | n/a |
| Manufactured Housing 2011 | 5,884 | 0 | 600 | (2,099) | 0 | (1,499) | (25.47) | n/a |
| Total Acquired PCI Loans | 87,759 | 0 | 10,516 | 2,923 | 0 | 13,439 | 15.31 | n/a |
| Subtotal | 3,018,524 | 20,730 | 26,088 | 2,923 | 2,949 | 31,960 | 0.00 | n/a |
| Unearned Origination Fees and FV Adj. | (798) | 0 | 0 | 0 | 0 | 0 | 0.00 | n/a |
| Residual Reserve | 0 | 0 | 712 | 0 | 0 | 712 | 0.00 | n/a |
| Total Portfolio | \$3,017,726 | \$20,730 | \$26,800 | \$ 2,923 | \$2,949 | \$32,672 | 1.08 | 157.61 |

Originated Loans

Originated loans totaled \$2.6 billion at September 30, 2013, or 85.7% of total loans receivable. \$80.7 million of these loans were originated prior to September 2009 ("Legacy Loans") when the new management team adopted new underwriting standards that management believes better limits risks of loss. At September 30, 2013, the Legacy loans included in \$14.7 million of non-performing assets ("NPA's") or 94.3% of total NPA's for originated loans and 42.9% of total NPA's.

The high level of non-performing loans ("NPLs") in the Legacy Loan portfolio (13.15% NPL / Loans) were supported by \$3.0 million of the allowance for loan losses, or about 3.5% of total Legacy Loans. Commercial loans and multi-family loans totaled \$1.5 billion and were supported with \$9.0 million of the allowance for loan losses. Consumer and mortgage loans totaled \$105.2 million and were supported by \$788 thousand of the allowance for loan losses. The mortgage warehouse loans are classified as held for sale and credit allowances are embedded in the reported numbers, so no allowance for loan losses is maintained.

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Acquired Loans

At September 30, 2013, Customers Bank reported \$433.4 million of acquired loans which was 14.3% of total loans. When loans are acquired, they are recorded on the balance sheet at fair value. Acquired loans include purchased portfolios, FDIC failed-bank acquisitions, and unassisted acquisitions. At September 30, 2013, (i) 34.8% of acquired loans were purchased from Michigan-based Flagstar Bank on March 28, 2013, (ii) 14.8% of acquired loans were from the Berkshire Bancorp acquisition, (iii) 18.6% of acquired loans were from FDIC assisted acquisitions, which have loss share protection of 80% of credit losses being covered by the FDIC, and (iv) 31.64% of acquired loans represented manufactured housing loans that were purchased from Tammac Holding Corporation ("Tammac"), a consumer finance company. Of the loans purchased from Tammac prior to 2012, 92.9% were supported by a \$2.9 million cash reserve that is maintained in a demand deposit account at the Bank. All current losses and delinquent interest are covered with this reserve. For the manufactured housing loans purchased in 2012 in the amount of \$56.0 million, Tammac has an obligation to pay us the full payoff amount of a defaulted loan once the borrower vacates the property, which includes any principal, unpaid interest, or advances on the loans.

Most of the acquired loans were purchased at a discount. The price paid factored into management's judgment on the credit and interest rate risk inherent in the portfolio at the time of purchase. Every quarter, management reassesses the risk and adjusts the fair value to incorporate changes in the credit outlook. Total NPAs in the acquired portfolio were \$18.7 million, or 54.5% of total NPAs. Of total NPA, 72.8% have FDIC loss share protection (80% FDIC coverage of losses). At September 30, 2013, the FDIC-covered loans had \$8.0 million of allowance for loan losses and \$2.2 million of non-accretable difference fair value marks to support future credit losses. 10.5% of total NPAs were from loans related to the Berkshire acquisition, while 1.1% of total NPAs were from loans acquired from Tammac.

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

Held-for-Sale Loans

The loans held-for-sale portfolio included \$902.7 million of warehouse loans and \$15.2 million of mortgages. Held-for-sale loans are carried on our balance sheet at fair value or lower of cost or market, so an allowance for loan losses is not needed.

