

Form

Unknown document format

nt> 4.91% 1.54% 1.26% 0.21%

Non-performing loans to
total loans

2.07% 4.99% 1.64% 1.26% 0.21%

Non-performing assets to total assets

5.29 % 5.03% 2.29% 0.95% 0.14%

Non-accrual loans and 90+ days delinquent to
total assets

1.64% 3.81% 1.31% 0.95% 0.14%

Allowance for loan losses to:

Total loans

1.48% 1.50% 1.21% 1.21% 1.15%

Non-performing loans

71.82% 30.10% 73.79% 95.60% 551.70%

Non-performing assets

22.27% 22.78% 42.28% 95.60% 551.70%

Edgar Filing: - Form

The table below sets forth types of loans that were non-performing at December 31, 2010, 2009, 2008, 2007 and 2006.

	2010	2009	December 31, 2008, 2007, 2006 (dollars in thousands)		
Commercial construction	\$238	\$379	\$-	\$-	\$-
Commercial real estate	2,865	2,347	767	100	-
Commercial and industrial	320	1,646	682	1,031	-
Residential construction	-	-	-	-	-
Consumer residential	106	1,034	168	-	117
Consumer and other	52	93	100	6	30
Total non-performing loans	\$3,581	\$5,499	\$1,717	\$1,137	\$147

BBI seeks to manage credit risk through the diversification of the loan portfolio and the application of policies and procedures designed to foster sound credit standards and monitoring practices. While various degrees of credit risk are associated with substantially all investing activities, the lending function carries the greatest degree of potential loss. Asset quality assurance activities include careful monitoring of borrower payment status and a review of borrower current financial information to ensure financial strength and viability. BBI has established credit policies and procedures, seeks the consistent application of those policies and procedures across the organization, and adjusts policies as appropriate for changes in market conditions and applicable regulations. The risk elements which comprise asset quality include loans past due, non-accrual loans, renegotiated loans, other real estate owned, and loan concentrations.

All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows BBI to take corrective actions on a timely basis.

A regular reporting and review process is in place to provide for proper portfolio oversight and control, and to monitor those loans identified as problem credits by management. This process is designed to assess BBI's progress in working toward a solution, and to assist in determining an appropriate specific allowance for possible losses. All loan work-out situations involve the active participation of management, and are reported regularly to the Board. Loan charge-offs are determined on a case-by-case basis. Loans are generally charged off when principal is likely to be unrecoverable and after appropriate collection steps have been taken. Loan policies and procedures are reviewed internally for possible revisions and changes on a regular basis. In addition, these policies and procedures, together with the loan portfolio, are reviewed on a periodic basis by various regulatory agencies and by BBI's outsourced internal auditors and loan review auditors, as part of their examination and audit procedures.

PREMISES AND EQUIPMENT AND OTHER ASSETS

BBI's premises and equipment, net of accumulated depreciation, was \$3.9 million and \$4.2 million at December 31, 2010 and 2009, respectively.

Edgar Filing: - Form

BBI's restricted stock holdings at December 31, 2010 and December 31, 2009 were \$1.1 million and \$1.2 million, respectively. These consist of stock of the FHLB-P and Atlantic Central Bankers Bank, and are required as part of our relationship with these banks. Federal law requires a member institution of the Federal Home Loan Bank to hold stock of its district FHLB according to a predetermined formula. The redeemable carrying amount of Federal Home Loan Bank stock with limited marketability is carried at cost.

BBI owned BOLI of \$2.4 million and \$2.3 million at December 31, 2010 and 2009, respectively. Cash flow from these policies will occur over an extended period of time and flow through non-interest income. BBI periodically reviews the creditworthiness of the insurance companies that have underwritten the policies. The cash surrender values of the policies appear on BBI's balance sheet and are subject to full regulatory capital requirements.

Goodwill represents the excess of the cost over fair value of net assets of the acquired business. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is tested using a two step process. If the carrying amount exceeds the estimated fair value, an indicator of goodwill impairment exists and a second step test is performed to determine if any goodwill impairment exists. In the second step, the Company calculates the implied value of goodwill by emulating a business combination. This step subtracts the estimated fair value of the net assets from the step one estimated fair value to determine the implied value of goodwill. If the implied value of goodwill is less than the carrying value of the goodwill, goodwill is not impaired, but if the implied value of goodwill is less than the carrying value of the goodwill allocated, an impairment charge is recognized for the difference in the consolidated statements of operations with a corresponding reduction to goodwill on the consolidated balance sheet. The Company has evaluated goodwill and determined that impairment existed as of December 31, 2010. Therefore an impairment charge of \$418 was recorded as of December 31, 2010. The balance in goodwill as of December 31, 2010 and 2009 was \$0 and \$418, respectively.

Other assets decreased to \$2.5 million at December 31, 2010 from \$2.7 million at December 31, 2009. The other asset decrease is primarily due to a prepaid FDIC premium of \$719 thousand added at December 31, 2009 with a balance of \$438 million as of December 31, 2010. In addition, an increase in other real estate owned to \$4.9 million at December 31, 2010 was realized compared to \$1.8 million at December 31, 2009. This was a direct result of properties being moved from non-accrual loan status to other real estate owned as BBI continued to work on resolution of non-performing loans and assets.

