

Customers Bancorp, Inc.
Form 10-Q
August 14, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

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

333-166225

(Commission File number)

(Exact name of registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction of
incorporation or organization)

27-2290659
(IRS Employer
Identification No.)

1015 Penn Avenue
Suite 103

Wyomissing PA 19610

(Address of principal executive offices)

(610) 933-2000

(Issuer's telephone number)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

On August 14, 2012, 8,579,310 shares of Voting Common Stock were outstanding, and 2,844,142 shares of Class B Non-Voting Common Stock were outstanding.

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Customers Bancorp, Inc.

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	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 2,956	\$ 7,765
Interest earning deposits	119,096	65,805
Cash and cash equivalents	122,052	73,570
Investment securities available for sale, at fair value	134,757	79,137
Investment securities held to maturity (fair value 2011 \$330,809)	0	319,547
Loans held for sale	283,535	174,999
Loans receivable not covered under Loss Sharing Agreements with the FDIC	1,537,577	1,216,265
Loans receivable covered under Loss Sharing Agreements with the FDIC	113,293	126,276
Less: Allowance for loan and lease losses	(16,118)	(15,032)
Total loans receivable, net	1,634,752	1,327,509
FDIC loss sharing receivable	12,376	13,077
Bank premises and equipment, net	9,319	8,448
Bank-owned life insurance	39,901	29,268
Other real estate owned (2012 \$8,612; 2011 \$6,166 covered under Loss Sharing Agreements with the FDIC)	12,931	13,482
Goodwill and other intangibles	2,275	1,674
Restricted stock	20,125	21,818
Accrued interest receivable and other assets	11,009	15,003
Total assets	\$ 2,283,032	\$ 2,077,532
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 155,009	\$ 114,044
Interest bearing	1,774,854	1,469,145
Total deposits	1,929,863	1,583,189
Federal funds purchased	5,000	5,000
Other borrowings	178,000	331,000
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	9,453	8,595
Total liabilities	2,124,316	1,929,784
Shareholders equity:		
Preferred stock, par value \$1,000 per share; 100,000,000 shares authorized; none issued	0	0
Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 11,395,302 shares issued and 11,347,683 outstanding at June 30, 2012 and December 31, 2011	11,395	11,395
Additional paid in capital	123,868	122,602
Retained earnings	24,112	14,496
Accumulated other comprehensive loss	(159)	(245)
Less: cost of treasury stock; 47,619 shares at June 30, 2012 and December 31, 2011	(500)	(500)

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Total shareholders' equity	158,716	147,748
Total liabilities and shareholders' equity	\$ 2,283,032	\$ 2,077,532

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED***(Dollar amounts in thousands, except per share data)*

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans receivable, including fees	\$ 17,350	\$ 10,176	\$ 32,973	\$ 19,678
Loans receivable, non-taxable, including fees	41	22	55	45
Investment securities, taxable	2,219	4,351	5,131	6,368
Investment securities, non-taxable	21	22	43	43
Other	69	75	134	313
Total interest income	19,700	14,646	38,336	26,447
Interest expense:				
Deposits	5,424	5,646	10,496	11,096
Federal funds purchased	1	0	3	0
Securities sold under repurchase agreements	0	7	0	7
Borrowed funds	106	121	240	210
Subordinated debt	17	16	35	33
Total interest expense	5,548	5,790	10,774	11,346
Net interest income	14,152	8,856	27,562	15,101
Provision for loan and lease losses	2,738	2,850	4,538	5,650
Net interest income after provision for loan and lease losses	11,414	6,006	23,024	9,451
Non-interest income:				
Deposit fees	117	94	233	198
Loan fees	9	66	201	146
Mortgage warehouse transactional fees	3,384	1,277	5,483	2,388
Bank owned life insurance	323	263	589	864
Gain on sale of investment securities	8,797	0	9,006	0
Accretion of FDIC loss sharing receivable	0	800	655	1,709
Loss on sale of other real estate owned	(660)	0	(601)	0
Gain on sale of loans	339	0	339	78
Gain on sale of repossessed assets	59	0	59	0
Gain on sale of bank premises and equipment	22	0	22	0
Other	247	142	443	533
Total non-interest income	12,637	2,642	16,429	5,916
Non-interest expense:				
Salaries and employee benefits	5,598	3,973	11,095	8,088
Occupancy	1,849	1,004	3,228	1,991
Technology, communication and bank operations	691	513	1,338	826
Advertising and promotion	301	205	576	433
Professional services	769	1,304	1,655	2,730
FDIC assessments, taxes, and regulatory fees	867	431	1,536	1,253