Nonperforming loans and assets not covered under FDIC loss sharing agreements

The tables below set forth non-performing loans and non-performing assets not covered under FDIC loss sharing agreements and the corresponding asset quality ratios at September 30, 2013 and December 31, 2012. Non-accruals loans decreased \$7.4 million through September 30, 2013 when compared to December 31, 2012.

| | September 30, | December 31, |
|--|------------------------|--------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Loans 90+ days delinquent and still accruing | \$ 3,095 | \$ 1,966 |
| Non-accrual loans (1) | \$ 14,942 | \$ 22,347 |
| Other real estate owned | 5,763 | 4,005 |
| Non-performing non-covered assets | \$ 20,705 | \$ 26,352 |

(1) Net of credit marks.

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| | September 30, | December 31, |
|--|---------------|--------------|
| | 2013 | 2012 |
| Non-accrual non-covered loans to total non-covered loans receivable (excludes loans held for sale) | 0.74% | 1.84% |
| Non-performing, non-covered assets to total non-covered assets | 1.02% | 2.16% |
| Non-accrual loans and 90+ days delinquent to total non-covered assets | 0.89% | 1.99% |
| Allowance for loan losses to: | | |
| Total non-covered loans | 0.81% | 1.20% |
| Non-performing, non-covered loans | 108.99% | 65.26% |
| Non-performing, non-covered assets | 78.66% | 55.34% |

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

The tables below set forth non-accrual loans and non-performing assets covered under FDIC loss sharing agreements at September 30, 2013 and December 31, 2012.

| | September 30, | December 31, |
|---------------------------------|------------------------|--------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Non-accrual covered loans (1) | \$ 5,787 | \$ 10,504 |
| Covered other real estate owned | 7,839 | 4,109 |
| Non-performing, covered assets | \$ 13,626 | \$ 14,613 |

(1) Net of credit marks.

Deposits

We offer a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from within our service area and through wholesale and broker networks. These networks provide low cost funding alternatives to retail deposits and provide diversity to our sources of funds. Total deposits grew by 32.9% to \$3.2 billion at September 30, 2013 from \$2.4 billion at December 31, 2012. Non-Interest Bearing Demand deposits grew \$451.5 million due to deposits from students that are serviced by a third party specialist. These deposits are seasonal, peaking in the fall and mid-winter and lowest in the summer. Certificate of deposits grew \$104.3 million from \$1.2 million at December 31, 2012. Time deposits \$100,000 and over, increased \$153 million compared to December 31, 2012 due to deposit promotions and the addition of the Certificate of Deposit Account Registry Service ("CDARS") deposit program.

The components of deposits were as follows:

| | September 30, | December 31, |
|------------------------------|------------------------|--------------|
| | 2013 | 2012 |
| | (dollars in thousands) | |
| Demand, non-interest bearing | \$ 671,211 | \$ 219,687 |
| Demand, interest bearing | 1,260,270 | 1,020,946 |
| Savings | 27,624 | 20,299 |
| Time, \$100,000 and over | 861,521 | 708,487 |
| Time, other | 422,686 | 471,399 |
| Total deposits | \$ 3,243,312 | \$ 2,440,818 |

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Other Borrowings

Other borrowings are funds used to meet Customers' financing needs in excess of deposits and equity. As of September 30, 2013, other borrowings consisted of \$172.0 million borrowings from the Federal Home Loan Bank with various maturities up to 4.5 years and interest rates ranging from 0.27% to 3.3%. Other borrowings also includes \$63.3 million five-year senior unsecured notes bearing an interest rate of 6.375% issued in the third quarter of 2013, maturing in the third quarter of 2018. The amount outstanding at September 30, 2013 of \$235.3 million is down \$235.7 million from December 31, 2012 as Customers used excess funds from its deposit aggregation activities to pay off maturing borrowings.

Capital Adequacy and Shareholders' Equity

Shareholders' equity increased by \$119.4 million to \$388.9 million at September 30, 2013, from \$269.5 million at December 31, 2012. Net income was \$23.7 million for the nine months ended September 30, 2013. Contributing to the increase in shareholders' equity was the fact that warrants to purchase 31,904 shares of common stock were exercised at a price of \$10.50 per warrant during the quarter ended September 30, 2013. This resulted in an increase in shareholders' equity of \$335,000. On May 22, 2013, we raised \$103.5 million in gross proceeds by issuing 6,179,104 shares of our voting common stock at a price to the public of \$16.75 per share. Net proceeds after deducting underwriting discounts and commissions and offering expenses were \$97.5 million. Lastly, 23,413 shares of Voting Common Stock were issued during the first quarter of 2013 to directors who were entitled to receive these as compensation for their service as a director of Customers Bancorp or Customers Bank, which resulted in a \$252,000 increase in shareholders' equity.