DEPOSITS

BBI offers a variety of deposit accounts, including checking, savings, money market and time deposits. Deposits are obtained primarily from BBI's service area. Total deposits decreased to \$123.3 million at December 31, 2010, a decrease of \$4.8 million, or 3.8%, from \$128.1 million at December 31, 2009. In the fourth quarter of 2009, BBI introduced a new product, the "Green Money Market account" to increase its deposit holdings. This product, which was launched in October of 2009, resulted in total deposits in this product category in the amount of \$33 million as of December 31, 2009. The balance in this product equated to \$45.2 million as of December 31, 2010. The account had an interest rate of 2% which was guaranteed through March of 2011. This is reflected below in the \$8.0 million increase in demand, interest bearing deposits from a level of \$60.4 million in 2009 to \$68.4 million in 2010, or 13.3% increase was a direct result of this marketing promotion. BBI does not have any brokered deposits at December 31, 2010 and 2009.

The components of deposits were as follows at the dates indicated:

	2010	December 31, 2009	2008
	(dollars in thousands)		
Demand, non-interest	\$6,973	\$6,821	\$5,761

Edgar Filing: - Form

bearing			
Demand, interest bearing	68,424	60,376	32,664
Savings	1,957	1,970	983
Time, \$100,000 and over	13,300	14,700	14,303
Time, other	32,599	44,211	49,606
Total deposits	\$ 123,253	\$ 128,078	\$ 103,317

231

Edgar Filing: - Form

Total time deposits decreased \$13 million, or 22.1%, to \$45.9 million at December 31, 2010 compared to \$58.9 million at December 31, 2009. Time deposits of \$100,000 or more were \$13.3 million at December 31, 2010 compared to \$14.7 million at December 31, 2009, a decrease of \$1.4 million or 9.5%. During this period, non-interest bearing demand deposits increased \$152 thousand, or 2.2%, to \$7 million from \$6.8 million. In an effort to obtain more business deposits, BBI initiated a program of remote deposit capture which allowed business customers to transmit checks electronically without having to go to a branch. Interest bearing demand deposits increased \$8 million, or 13.3%, to \$68.4 million from \$60.4 million. The majority of this increase is in money market accounts.

Savings deposit accounts decreased \$13 thousand, or 0.7%, to \$1.957 million at December 31, 2010 from \$1.970 million.

At December 31, 2010, the scheduled maturities of time deposits of \$100,000 or more were as follows:

	December 31, 2010 (dollars in thousands)
3 months or less	\$ 562
Over 3 through 6 months	950
Over 6 through 12 months	7,230
Over 12 months	4,558
	\$ 13,300

OTHER BORROWINGS

BBI had other borrowings of \$764 thousand at December 31, 2010, a 82.2% decrease from the \$4.3 million at December 31, 2009, represented by \$764 thousand in FHLB-P borrowings. BBI had \$0 in short-term advances from the FHLB-P at December 31, 2010 and \$1.4 million at December 31, 2009. Borrowings decreased primarily due to the increase in deposits.

Federal funds purchased, Federal Reserve Bank discount window borrowings and FHLB-P advances represent overnight or less than 30 day borrowings.

Short term borrowings consisted of the following at December 31, 2010, 2009 and 2008:

	December 31, 2010			
	Ending Balance	Average Balance	Maximum Month End Balance	Average Rate
Federal funds purchased	\$-	\$-	\$-	0 %
Federal Reserve - Discount Window	-	-	-	0 %
Federal Home Loan Bank	-	1,397	2,000	1.61 %
Total	\$-	\$1,397	\$2,000	1.61 %

	December 31, 2009		
	Ending	Average	Maximum
			Average

Edgar Filing: - Form

	Balance	Balance	Month End Balance	Rate	
Federal funds purchased	\$-	\$856	\$2,704	1.25	%
Federal Reserve - Discount Window	-	19	-	0.5	%
Federal Home Loan Bank	-	3,845	4,819	2.35	%
Total	\$-	\$4,720	\$7,523	2.14	%

	December 31, 2008				
	Ending Balance	Average Balance	Maximum Month End Balance	Average Rate	
Federal funds purchased	\$396	\$721	\$2,413	2.09	%
Federal Reserve - Discount Window	-	-	-	-	%
Federal Home Loan Bank	5,000	3,097	5,000	3.66	%
Total	\$5,396	\$3,818	\$7,413	3.37	%

Long-term borrowings are comprised of advances from the FHLB-P. Under the terms of a blanket agreement, collateral for the loans is secured by certain qualifying assets such as loans and investment securities.

The contractual maturities of advances at December 31, 2010 were as follows:

	2010 (dollars in thousands)
2013	266
2015 and thereafter	498
	\$764

PREFERRED STOCK

BBI received funds under the United States Department of Treasury's TARP Capital Purchase program pursuant to the securities purchase agreement entered into by BBI and the Treasury on June 12, 2009. Through its participation in the TARP Capital Purchase Program, BBI issued (1) 2,892 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value \$1.00 per share and a liquidation preference of \$1,000 per share ("Series A Preferred Stock") and (2) a warrant to purchase 145 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value \$1.00 per share and a liquidation preference of \$1,000 per share ("Series B Preferred Stock"). The warrant for the Series B Preferred Stock was immediately exercised on June 12, 2009. BBI received \$2,892,000 through its participation in the TARP Capital Purchase Program. The proceeds from the preferred stock were allocated between the Series A Preferred Stock and Series B Preferred Stock based on their relative fair value, using a discount rate of 12%. The original net discount is being accreted over the expected term of five years using the effective interest method. As a participant in the TARP Capital Purchase Program, BBI is subject to additional regulations to which other financial institutions that did not participate in TARP are not subject.

As of December 31, 2010, BBI continues to have outstanding 2,892 shares Series A Preferred Stock and 145 shares of its Series B Preferred Stock. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series B Preferred Stock has a cumulative dividend rate of 9% per annum.