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Loan workout and other real estate owned	651	415	1,176	799
Impairment and losses on other real estate owned	0	15	0	211
Merger related expenses	0	0	28	0
Stock offering expenses	1,340	0	1,340	0
Other	1,907	578	2,688	1,198
Total non-interest expense	13,973	8,438	24,660	17,529
Income (loss) before tax expense (benefit)	10,078	210	14,793	(2,162)
Income tax expense (benefit)	3,574	65	5,177	(631)
Net income (loss)	\$ 6,504	\$ 145	\$ 9,616	\$ (1,531)
Basic income (loss) per share	\$ 0.57	\$ 0.01	\$ 0.85	\$ (0.16)
Diluted income (loss) per share	\$ 0.56	\$ 0.01	\$ 0.83	\$ (0.16)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED***(Dollar amounts in thousands)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 6,504	\$ 145	\$ 9,616	\$ (1,531)
Other comprehensive income, before tax:				
Unrealized holding gains on securities arising during the period	543	5,789	629	5,927
Unrealized holding gain on securities transferred from the held-to-maturity category into the available-for-sale category	8,509	0	8,509	0
Reclassification adjustment for gains included in net income	(8,797)	0	(9,006)	0
Income tax expense related to items of other comprehensive income	(89)	(1,967)	(46)	(2,015)
Other comprehensive income, net of tax	166	3,822	86	3,912
Comprehensive income	\$ 6,670	\$ 3,967	\$ 9,702	\$ 2,381

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY UNAUDITED**

For the six months ended June 30, 2012 and 2011

(Dollar amounts in thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2010	8,398,015	\$ 8,398	\$ 88,132	\$ 10,506	\$ (1,896)	\$ 0	\$ 105,140
Comprehensive income				(1,531)	3,912		2,381
Stock-based compensation expense			329				329
Common stock issued, net of costs	1,388,893	1,389	14,138				15,527
Balance, June 30, 2011	9,786,908	\$ 9,787	\$ 102,599	\$ 8,975	\$ 2,016	\$ 0	\$ 123,377

	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2011	11,347,683	\$ 11,395	\$ 122,602	\$ 14,496	\$ (245)	\$ (500)	\$ 147,748
Comprehensive income				9,616	86		9,702
Stock-based compensation expense			1,266				1,266
Balance, June 30, 2012	11,347,683	\$ 11,395	\$ 123,868	\$ 24,112	\$ (159)	\$ (500)	\$ 158,716

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**CUSTOMERS BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED***(Dollar amounts in thousands)*