This increase in shareholders' equity was offset by Bancorp's repurchase of warrants to purchase 34,454 shares of common stock at a price of \$6.59 per warrant during the quarter ended September 30, 2013. This resulted in a decrease in shareholders' equity of \$227,000.

In addition, the recognition of stock-based compensation increased equity by \$2.5 million, which was offset by unrealized losses on securities of \$4.6 million.

We are subject to various regulatory capital requirements that are monitored by federal banking agencies. Failure to meet minimum capital requirements can lead to supervisory actions by regulators; any supervisory action could have a direct material effect on our financial statements. During the quarter ended September 30, 2013, Customers Bancorp downstreamed \$40 million in cash to Customers Bank. At September 30, 2013, we met all capital adequacy requirements to which we were subject and were well capitalized.

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The capital ratios for the Bank and Customers Bancorp at September 30, 2013 and December 31, 2012 were as follows:

| (Dollars in thousands) | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2013: | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$413,900 | 13.60% | \$ 243,500 | 8.0% | N/A | N/A |
| Customers Bank | \$427,809 | 14.18% | \$ 241,298 | 8.0% | \$ 301,622 | 10.0% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$386,517 | 12.70% | \$ 121,750 | 4.0% | N/A | N/A |
| Customers Bank | \$400,426 | 13.28% | \$ 120,649 | 4.0% | \$ 180,973 | 6.0% |
| Tier 1 capital (to average assets) | | | | | | |
| Customers Bancorp, Inc. | \$386,517 | 10.63% | \$ 145,388 | 4.0% | N/A | N/A |
| Customers Bank | \$400,426 | 11.04% | \$ 145,043 | 4.0% | \$ 181,303 | 5.0% |
| As of December 31, 2012: | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$289,035 | 11.26% | \$ 205,443 | 8.0% | N/A | N/A |
| Customers Bank | \$244,710 | 9.53% | \$ 205,442 | 8.0% | \$ 256,802 | 10.0% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Customers Bancorp, Inc. | \$262,719 | 10.23% | \$ 102,722 | 4.0% | N/A | N/A |
| Customers Bank | \$218,394 | 8.50% | \$ 102,721 | 4.0% | \$ 154,081 | 6.0% |
| Tier 1 capital (to average assets) | | | | | | |
| Customers Bancorp, Inc. | \$262,719 | 9.30% | \$ 112,939 | 4.0% | N/A | N/A |
| Customers Bank | \$218,394 | 7.74% | \$ 112,896 | 4.0% | \$ 141,120 | 5.0% |

Liquidity and Capital Resources

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

Our investment portfolio provides periodic cash flows through regular maturities and amortization and can be used as collateral to secure additional liquidity funding. Our principal sources of funds are proceeds from stock and debt issuances, deposits, principal and interest payments on loans, and other funds from operations. We also maintain borrowing arrangements with the FHLB and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. At September 30, 2013, our borrowing capacity with the FHLB was \$1.342 billion of which \$100 million was utilized in long-term borrowings. Furthermore, at September 30, 2013, our available borrowing capacity with the Federal Reserve Bank of Philadelphia was \$82.2 million.

Net cash flows provided by operating activities were \$588.0 million for the nine months ended September 30, 2013. Proceeds of loans held for sale in excess of the origination of loans held for sale contributed \$519.3 million to cash flows provided by operating activities. Investing activities used net cash flows of \$1.175 billion for the nine months ended September 30, 2013, as purchases less proceeds from maturities, calls and principal repayments of investment securities used \$375.9 million. The net increase in loans in the amount of \$639.0 million as well as the purchase of the Flagstar loans of \$155.3 million outstanding balances used cash of \$794.3 million. An additional purchase of bank-owned life insurance in the amount of \$27.9 million during the nine months ended September 30, 2013 also contributed to the total cash used in investing activities on a nine-month year-to-date basis.