The American Recovery and Reinvestment Act of 2009 provides that subject to consultation with the appropriate Federal banking agency, the U.S. Treasury shall permit a TARP recipient to repay any assistance previously provided under the TARP without regard to whether the financial institution has replaced such funds from any other source or to any waiting period. BBI will be subject to existing supervisory procedures for approving redemption requests for capital instruments. The federal regulator will weigh BBI's desire to redeem the preferred stock against the contribution of Treasury capital to BBI's overall soundness, capital adequacy and ability to lend, including confirming that BBI has a comprehensive internal capital assessment process.

On October 26, 2009, BBI commenced the sale of 6,000 shares of its 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C, par value \$1.00 per share, \$1,000 liquidation preference per share. During the year ended December 31, 2009 and 2010, respectively, the Company sold 50 and 0 shares for total gross proceeds of \$50 thousand. Direct offering expenses of \$65 thousand are netted against the gross proceeds and charged against additional paid-in capital.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased to \$10.5 million at December 31, 2010 from \$11.4 million at December 31, 2009. This was primarily due to the consolidated losses of BBI. An increase in net unrealized (gains) losses on investment securities in the amount of \$132 thousand classified by BBI as AFS was recognized between December 31, 2009 and December 31, 2010. The unrealized loss in BBI's investment securities portfolio is subject to change with fluctuations in interest rates and the market prices of the underlying securities, and is recognized as a component of net income only if realized through the sale of such securities prior to maturity, or if the security would become other-than-temporarily impaired.

In 2003, BBI entered into an agreement with East Penn Financial Corporation ("East Penn") whereby East Penn purchased 19.9% of the Company's stock in the initial public offering. The agreement included the issuance of a stock warrant that allowed East Penn to purchase and own up to 24.9% of the Company's outstanding shares. East Penn has since been acquired by Harleysville National Corporation (HNC) which assumed the right to 19.9% ownership in the Company with the same terms as was extended to East Penn. On April 9, 2010, First Niagara Financial Group ("First Niagara") acquired HNC and assumed the HNC ownership percentage with the same terms as was extended to HNC. Pursuant to this commitment, First Niagara may not acquire or retain BBI shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of BBI or any of its subsidiaries.

There are certain limitations on the ability of BBI to pay cash dividends without prior approval of regulatory authorities. BBI recorded dividends in the approximate amount of \$87 thousand and \$79 thousand on the Series A Preferred Stock and Series B Preferred Stock in 2009 and 2010, respectively. Presently, BBI and Berkshire Bank are not authorized to pay cash dividends on their shares and must obtain approval of their primary regulators prior to declaration of a dividend. BBI's ability to pay dividends is restricted by banking laws, Pennsylvania corporate law, and the regulations of the Federal Reserve Board and Berkshire Bank's ability to pay dividends to BBI. For a more detailed description of BBI's shareholders' equity, see Note 14 of our 2010 Audited Financial Statements on page BBI F-23 of this Joint Proxy Statement - Prospectus.

STOCK WARRANT PLAN

During 2003, BBI issued stock purchase warrants in connection with its initial public offering, giving organizers the right to purchase at the initial offering price of \$3.28 per share. Subsequently, in 2007, as part of the stock offering, BBI issued non-detachable warrants exercisable until December 31, 2012 at varying share prices ranging from \$7.36 through December 31, 2008 to \$11.20 through December 31, 2012.

The following table summarizes changes in stock warrants outstanding under the 2003 Initial Offering and the Warrants associated with the Stock Offering of 2007 for the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31,					
	2010		2009		2008	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at beginning of year	774,571	\$ 5.08	775,611	\$ 5.08	865,519	\$ 5.32
Granted	-	-	-	-	-	-
Expired/terminated	-	-	-	-	-	-
Exercised	-	-	(1,040)	8.32	(89,908)	7.45
Outstanding at December 31	774,571	\$ 5.08	774,571	\$ 5.08	775,611	\$ 5.08

LIQUIDITY AND CAPITAL RESOURCES

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

BBI's investment portfolio provides periodic cash flows through regular maturities and amortization, and can be used as collateral to secure additional liquidity funding. BBI's principal sources of funds are shareholder capital, deposits, principal and interest payments on loans, and other funds from operations. BBI also maintains borrowing arrangements with the FHLB-P and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. As of December 31, 2010, BBI's borrowing capacity with the FHLB-P was \$51.9 million, of which \$764 thousand was used in borrowings. BBI had \$144 thousand of pledged mortgage backed and agency securities and \$8.8 million of pledged loans as collateral for these borrowings. As of December 31, 2010, BBI's borrowing capacity with the Federal Reserve Bank of Philadelphia was \$6.4 million, and BBI had \$5 million of pledged loans as collateral for this borrowing capacity. BBI also has available a line of credit agreement to purchase federal funds from the ACBB totaling \$4 million of which advances up to \$1 million would be unsecured. Additional advances up to the remaining \$3 million would be secured by investments held in safekeeping at ACBB. There were no federal funds purchased outstanding at December 31, 2010 or December 31, 2009.

Edgar Filing: - Form

BBI's net cash provided by and used in operating activities was \$871 thousand and \$1.3 million for the years ended December 31, 2010 and 2009, respectively. The change was primarily due to the goodwill impairment charge of \$418 thousand and an increase in the proceeds of loans held for sale.

Net cash provided by investing activities was \$9.2 million and net cash used in investing activities was \$4.0 million for the years ended December 31, 2010 and 2009, respectively. This increase in cash was driven by lower levels of investment security purchases during 2010 as well as a decrease in the volume of loans in 2010 compared to 2009.