Six Months Ended June 30,	2012	2011
Cash Flows from Operating Activities		
Net income (loss)	\$ 9,616	\$ (1,531)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision for loan and lease losses	4,538	5,650
Provision for depreciation and amortization	687	614
Stock-based compensation	1,266	329
Deferred taxes	188	0
Net amortization (accretion) of investment securities premiums and discounts	193	(28)
Gain on sale of investment securities	(9,006)	0
Gain on sale of loans	(339)	(78)
Origination of loans held for sale	(1,359,676)	(1,080,828)
Proceeds from the sale of loans held for sale	1,251,140	1,105,798
Increase in FDIC loss sharing receivable	(741)	(1,709)
Amortization (accretion) of fair value discounts	46	(311)
Net loss on sale of other real estate owned	601	0
Impairment charges on other real estate owned	0	197
Change in investment in bank-owned life insurance	(633)	(864)
Decrease (increase) in accrued interest receivable and other assets	471	(56)
Decrease in accrued interest payable and other liabilities	(3,185)	(2,143)
Net Cash (Used in) Provided by Operating Activities	(104,834)	25,040
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of investment securities available for sale	23,543	10,447
Proceeds from sales of investment securities available for sale	306,610	0
Purchases of investment securities available for sale	(108,249)	(49,961)
Purchases of investment securities held to maturity	0	(396,847)
Proceeds from maturities, calls and principal repayments of investment securities held to maturity	50,968	15,071
Net increase in loans	(312,624)	(59,885)
Proceeds from sale of SBA loans	3,689	1,465
Proceeds from bank-owned life insurance	0	192
Purchases of bank-owned life insurance	(10,000)	0
Proceeds from redemption (purchases of) restricted stock	1,693	(10,040)
Reimbursements from the FDIC on loss sharing agreements	1,442	5,777
Purchases of bank premises and equipment	(1,558)	(544)
Proceeds from sales of other real estate owned	4,022	5,079
Net Cash Used in Investing Activities	(40,464)	(479,246)
Cash Flows from Financing Activities		
Net increase in deposits	346,780	160,663
Net (decrease) increase in short-term borrowed funds	(153,000)	141,000
Proceeds from issuance of common stock	0	15,527
Net Cash Provided by Financing Activities	193,780	317,190
Net Increase (Decrease) in Cash and Cash Equivalents	48,482	(137,016)

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Cash and Cash Equivalents	Beginning	73,570	238,724
Cash and Cash Equivalents	Ending	\$ 122,052	\$ 101,708

Supplementary Cash Flows Information

Interest paid	\$ 10,916	\$ 11,344
Income taxes paid	4,855	2,816

Non-cash items:

Transfer of loans to other real estate owned	\$ 4,941	\$ 3,948
Transfer of held to maturity investments to available for sale	268,671	0

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

(Dollars in thousands except for per share data)

NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Customers Bancorp, Inc. (the Bancorp) is a Pennsylvania corporation formed on April 7, 2010 to facilitate the reorganization of Customers Bank (the Bank) into a bank holding company structure. The reorganization was completed on September 17, 2011. Any financial information for periods prior to September 17, 2011 contained herein reflects that of Customers Bank as the predecessor entity. The unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Bancorp believes that the disclosures made are adequate to make the information not misleading. The accounting policies of Customers Bancorp, Inc. and Subsidiaries, as applied in the consolidated interim financial statements presented herein, are substantially the same as those followed on an annual basis as disclosed on pages 80 through 90 of Customers Annual Report on Form 10-K for the fiscal year ended December 31, 2011. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in the latest Form 10-K. Operating results for the three-month and six-month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

The Bancorp's unaudited consolidated interim financial statements reflect all adjustments that are, in the opinion of management, necessary for fair statement of the results of interim periods presented.

Certain amounts reported in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications did not significantly impact the Bancorp's financial position or results of operations.

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

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

(Dollars in thousands except for per share data)

NOTE 2 REORGANIZATION AND ACQUISITION ACTIVITY

Reorganization into Customers Bancorp, Inc.