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

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An \$802.6 million net increase in deposits, which provided the majority of the support for \$304 million financing activities, was also used in part to reduce short-term borrowed funds and FHLB borrowings. This decrease in the level of borrowings was composed of a decrease in short-term borrowed funds of \$339 million and an increase in FHLB borrowings of \$35 million. Net proceeds from the issuance of Senior Notes in the third quarter of 2013, in the amount of \$60.3 million, were priced at a rate of 6.375%. The proceeds were used to invest in Customers Bank to fund organic growth, and for working capital and other corporate purposes. On May 22, 2013, we raised \$103.5 million in gross cash proceeds by issuing 6,179,104 shares of our voting common stock at a price to the public of \$16.75 per share. Net proceeds after deducting underwriting discounts and commissions and offering expenses were \$97.5 million and were used to fund organic growth, and for working capital and other general corporate purposes. The net proceeds from both of the above issuances contributed to the net cash provided by financing activities total of \$656.5 million.

Ultimately, the net result was an increase in cash and cash equivalents of \$69.6 million for the nine months ended September 30, 2013 as compared to an increase of \$83.9 for the same period ended September 30, 2012.

Other Information

Regulatory Matters and Pending Legislation

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

On September 12, 2010, the Basel Committee on Banking Supervision announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. Basel III narrows the definition of what is included in regulatory capital, introduces requirements for minimum Tier 1 common capital, increases requirements for minimum Tier 1 capital and total risk-based capital, and changes risk-weighting of certain assets. On July 2, 2013, the Federal Reserve adopted a final rule regarding new capital requirements pursuant to Basel III. These rules, which are currently scheduled to become effective on January 1, 2015 for community banks, and fully phased in by January 1, 2019, will increase the required amount of regulatory capital to meet the regulatory capital standards and may, if capital levels are not sufficient, lead to limitations on the dividend payments and compensation. We continue to evaluate the impact the new capital requirements may have on our business and will manage our business accordingly.

Effect of Government Monetary Policies

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2013, there have been no material changes in the information disclosed under “Quantitative and Qualitative Disclosures About Market Risk” included within Customers Bancorp’s 2012 Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Customers Bancorp carried out an evaluation, under the supervision and with the participation of Customers Bancorp’s management, including Customers Bancorp’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Customers Bancorp’s disclosure controls and procedures as defined and in the Exchange Act Rules 13a-15(e) and 15d-15 (e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Customers Bancorp’s disclosure controls and procedures were effective at September 30, 2013.

During the quarter ended September 30, 2013, there have been no changes in the Bancorp’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bancorp’s internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Except as described below, neither Customers Bancorp nor any of its subsidiaries is involved in, nor is any of their property the subject of, any material legal proceedings other than ordinary routine litigation incident to their business.

On August 7, 2013, Customers received a letter from the Federal Reserve Bank of Philadelphia (“Reserve Bank”) of its determination, in connection with its consumer compliance and Community Reinvestment Act examinations of the Bank, to make a referral to the Department of Justice. The Reserve Bank informed us that it made the referral based on its belief that the Customers Bank has not complied with certain provisions of the Equal Credit Opportunity Act (“ECOA”), Fair Housing Act (“FHA”) and Regulation B with regard to the City of Philadelphia. Customers Bank received notification as of September 24, 2013 that the Department of Justice has initiated an investigation of Customers under the ECOA and FHA. Customers believes that the Bank has complied with these laws and regulations. We are cooperating fully with the Department of Justice in the conduct of its investigation. We have not received any further communication from the Department of Justice regarding the results of their investigation of this matter.

Item 1A. Risk Factors

You should carefully consider the factors discussed in “Risk Factors” included within the 2012 Form 10-K and in our subsequently filed quarterly reports Form 10-Q for the periods ended March 31, 2013 and June 30, 2013. The risks described therein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. See “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cautionary Note Regarding Forward-Looking Statements.”