Cash used in financing activities was \$8 million and cash provided by financing activities was \$14.7 million for the years ended December 31, 2010 and 2009, respectively. The decrease compared to 2009 was primarily due to decreased repayments in borrowings combined with a decrease in interest-bearing deposits.

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

CAPITAL ADEQUACY

BBI is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on BBI's financial statements. Under capital adequacy and the regulatory framework for prompt corrective action, BBI must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

At December 31, 2010 and December 31, 2009, BBI and Berkshire Bank met each of its minimum capital requirements. Management believes that Berkshire Bank would be deemed "well capitalized" for regulatory purposes as of December 31, 2010 and December 31, 2009. Banking regulators have discretion to establish an institution's classification based on other factors, in addition to the institution's numeric capital levels.

At December 31, 2010, management was not aware of any developments that have occurred and that would, or would be reasonably likely to, cause our classification to be reduced below a level of "well capitalized" for regulatory purposes. Berkshire Bank's capital classification is determined pursuant to banking regulations to apply Berkshire Bank regulators' "prompt corrective action" regulations, and to determine levels of deposit insurance assessments, and may not constitute an accurate representation of our overall financial condition or prospects. The following table summarizes the required capital ratios and the corresponding regulatory capital positions of BBI and Berkshire Bank for the periods or dates indicated:

As of December 31, 2010:	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk Based Capital (to Risk Weighted Assets)	(dollar amounts in thousands)							
Bank	\$ 11,788	10.91	% \$ 8,645	8.0	% \$ 10,807	10.0	%	
Consolidated	11,878	10.99	% 8,644	8.0	% N/A	N/A	%	
Tier I Capital (to Risk Weighted Assets)								
Bank	10,430	9.65	% 4,323	4.0	% 6,484	6.0	%	
Consolidated	10,520	9.74	% 4,322	4.0	% N/A	N/A	%	
Tier I Capital (to Average Assets)								
Bank	10,430	7.64	% 5,462	4.0	% 6,828	5.0	%	
Consolidated	10,520	7.70	% 5,462	4.0	% N/A	N/A	%	
As of December 31, 2009:								
Total Risk Based Capital (to Risk Weighted Assets)								
Bank	\$ 12,680	11.62	% \$ 8,731	8.0	% \$ 10,913	10.0	%	
Consolidated	12,472	11.46	% 8,706	8.0	% N/A	N/A	%	
Tier I Capital (to Risk Weighted Assets)								
Bank	11,316	10.37	% 4,365	4.0	% 6,548	6.0	%	
Consolidated	11,108	10.21	% 4,353	4.0	% N/A	N/A	%	
Tier I Capital (to Average Assets)								
Bank	11,316	7.68	% 5,891	4.0	% 7,364	5.0	%	
Consolidated	11,108	7.54	% 5,891	4.0	% N/A	N/A	%	

In general, BBI's capital increased with the addition of TARP in the amount of \$2,892 thousand received June 12, 2009. Conversely, as BBI's assets grow, its capital ratios decrease. During 2010, the balance sheet was reduced in an effort to manage the risk-based capital ratios to ensure that the Bank was adequately capitalized.

In general, in the past few years, balance sheet growth has been offset by decreases in capital through losses and increases in capital from sales of common stock and growth of the allowance for loan losses.

BBI does not presently have any commitments for significant capital expenditures. BBI is unaware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have a material effect on

liquidity, capital resources, or operations of BBI.

The maintenance of appropriate levels of capital is an important objective of BBI's Asset and Liability Management process. Through its initial capitalization and its subsequent offerings, BBI has continued to maintain a strong capital position.

237

MARKET FOR COMMON STOCK

BBI's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as market makers in BBI's stock. Consequently, information on current stock trading prices is not readily available. BBI currently acts as its own transfer agent and offers to introduce potential buyers and sellers of our stock to each other, but does not make a market in its own stock or attempt to negotiate prices for trades of its stock. At December 31, 2010, there were approximately 420 shareholders who owned the 4,051,063 shares of Common Stock outstanding.

Based on the information available to us, private sales of BBI's Common Stock was not traded at all during 2010 and traded at a low of \$9.75 per share and at a high of \$10.25 during 2009. This quoted price is limited only to those private transactions known by management in fact, there may have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

OFF-BALANCE SHEET ARRANGEMENTS

BBI is a party to financial instruments and other commitments with off-balance sheet risks. Financial instruments with off-balance sheet risks are incurred in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, including unused portions of lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheets.

With commitments to extend credit, BBI's exposure to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. BBI uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. Since they involve credit risk similar to extending a loan, they are subject to BBI's Credit Policy and other underwriting standards.

As of December 31, 2010 and December 31, 2009, the following off-balance sheet commitments, financial instruments and other arrangements were outstanding:

	December 31,	
	2010	2009
	(dollars in thousands)	
Commitments to fund loans	\$33,793	\$36,783
Unfunded commitments under lines of credit	8,596	12,655
Letters of credit	428	769

Commitments to fund loans, unfunded commitments under lines of credit and letters of credit are agreements to extend credit to or for the benefit of a customer in the ordinary course of BBI's business.