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

In the Reorganization, the Bank's issued and outstanding shares of common stock of 22,525,825 shares and Class B Non-Voting common stock of 6,834,895 shares converted into 7,508,473 shares of the Bancorp's common stock and 2,278,294 shares of the Bancorp's Class B Non-Voting common stock. Cash was paid in lieu of fractional shares. Outstanding warrants to purchase 1,410,732 shares of the Bank's common stock with a weighted-average exercise price of \$3.55 per share and 243,102 shares of the Bank's Class B Non-Voting common stock with a weighted-average exercise price of \$3.50 per share were converted into warrants to purchase 470,260 shares of the Bancorp's common stock with a weighted-average exercise price of \$10.64 per share and warrants to purchase 81,036 shares of the Bancorp's Class B Non-Voting common stock with a weighted-average exercise price of \$10.50 per share. Outstanding stock options to purchase 2,572,404 shares of the Bank's common stock with a weighted-average exercise price of \$3.50 per share and stock options to purchase 231,500 shares of the Bank's Class B Non-Voting common stock with a weighted-average exercise price of \$4.00 per share were converted into stock options to purchase 855,774 shares of the Bancorp's common stock with a weighted-average exercise price of \$10.49 per share and stock options to purchase 77,166 shares of the Bancorp's Class B Non-Voting common stock with a weighted-average exercise price of \$12.00 per share.

Acacia Federal Savings Bank Acquisition

On June 21, 2012, the Bancorp announced the entry into a definitive agreement to acquire Acacia Federal Savings Bank (Acacia), Falls Church, Virginia from two subsidiaries of Ameritas Mutual Holding Company (Ameritas). Acacia serves the metro Washington, D.C. market. Pursuant to the terms of the agreement, the Bancorp will acquire 100% of the stock of Acacia from Ameritas Mutual Holding Company for a total consideration of \$65,000 to be paid in the Bancorp's common stock (resulting in Ameritas indirectly holding a 9.9% voting ownership interest in the Bancorp), Class B Non-Voting Common Stock (resulting in Ameritas indirectly holding a 19.9% total common ownership interest (voting and non-voting, taking into account outstanding securities convertible into common stock) in the Bancorp), and Perpetual Non-Cumulative Preferred Stock, Series C (with an aggregate liquidation value of \$65,000 minus the value of the common stock and Class B Non-Voting Common Stock issued in the transaction). The Bancorp expects to issue its voting and Class B Non-Voting common stock for about \$45,000 at 115% of GAAP book value at the time of closing. Approximately \$20,000 million of Tier 1 qualifying non-cumulative Perpetual Preferred Stock is expected to be issued by the Bancorp at a rate of 3.72% fixed for the first five years.

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

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

(Dollars in thousands except for per share data)

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

In September, 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. The purpose of this ASU is to simplify how entities test goodwill for impairment by adding a new first step to the preexisting goodwill impairment test under ASC Topic 350, *Intangibles - Goodwill and other*. This amendment gives the entity the option to first assess a variety of qualitative factors such as economic conditions, cash flows, and competition to determine whether it was more likely than not that the fair value of goodwill has fallen below its carrying value. If the entity determines that it is not likely that the fair value has fallen below its carrying value, then the entity will not have to complete the original two-step test under Topic 350. The amendments in this ASU were effective for impairment tests performed for fiscal years beginning after December 15, 2011. Adoption of this guidance has not had a material impact on results of operations or financial condition.

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

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

In June 2012, the FASB decided to issue an exposure draft that would require new footnote disclosures of items reclassified from accumulated other comprehensive income to net income. The exposure draft is expected to be issued during the third quarter of 2012 for a sixty-day comment period.

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

NOTE 4 EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss) allocated to common shareholders	\$ 6,504	\$ 145	\$ 9,616	\$ (1,531)
Weighted-average number of common shares basic	11,347,683	9,786,906	11,347,683	9,492,704
Stock-based compensation plans	188,673	121,575	183,859	0
Warrants	102,712	67,510	100,809	0
Weighted-average number of common shares diluted	11,639,068	9,975,991	11,632,351	9,492,704
Basic earnings (loss) per share	\$ 0.57	\$ 0.01	\$ 0.85	\$ (0.16)
Diluted earnings (loss) per share	\$ 0.56	\$ 0.01	\$ 0.83	\$ (0.16)

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For the quarter and six months ended June 30, 2012, respectively, 1,590,162 and 1,594,976 share-based compensation awards and 567,329 and 569,232 warrants were outstanding but were not included in the computation of diluted earnings per share because their common stock equivalents were anti-dilutive.