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

| Period | Total number of shares/ warrants purchased | Average price paid per share/warrant (3) | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may be purchased under the plans or programs |
|-------------------|---|---|--|--|
| | | | | |
| 7/1/13 to 7/31/13 | 0 | \$ 0.00 | N/A | N/A |
| 8/1/13 to 8/31/13 | 2,354,409 (1) | 16.24 | N/A | N/A |
| 9/1/13 to 9/30/13 | 1,384,091 (2) | 16.81 | N/A | N/A |
| Total | 3,738,500 | | | |

- (1) This total is comprised of: (i) 2,319,955 shares of Class B Non-Voting Common Stock that Customers Bancorp converted to 2,319,955 shares of Voting Common Stock and (ii) the repurchase by Customers Bancorp of warrants to purchase 17,227 shares of Class B Non-Voting Common Stock and warrants to purchase 17,227 shares of Voting Common Stock.
- (2) Represents 1,384,091 shares of Class B Non-Voting Common Stock that Customers Bancorp converted to 1,384,091 shares of Voting Common Stock.
- (3) Where shares of Class B Non-Voting Common Stock were converted into shares of Voting Common Stock, the price paid per share was determined based on the daily closing sales price per share of Customers Bancorp’s Voting Common Stock as reported on the Nasdaq Global Select Market on the date of conversion. Where warrants were repurchased, the price paid per warrant was determined based on a per warrant price equal to the product of (a) the number of shares of common stock underlying such warrant, multiplied by (b) the difference of (i) the average of the daily closing sales prices per share of Customers Bancorp’s Voting Common Stock as reported on the Nasdaq Global Select Market for the five consecutive trading days immediately preceding the date of repurchase, minus (ii) \$10.50, which was the exercise price of each warrant.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

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Item 6. Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|------------------------|---|
| 1.1 | Underwriting Agreement, dated as of July 24, 2013, by and among Customers Bancorp, Inc., Customers Bank and Janney Montgomery Scott LLC, as representative of the underwriters named therein, incorporated by reference to Exhibit 1.1 to the Customers Bancorp 8-K filed with the SEC on July 26, 2013 |
| 2.1 | Amendment to Agreement and Plan of Merger, dated as of April 22, 2013, by and among Customers Bancorp, Inc. and CMS Bancorp, Inc., incorporated by reference to Exhibit 2.1 to the Customers Bancorp Form 8-K filed with the SEC on April 24, 2013 |
| 3.1 | Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012 |
| 3.2 | Amended and Restated Bylaws of Customers Bancorp, incorporated by reference to Exhibit 3.2 to the Customers Bancorp's Form 8-K filed with the SEC on April 30, 2012 |
| 3.3 | Articles of Amendment to the Amended and Restated Articles of Incorporation of Customers Bancorp, incorporated by reference to Exhibit 3.1 to the Customers Bancorp Form 8-K filed with the SEC on July 2, 2012 |
| 4.1 | Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013 |
| 4.2 | First Supplemental Indenture, dated as of July 30, 2013, by and between Customers Bancorp, Inc., as Issuer, and Wilmington Trust, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013 |
| 4.3 | 6.375% Global Note in aggregate principal amount of \$55,000,000, incorporated by reference to Exhibit 4.3 to the Customers Bancorp 8-K filed with the SEC on July 31, 2013 |
| 4.4 | Amendment to First Supplemental Indenture, dated August 27, 2013, by and between Customers Bancorp, Inc. and Wilmington Trust Company, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013. |
| 4.5 | 6.375% Global Note in aggregate principal amount of \$8,250,000, incorporated by reference to Exhibit 4.2 to the Customers Bancorp 8-K filed with the SEC on August 29, 2013 |
| 31.1. | Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a) |
| 31.2. | Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or Rule15d-14(a) |
| 32.1. | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |
| 32.2. | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |
| 101 | The Exhibits filed as part of this report are as follows: |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 7, 2013

Customers Bancorp, Inc.

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

November 7, 2013

Customers Bancorp, Inc.

By: /s/ Robert E. Wahlman
Name: Robert E. Wahlman
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

| | |
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| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase Document. |

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Jay S. Sidhu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jay S. Sidhu

Jay S. Sidhu
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2013

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) / 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Robert E. Wahlman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Customers Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert E. Wahlman
Robert E. Wahlman
Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2013

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Customers Bancorp, Inc. (the "Corporation") on Form 10-Q for the period ending September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay S. Sidhu, Chairman and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 7, 2013

/s/ **Jay S. Sidhu**

Jay S. Sidhu, Chairman and Chief Executive Officer
(Principal Executive Officer)

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Customers Bancorp, Inc. (the "Corporation") on Form 10-Q for the period ending September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert E. Wahlman, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 7, 2013

/s/ **Robert E. Wahlman**
Robert E. Wahlman, Chief Financial Officer
(Principal Financial Officer)