Commitments to fund loans and unfunded commitments under lines of credit may be obligations of BBI as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. BBI evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by BBI upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Edgar Filing: - Form

Outstanding letters of credit written are conditional commitments issued by BBI to guarantee the performance of a customer to a third party. Letters of credit may obligate BBI to fund draws under those letters of credit whether or not a customer continues to meet the conditions of the extension of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

238

OTHER OFF-BALANCE SHEET ARRANGEMENTS

Other off-balance sheet arrangements include operating leases for BBI's premises. BBI leases the premises for its corporate headquarters and main banking office, as well as four branches in addition to an operations center under operating lease agreements with various terms and at various rentals. Each lease differs as to whether BBI has one or more renewal options and on what terms. As of December 31, 2010, BBI's approximate future non-cancellable minimum payments under these leases, by year, were as follow:

	December 31, 2010 (dollars in thousands)
2011	\$ 415
2012	430
2013	361
2014	301
2015	283
2016 & Thereafter	894
	\$ 2,684

CONTRACTUAL OBLIGATIONS

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-Term Debt Obligations	764	\$ -	\$ 266	\$ -	\$ 498
Capital Lease Obligations	-	-			-
Operating Lease Obligations	2,684	415	791	584	894
Time Deposits	45,899	30,517	13,803	1,579	-
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under GAAP	-	-	-	-	-
Total	\$ 49,347	\$ 30,932	\$ 14,860	\$ 2,163	\$ 1,392

The chart above indicates BBI's contractual obligations related to long-term debt obligations at December 31, 2010 which are the combinations of mid-term repurchase agreements in the amount of \$266 thousand as well as \$498 thousand in an amortized fixed rate term note at FHLB-P. These borrowings due require repayment penalties if paid in advance of the due date. In addition, operating lease obligations are a result of BBI leases for the premises for its corporate headquarters and main banking office, as well as four branches in addition to an operations center under operating lease agreements with various terms and at various rentals. Each lease differs as to whether BBI has one or more renewal options and on what terms. Contractual obligations regarding time deposits in the amount of \$45.9 million are also included by payments due period. There are no capital lease obligations or other long-term liabilities as of December 31, 2010.

WHERE YOU CAN FIND MORE INFORMATION

Neither Customers Bank's nor CBI's Voting Common Stock is registered with any federal or state securities or banking regulator, and neither entity currently makes periodic securities filings with any regulator. Upon effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus forms a part, CBI will become subject to the reporting requirements of Section 15(a) of the Securities Act, and will begin filing periodic reports, proxy statements, and other information required by the Exchange Act. See "Additional Information" on page 241 of this Joint Proxy Statement-Prospectus for additional information on where you may read and copy materials filed with the SEC.

Customers Bank files quarterly reports of condition on Form FFIEC 041 ("Call Reports") with the Federal Reserve Bank of Philadelphia, Ten Independence Mall, Philadelphia, PA 19106-1574. The Call Reports are publicly available from the FDIC's Internet website at <http://www2.fdic.gov/idasp/main.asp> or the Federal Financial Institutions Examination Council Internet website at <https://cdr.ffiec.gov/public/>. If you wish to obtain a printed copy of an individual Call Report facsimile for periods prior to 2001, please contact the FDIC Public Information Center for ordering instructions and current fees by E-Mail at publicinfo@fdic.gov, by telephone at 877-688-3342 or 703-562-2200, or by fax at 703-562-2296. You may contact the National Technical Information Service ("NTIS"), a branch of the U.S. Department of Commerce), at 800-363-2068 or 703-605-6000 to obtain all available Call Reports for a specific period on magnetic tape, cartridge, or CD-ROM format, at a cost. NTIS has a website for ordering products at <http://www.ntis.gov>. Use the Site Index at the bottom to find products in Customers Banking Information category. Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of the end of or for the period to which the Call Report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. These instructions in most, but not all, cases follow GAAP, including the opinions and statements of the Accounting Principles Board and the Financial Accounting Standards Board. The Call Reports are not incorporated by reference and are not a part of this Joint Proxy-Statement Prospectus. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure, the reports nevertheless provide important information concerning Customers Bank. In addition to filing Call Reports, Customers Bank has delivered Audited Financial Statements to its shareholders each year, as well as proxy statements together with notices of each annual meeting.

Customers Bank is not subject to the informational requirements of the Exchange Act, and is not therefore required to file reports or other information with the SEC pursuant to the Exchange Act. Customers Bank maintains a website (<http://www.customersbank.com>) where you may find additional information about Customers Bank. The information contained in the website is not incorporated by reference and is not a part of this Joint Proxy-Statement Prospectus.

Upon written request of any shareholder, a copy of Customers Bank's Call Report, Customers Bank's audited Annual Report for the fiscal year ended December 31, 2010 and Customers Bank's proxy statement for its 2010 Annual Meeting of shareholders may be obtained, without charge, on written request to Thomas Brugger, Chief Financial Officer, 1015 Penn Avenue, Suite 103, Wyomissing, PA 19610.

ADDITIONAL INFORMATION

CBI has filed electronically with the SEC, Washington, D.C., through EDGAR a registration statement (No. 333-166225) on Form S-1 under the Securities Act of 1933, for the registration of CBI Voting Common Stock and Class B Non Voting Common Stock to be issued in the reorganization and merger. This Joint Proxy Statement-Prospectus constitutes the prospectus that was filed as a part of that registration statement, and does not contain all of the information set forth in the registration statement and its annexes and exhibits. Some items were omitted in accordance with the rules and regulations of the SEC. Anyone may inspect the registration statement or any other document filed with the SEC without charge at the public reference facilities of the SEC, 100 F Street, N.E. Washington, D.C. 20549 and may obtain copies of all or any part of it from the SEC upon payment of the required fees. The registration statement may also be reviewed on the SEC's website at <http://www.sec.gov>.

PROPOSAL C3 AND B2

TO ADJOURN THE SPECIAL MEETING IF NECESSARY TO SOLICIT OR RECEIVE ADDITIONAL PROXIES

Management does not anticipate that it will be necessary to adjourn the meeting in order to obtain sufficient proxies to complete the voting on the proposals, but management believes it is prudent to identify this as a possible action in the unlikely event that insufficient proxies are returned to determine the outcome of the vote on the proposals.