For the quarter and six months ended June 30, 2011, respectively, 292,874 and 934,634 share-based compensation awards and 11,197 and 551,278 warrants were outstanding but were not included in the computation of diluted earnings per share because their common stock equivalents were anti-dilutive.

NOTE 5 INVESTMENT SECURITIES

On May 9, 2012, Customers Bancorp reclassified its \$269,000 held-to-maturity investment portfolio to available for sale. Due to its strong outlook for loan growth, falling interest rates, and its recent decision to postpone its initial public offering of stock, the Bancorp decided to proceed with this reclassification to provide liquidity. The reclassification increased total shareholders' equity by \$5,300 associated with the recording of the net security gains on the portfolio, net of tax effects, to accumulated other comprehensive income. Subsequently, the Bancorp sold \$257,645 of available-for-sale securities and realized a pre-tax gain of \$8,797. 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.

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

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
Mortgage-backed securities (1) (2)	\$ 107,360	\$ 661	\$ (113)	\$ 107,908
Asset-backed securities	574	8	0	582
Municipal securities	2,062	2	(6)	2,058
Corporate notes	25,000	0	(797)	24,203
Equities	6	0	0	6
	\$ 135,002	\$ 671	\$ (916)	\$ 134,757

(1) Includes an interest only strip security of \$2,632.

(2) Includes private-label securities with an aggregate amortized cost of \$701 and an aggregate fair value of \$635.

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

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

(2) Includes private-label securities with an aggregate amortized cost of \$765 and an aggregate fair value of \$662.

The following tables shows proceeds from the sale of available for sale investment securities, gross gains and gross losses on those sales of securities for the three and six months ended June 30, 2012:

	Three months ended June 30,	
	2012	2011
Proceeds from sale of available-for-sale investment securities	\$ 257,645	\$ 0
Gross gains	\$ 8,797	\$ 0
Gross losses	0	0
Net gains	\$ 8,797	\$ 0
	Six months ended June 30,	
	2012	2011
Proceeds from sale of available-for-sale investment securities	\$ 306,610	\$ 0
Gross gains	\$ 9,006	\$ 0
Gross losses	0	0
Net gains	\$ 9,006	\$ 0

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

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The following table shows investments securities by stated maturity. Investment 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:

	June 30, 2012	
	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 94	\$ 94
Due after one year through five years	27,461	26,667
Due after five years through ten years	46	47
Due after ten years	35	35
	27,636	26,843
Mortgage-backed securities (1)	107,360	107,908
Total, excluding equities	\$ 134,996	\$ 134,751

(1) Includes an interest only strip security of \$2,632.

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

	Less than 12 months		June 30, 2012		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Mortgage-backed securities	\$ 10,509	\$ (42)	\$ 425	\$ (71)	\$ 10,934	\$ (113)
Municipal securities	0	0	1,003	(6)	1,003	(6)
Corporate notes	24,203	(797)	0	0	24,203	(797)
Total	\$ 34,712	\$ (839)	\$ 1,428	\$ (77)	\$ 36,140	\$ (916)

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

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

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

At June 30, 2012 and December 31, 2011, the Bancorp had pledged investment securities aggregating \$106,618 and \$311,442, respectively, as collateral for borrowings.

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

	2012	2011
Construction	\$ 30,859	\$ 37,926
Commercial real estate	45,893	48,789
Commercial and industrial	12,324	13,084
Residential real estate	20,205	22,465
Manufactured housing	4,012	4,012
Total loans receivable covered under FDIC Loss Sharing Agreements (1)	113,293	126,276
Construction	12,986	15,271
Commercial real estate	458,377	352,077
Commercial and industrial	72,140	69,736
Mortgage warehouse	801,994	619,318
Manufactured housing	98,146	104,565
Residential real estate	91,539	53,476
Consumer	2,402	2,211
Total loans receivable not covered under FDIC Loss Sharing Agreements	1,537,584	1,216,654
Total loans receivable	1,650,877	1,342,930
Deferred (fees) costs, net	(7)	(389)
Allowance for loan and lease losses	(16,118)	(15,032)
Loans receivable, net	\$ 1,634,752	\$ 1,327,509