THE BOARDS OF DIRECTORS OF BOTH CBI AND BBI RECOMMEND A VOTE "FOR" APPROVAL OF
PROPOSAL C3 AND B2 TO ADJOURN THE MEETING IF
NECESSARY TO SOLICIT OR RECEIVE ADDITIONAL PROXIES.

SHAREHOLDER PROPOSALS FOR 2011

Assuming consummation of the reorganization, shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in CBI's proxy statement for its 2011 Annual Meeting of Shareholders must be received by CBI no later than _____, which is 120 days prior to the first anniversary of the mailing date of this Joint Proxy Statement-Prospectus. However, if the date of the 2011 Annual Meeting shall be changed by more than 30 days from the date of Customers Bank's 2010 Annual Meeting, then the deadline is a reasonable time before CBI begins to print and send its proxy materials. Any such proposal and our obligation, if applicable, to include it in CBI's proxy statement, will be subject to Rule 14a-8 of the rules and regulations of the SEC.

Assuming consummation of the reorganization, nominations for the election of directors of CBI may be made by any shareholder entitled to vote for the election of directors by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Corporate Secretary of CBI not less than ninety (90) days nor more than one hundred and twenty (120) days prior to any meeting of shareholders called for election of directors; provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such written notice may be delivered or mailed, as prescribed, to the Corporate Secretary of CBI not later than the close of the seventh day following the day on which notice was mailed to shareholders. Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each nominee, and (iii) the number of shares of capital stock of the Corporation which are beneficially owned by each such nominee and the earliest date of acquisition of any of such stock.

Assuming consummation of the reorganization, subject to the immediately preceding paragraph relating to shareholder nominations, if a shareholder wishes to present a proposal at the 2011 Annual Meeting but does not intend to have such proposal included in CBI's proxy statement, and such proposal is properly brought before the 2011 Annual Meeting, then in accordance with Rule 14a-4 under the Exchange Act, if the shareholder has not provided notice of the proposal by _____ (or if the date of the meeting has changed more than 30 days from the date of Customers Bank's 2010 Annual Meeting, a reasonable time before CBI sends its proxy materials), the board of directors of CBI will have the right to exercise its discretionary voting authority on that proposal. The persons designated in CBI's proxy card will be granted discretionary voting authority with respect to any such shareholder proposal for which CBI does not receive timely notice.

LEGAL MATTERS

Certain legal and tax matters in connection with the reorganization have been passed upon for CBI and Customers Bank by Stradley Ronon Stevens & Young, LLP, 30 Valley Stream Parkway, Malvern, PA 19355 and for BBI and Berkshire Bank by Bybel Rutledge LLP, 1017 Mumma Road, Suite 302, Lemoyne, PA 17043.

EXPERTS

The financial statements of Customers Bank including the balance sheets of Customers Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010 have been attached to this Joint Proxy Statement-Prospectus in reliance upon the report of ParenteBeard LLC, 2609 Keiser Boulevard, Wyomissing, Pennsylvania, 19610, independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

ACCOUNTANTS

Edgar Filing: - Form

The financial statements of BBI including the balance sheets of BBI as of December 31, 2010, 2009, and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended have been attached to this Joint Proxy Statement-Prospectus in reliance upon the report of McGladrey & Pullen, LLP, 512 Township Line Road, One Valley Square, Suite 250, Blue Bell, PA 19422, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

OTHER BUSINESS

We do not presently know of any business other than that described above to be presented to the shareholders for action at the meeting. Should other business come before the meeting, votes may be cast pursuant to proxies in respect of any such business in the best judgment of the persons acting under the proxies.

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO ADDITIONAL POSTAGE IF MAILED IN THE UNITED STATES.

INDEX TO CUSTOMERS BANK FINANCIAL STATEMENTS

Unaudited Balance Sheet as of March 31, 2011 and December 31, 2010	Customers F-1
Unaudited Statements of Operations for the three months ended March 31, 2011 and 2010	Customers F-2
Unaudited Statements of Changes in Stockholders Equity for the three months ended March 31, 2011 and 2010	Customers F-3
Unaudited Statements of Cash Flows for the three months ended March 31, 2011 and 2010	Customers F-4
Notes to Unaudited Financial Statements as of March 31, 2011	Customers F-5
Report of Independent Registered Public Accounting Firm	Customers F-24
Balance Sheets as of December 31, 2010 and 2009	Customers F-25
Statements of Operations for the years ended December 31, 2010, 2009, and 2008	Customers F-26
Statements of Changes In Stockholders' Equity for the years ended December 31, 2010, 2009, and 2008	Customers F-27
Statements of Cash Flows for the years ended December 31, 2010, 2009, and 2008	Customers F-28
Notes to Financial Statements for the years ended December 31, 2010, 2009, and 2008	Customers F-29