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

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The following table summarizes non-covered loans, by class, as of June 30, 2012:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Non- Accrual	Current (2)	Total Loans (4)
Commercial and industrial						
Acquired with credit deterioration	\$ 0	\$ 0	\$ 0	\$ 966	\$ 3,946	\$ 4,912
Remaining loans (5)	1,113	0	1,113	986	65,129	67,228
Commercial real estate						
Acquired with credit deterioration	0	0	0	6,977	52,365	59,342
Remaining loans (5)	3,542	0	3,542	15,350	380,143	399,035
Construction						
Acquired with credit deterioration	752	0	752	0	3,247	3,999
Remaining loans (5)	357	0	357	3,563	5,067	8,987
Residential real estate						
Acquired with credit deterioration	689	0	689	1,229	15,229	17,147
First mortgages (5)	304	0	304	595	52,970	53,869
Home equity (5)	381	0	381	657	19,485	20,523
Consumer						
Acquired with credit deterioration	10	0	10	83	472	565
Remaining loans (5)	67	0	67	5	1,765	1,837
Mortgage warehouse						
Acquired with credit deterioration	0	0	0	0	0	0
Remaining loans (5)	0	0	0	0	801,994	801,994
Manufactured housing (3)						
Acquired with credit deterioration	2,252	0	2,252	2,328	2,977	7,557
Remaining loans (5)	1,464	0	1,464	0	89,125	90,589
Total	\$ 10,931	\$ 0	\$ 10,931	\$ 32,739	\$ 1,493,914	\$ 1,537,584

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

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The following table summarizes non-covered loans, by class, as of December 31, 2011:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due(1)	Non- Accrual	Current (2)	Total Loans (4)
Commercial and industrial						
Acquired with credit deterioration	\$ 0	\$ 0	\$ 0	\$ 178	\$ 4,946	\$ 5,124
Remaining loans (5)	0	0	0	2,817	61,795	64,612
Commercial real estate						
Acquired with credit deterioration	89	0	89	8,527	57,542	66,158
Remaining loans (5)	1,025	0	1,025	18,729	266,165	285,919
Construction						
Acquired with credit deterioration	0	0	0	0	3,393	3,393
Remaining loans (5)	0	0	0	5,630	6,248	11,878
Residential real estate						
Acquired with credit deterioration	1,002	0	1,002	1,423	16,156	18,581
First mortgages (5)	314	0	314	700	14,652	15,666
Home equity (5)	183	0	183	823	18,223	19,229
Consumer						
Acquired with credit deterioration	7	0	7	6	233	246
Remaining loans (5)	14	0	14	34	1,917	1,965
Mortgage warehouse	0	0	0	0	619,318	619,318
Manufactured housing (3)						
Acquired with credit deterioration	1,681	0	1,681	0	7,048	8,729
Remaining loans (5)	3,481	0	3,481	0	92,355	95,836
Total	\$ 7,796	\$ 0	\$ 7,796	\$ 38,867	\$ 1,169,991	\$ 1,216,654

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

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The following table summarizes covered loans, by class, as of June 30, 2012:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Nonaccrual	Current (3)	Total Loans
Commercial and industrial						
Acquired with credit deterioration	\$ 0	\$ 0	\$ 0	\$ 485	\$ 1,691	\$ 2,176
Remaining loans (2)	290	0	290	153	9,705	10,148
Commercial real estate						
Acquired with credit deterioration	0	0	0	14,780	0	14,780
Remaining loans (2)	1,230	0	1,230	1,811	28,072	31,113
Construction						
Acquired with credit deterioration	0	0	0	17,301	0	17,301
Remaining loans (2)	0	0	0	6,643	6,915	13,558
Residential real estate						
Acquired with credit deterioration	0	0	0	2,422	0	2,422
First mortgages (2)	0	0	0	0	9,597	9,597
Home equity (2)	208	0	208	324	7,654	8,186
Manufactured housing						
Acquired with credit deterioration	0	0	0	70	0	70
Remaining loans (2)	108	0	108	108	3,726	3,942
	\$ 1,836	\$ 0	\$ 1,836	\$ 44,097	\$ 67,360	\$ 113,293

(1) Loans balances do not include nonaccrual loans.

(2) Loans that were not identified at the acquisition date as a loan with credit deterioration.

(3) Loans where payments are due within 29 days of the scheduled payment date.

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The following table summarizes covered loans, by class, as of December 31, 2011:

	30-89 Days Past Due (1)	Greater Than 90 Days (1)	Total Past Due (1)	Nonaccrual	Current (3)	Total Loans
Commercial and industrial						
Acquired with credit deterioration	\$ 0	\$ 0	\$ 0	\$ 378	\$ 0	\$ 378
Remaining loans (2)	2,672	0	2,672	0	10,034	12,706
Commercial real estate						
Acquired with credit deterioration	0	0	0	16,204	2,039	18,243
Remaining loans (2)	1,074	0	1,074	1,462	28,010	30,546
Construction						
Acquired with credit deterioration	0	0	0	18,896	3,266	22,162
Remaining loans (2)	92	0	92	2,584	13,088	15,764
Residential real estate						
Acquired with credit deterioration	0	0	0	4,002	0	4,002
First mortgages (2)	570	0	570	0	8,601	9,171
Home equity (2)	281	0	281	1,532	7,479	9,292
Manufactured housing						
Acquired with credit deterioration	0	0	0	77	0	77
Remaining loans (2)	6	0	6	78	3,851	3,935
	\$ 4,695	\$ 0	\$ 4,695	\$ 45,213	\$ 76,368	\$ 126,276

(1) Loans balances do not include nonaccrual loans.

(2) Loans receivable that were not identified upon acquisition as a loan with credit deterioration.

(3) Loans where payments are due within 29 days of the scheduled payment date.

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The following table presents a summary of impaired loans at or for the six months ended June 30, 2012.

	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	\$ 2,393		\$ 5,593	\$ 72
Commercial real estate	19,650		20,329	303
Construction	6,991		7,788	16
Consumer	64		101	0
Residential real estate	1,019		2,131	10
With an allowance recorded:				
Commercial and industrial	839	\$ 481	806	4
Commercial real estate	5,998	1,631	8,955	81
Construction	7,318	3,007	7,196	100
Consumer	19	20	20	1
Residential real estate	735	45	822	0
Total	\$ 45,026	\$ 5,184	\$ 53,741	\$ 587

(1) Also represents the recorded investment.

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The following table presents a summary of impaired loans at December 31, 2011 and activity recorded for the six months ended June 30, 2011.

	December 31, 2011		For the six months ended June 30, 2011	
	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	\$ 6,975		\$ 1,129	\$ 19
Commercial real estate	20,431		12,102	210
Construction	8,773		1,816	32
Residential real estate	343		239	0
With an allowance recorded:				
Commercial and industrial	800	\$ 426	6,339	140
Commercial real estate	12,195	2,047	17,398	346
Construction	7,369	2,986	5,252	55
Consumer	22	22	2	0
Residential real estate	869	195	1,068	13
Total	\$ 57,777	\$ 5,676	\$ 45,345	\$ 815

(1) Also represents the recorded investment.

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At June 30, 2012, there was \$7,796 in loans categorized as troubled debt restructurings (TDR). Of this amount, \$3,911 was performing in accordance with the modified terms. All TDRs are considered impaired loans in the calendar year of their restructuring. In subsequent years, a TDR may cease being classified as impaired if the loan was modified at a market rate at the time of modification and has performed according to the modified terms for at least six months. A loan that has been modified at a below market rate will return to performing status if it satisfies the six-month performance requirement; however, it will remain classified as impaired.