CUSTOMERS BANK
UNAUDITED BALANCE SHEETS

	March 31, 2011	December 31, 2010
	(dollar amounts in thousands, except per share data)	
ASSETS		
Cash and due from banks	\$5,204	\$6,396
Interest earning deposits	80,693	225,635
Federal funds sold	263	6,693
Cash and cash equivalents	86,160	238,724
Investment securities available for sale, at fair value	201,195	205,828
Investment securities, held to maturity (fair value 2011 \$401,907; 2010 \$0)	396,847	—
Loans receivable held for sale	175,010	199,970
Loans receivable, net of allowance for loan losses for 2011 \$17,298; 2010 \$15,129	523,820	498,958
Loans receivable covered under loss sharing agreements with the FDIC, net	158,194	164,885
Total loans receivable, net	682,014	663,843
FDIC loss sharing receivable	16,229	16,702
Bank premises and equipment, net	5,622	5,302
Bank owned life insurance	25,571	25,649
Other real estate owned (2011 \$4,394; 2010 \$5,342 covered under loss sharing agreements with the FDIC)	7,655	7,248
Accrued interest receivable and other assets	11,243	11,141
Total assets	\$1,607,546	\$1,374,407
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$78,606	\$72,268
Interest bearing	1,310,734	1,173,422
Total deposits	1,389,340	1,245,690
Borrowings	11,000	11,000
Subordinated debt	2,000	2,000
Investment securities settlement liability	78,048	—
Accrued interest payable and other liabilities	7,923	10,577
Total liabilities	1,488,311	1,269,267
Stockholders' equity:		
	—	—

Edgar Filing: - Form

Preferred stock, par value \$1,000 per share; 1,000,000 shares authorized; no shares issued

and outstanding in 2011 and 2010

Common stock, par value \$1.00 per share;

100,000,000 shares authorized; shares issued and

outstanding 2011 – 29,360,720; 2010 – 25,194,041

	29,361	25,194
Additional paid in capital	82,850	71,336
Retained earnings	8,830	10,506
Accumulated other comprehensive loss	(1,806)	(1,896)
Total stockholders' equity	119,235	105,140
Total liabilities and stockholders' equity	\$1,607,546	\$1,374,407

See accompanying notes to the unaudited financial statements.

Customers F-1

CUSTOMERS BANK
UNAUDITED STATEMENTS OF OPERATIONS

Three months ended March 31,	2011	2010
	(dollar amounts in thousands, except per share data)	
Interest income:		
Loans receivable, including fees	\$ 9,524	\$ 3,471
Investment securities, taxable	2,017	387
Investment securities, non-taxable	22	38
Other	276	24
Total interest income	11,839	3,920
Interest expense:		
Deposits	5,450	1,531
Borrowed funds	89	90
Subordinated debt	16	16
Total interest expense	5,555	1,637
Net interest income	6,284	2,283
Provision for loan losses	2,800	4,372
Net interest income (loss) after provision for loan losses	3,484	(2,089)
Non-interest income:		
Service fees	169	112
Mortgage warehouse transactional fees	1,111	156
Bank owned life insurance	621	58
Gains on sales of investment securities	—	302
Other	1,235	25
Total non-interest income	3,136	653
Non-interest expense:		
Salaries and employee benefits	4,120	1,444
Occupancy	731	308
Technology, communication and bank operations	650	357
Advertising and promotion	228	96
Professional services	1,354	370
FDIC assessments, taxes, and regulatory fees	823	276
Loan workout and other real estate owned	472	487
Other	614	195
Total non-interest expense	8,992	3,533
Loss before income tax benefit	(2,372)	(4,969)

Edgar Filing: - Form

Income tax benefit	(696)	—
Net loss	\$ (1,676)	\$ (4,969)
Basic and Diluted loss per share	\$ (0.06)	\$ (0.46)

See accompanying notes to the unaudited financial statements.

Customers F-2

CUSTOMERS BANK

UNAUDITED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the three months ended March 31, 2011 and 2010

	Number of Shares of Common stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated other comprehensive loss	Total
(dollars in thousands)						
Balance, December 31, 2010	25,194,041	\$25,194	\$71,336	\$10,506	\$ (1,896)	\$105,140
Comprehensive loss:						
Net loss	—	—	—	(1,676)	—	(1,676)
Change in net unrealized gain on securities available for sale, net of taxes	—	—	—	—	90	90
Total comprehensive loss						(1,586)
Common stock shares issued	4,166,679	4,167	11,367	—	—	15,534
Stock-based compensation expense	—	—	147	—	—	147
Balance, March 31, 2011	29,360,720	\$29,361	\$82,850	\$8,830	\$ (1,806)	\$119,235

	Number of shares of common stock	Common stock	Additional Paid in Capital	Accumulated deficit	Accumulated other comprehensive loss	Total
(dollars in thousand)						
Balance, December 31, 2009	5,522,706	\$5,522	\$29,243	\$ (13,229)	\$ (33)	\$21,503
Comprehensive loss:						
Net loss	—	—	—	(4,969)	—	(4,969)
Change in net unrealized loss on securities available for sale, net of taxes	—	—	—	—	(85)	(85)
Total comprehensive loss						(5,054)
Common stock shares issued	14,859,214	14,860	34,095	—	—	48,955
Balance, March 31, 2010	20,381,922	\$20,382	\$63,338	\$ (18,198)	\$ (118)	\$65,404

See accompanying notes to the unaudited financial statements.