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

	TDRs in compliance with their modified terms and accruing interest	TDRs that are not accruing interest	Total
Three months ended June 30, 2012			
Extended under forbearance	\$ 0	\$ 145	\$ 145
Multiple extensions resulting from financial difficulty	103	0	103
Interest-rate reductions	255	0	255
Total	\$ 358	\$ 145	\$ 503

	TDRs in compliance with their modified terms and accruing interest	TDRs that are not accruing interest	Total
Six months ended June 30, 2012			
Extended under forbearance	\$ 0	\$ 145	\$ 145
Multiple extensions resulting from financial difficulty	103	0	103
Interest-rate reductions	347	0	347

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Total	\$	450	\$	145	\$	595
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The following table provides, by class, the number of loans and leases modified in troubled debt restructurings and the recorded investments and unpaid principal balances during the three and six months ended June 30, 2012.

Three months ended June 30, 2012	TDRs in compliance with their modified terms and accruing interest		TDRs that are not accruing interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	0	\$ 0	0	\$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	7	358	0	0
Residential real estate	0	0	1	145
Consumer	0	0	0	0
Total	7	\$ 358	1	\$ 145

Six months ended June 30, 2012	TDRs in compliance with their modified terms and accruing interest		TDRs that are not accruing interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Commercial and industrial	0	\$ 0	0	\$ 0
Commercial real estate	0	0	0	0
Construction	0	0	0	0
Manufactured housing	9	450	0	0
Residential real estate	0	0	1	145
Consumer	0	0	0	0
Total	9	\$ 450	1	\$ 145

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

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

Credit Quality Indicators

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

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

	June 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 68,996	\$ 423,925	\$ 8,718	\$ 88,988
Special Mention	2,026	11,654	587	247
Substandard	821	21,281	2,611	2,304
Doubtful	297	1,517	1,070	0
Total	\$ 72,140	\$ 458,377	\$ 12,986	\$ 91,539

	Consumer	Mortgage Warehouse	Manufactured Housing
Performing	\$ 2,339	\$ 801,994	\$ 98,146
Nonperforming (1)	63	0	0
Total	\$ 2,402	\$ 801,994	\$ 98,146

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

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

(Dollars in thousands except for per share data)

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

	December 31, 2011			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 61,851	\$ 307,734	\$ 9,314	\$ 50,517
Special Mention	57	13,402	237	0
Substandard	7,506	29,278	4,349	2,959
Doubtful	322	1,663	1,371	0
Total	\$ 69,736	\$ 352,077	\$ 15,271	\$ 53,476

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

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

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

	June 30, 2012			
	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 9,942	\$ 29,425	\$ 2,953	\$ 14,887
Special Mention	1,744	222	4,057	2,567
Substandard	638	16,246	23,849	2,751
Doubtful	0	0	0	0
Total	\$ 12,324	\$ 45,893	\$ 30,859	\$ 20,205

	Manufactured Housing
Performing	\$ 3,834
Nonperforming (1)	178
Total	\$ 4,012

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

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

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	Manufactured Housing
Performing	\$ 3,857
Nonperforming (1)	155
Total	\$ 4,012

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

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

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Three months ended June 30, 2012				
Beginning Balance, April 1, 2012	\$ 1,464	\$ 7,117	\$ 5,099	\$ 775
Charge-offs	0	(938)	(979)	(179)
Recoveries	66	14	0	1
Provision for loan and lease losses	(27)	2,073	232	483
Ending Balance, June 30, 2012	\$ 1,503	\$ 8,266	\$ 4,352	\$ 1,080

	Manufactured Housing	Consumer	Mortgage Warehouse	Unallocated	Total
Three months ended June 30, 2012 (continued)					
Beginning Balance, April 1, 2012	\$ 33	\$ 95	\$ 763	\$ 54	\$ 15,400
Charge-offs	0				