Customers F-3

CUSTOMERS BANK
UNAUDITED STATEMENTS OF CASH FLOWS

Three months ended March 31,	2011	2010
	(in thousands)	
Cash Flows from Operating Activities		
Net loss	\$ (1,676)	\$ (4,969)
Adjustments to reconcile net loss to cash provided by operating activities:		
Provision for loan losses	2,800	4,372
Provision for depreciation and amortization	294	176
Net amortization of investment securities premiums and discounts	(15)	92
Gain on sales of investment securities	—	(302)
Gain on sale of SBA loan	(78)	—
Accretion of fair values discounts, net	(185)	—
Increase in FDIC loss sharing receivables	(1,504)	—
Fair value adjustments on OREO	131	327
Earnings on investment in bank owned life insurance	(621)	(58)
Stock-based compensation expense	147	—
Origination of loans held for sale	(534,648)	—
Proceeds from the sale of loans held for sale	559,608	—
(Increase) decrease in other assets	(545)	937
Decrease in other liabilities	(2,343)	(24)
Net Cash Provided by Operating Activities	22,455	551
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	—	(28,146)
Purchases of investment securities held to maturity	(318,800)	—
Proceeds from maturities and principal repayments on investment securities available for sale	4,784	3,096
Proceeds from sales of securities available for sale	—	32,400
Net (decrease) in loans	(23,791)	(101,384)
Purchases of bank premises and equipment	(614)	(140)
Purchase of restricted stock	(818)	—
Proceeds from the sale of SBA loan	1,465	—
Reimbursements under loss share arrangements	1,977	—
Proceeds from sales of foreclosed real estate	895	91
Proceeds from bank owned life insurance	699	—
Net Cash Used in Investing Activities	(334,203)	(94,083)
Cash Flows from Financing Activities		
Net increase in deposits	143,650	110,346
Proceeds from issuance of common stock	15,534	48,955
Net Cash Provided by Financing Activities	159,184	159,302
Net (decrease) increase in Cash and Cash Equivalents	(152,564)	65,770

Edgar Filing: - Form

Cash and Cash Equivalents - Beginning	238,724	68,807
Cash and Cash Equivalents - Ending	\$ 86,160	\$ 134,576
Supplementary Cash Flows Information		
Interest paid	\$ 5,443	\$ 1,577
Income taxes (refund) paid	2,816	(316)
Transfers of loans to other real estate owned	1,433	—
Investment securities purchased but not settled	78,048	—

See accompanying notes to the unaudited financial statements.

Customers F-4

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 1 - BASIS OF PRESENTATION

This quarterly report presents the financial statements of Customers Bank. The accounting and reporting policies of Customers Bank conform with accounting principles generally accepted in the United States of America (US GAAP) and predominant practices within the banking industry.

Customers Bank's unaudited interim financial statements reflect all adjustments, such as normal recurring accruals that are, in the opinion of management, necessary for fair statement of the results of interim periods presented. The results of operations for the three months ended March 31, 2011 presented do not necessarily indicate the results that Customers Bank will achieve for all of 2011. You should read these interim financial statements in conjunction with the financial statements and accompanying notes that are presented in the financial statements for Customers Bank for the year ended December 31, 2010.

The financial information in this quarterly report has been prepared in accordance with Customers Bank's customary accounting practices. Certain information and footnote disclosures required under US GAAP have been condensed or omitted, as permitted by rules and regulations of the Securities and Exchange Commission.

Certain amounts reported in the 2010 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications did not significantly impact Customers Bank's financial position or results of operations.

Customers Bank evaluated its March 31, 2011 financial statements for subsequent events through the date the financial statements were issued. The Bank is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – ACQUISITION ACTIVITY

Berkshire Bancorp Acquisition

On August 24, 2010, Customers Bank entered into a definitive agreement to acquire Berkshire Bancorp, Inc. and its subsidiary Berkshire Bank (collectively, Berkshire) upon the formation of its Holding Company. Berkshire is a \$150 million bank holding company with five branch offices. Customers Bank will issue shares of its common stock valued at its tangible book value at the month-end prior to closing for Berkshire and Customers Bank. In addition, the Bank will provide Berkshire approximately \$3.0 million to repurchase the preferred shares held by the U.S. Department of the Treasury under the Troubled Asset Relief Program Capital Purchase Program. The merger is anticipated to close in July of 2011 after both regulatory and each Bank's shareholders approval is received.

NOTE 3 – EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if (i)

Edgar Filing: - Form

options to issue common stock were exercised and (ii) warrants to issue common stock were exercised. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

The weighted average common shares outstanding for the three months ended March 31, 2011 and 2010 were 25,585,697 and 10,741,688, respectively. Stock options outstanding for 2,737,722 shares of common stock with exercise prices ranging from \$3.25 to \$11.00, restricted stock units outstanding to purchase 106,876 shares on common stock issued at \$4.00 per share and warrants for 1,653,834 shares of common stock with exercise prices ranging from \$3.50 to \$5.50 for the three month periods ended March 31, 2011 were not dilutive due to the net loss in 2011. Stock options outstanding for 44,810 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 and warrants for 1,653,834 shares of common stock with exercise prices ranging from \$3.50 to \$5.50 per share for the three months ended March 31, 2010 were not dilutive due to the net loss in 2010.

Customers F-5

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 4 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of March 31, 2011 and December 31, 2010 are summarized as follows:

	Amortized Cost	March 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale:				
U.S. Treasury and government agencies	\$ 1,703	\$ —	\$ (37)	\$ 1,666
Mortgage-backed securities	199,454	758	(3,122)	197,090
Asset-backed securities	691	3	—	694
Municipal securities	2,084	—	(339)	1,745
	\$ 203,932	\$ 761	\$ (3,498)	\$ 201,195

Held to Maturity:

Mortgage-backed securities	\$ 396,847	\$ 5,060	\$ —	\$ 401,907
	\$ 396,847	\$ 5,060	\$ —	\$ 401,907

	Amortized Cost	December 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale:				
U.S. Treasury and government agencies	\$ 1,711	\$ —	\$ (30)	\$ 1,681
Mortgage-backed securities	204,182	561	(3,169)	201,574
Asset-backed securities	719	3	—	722
Municipal securities	2,088	—	(237)	1,851
	\$ 208,700	\$ 564	\$ (3,436)	\$ 205,828

The following table shows gross gains and gross losses on sales of securities for the periods indicated:

	For the three months ended March 31,	
	2011	2010
Proceeds from sale of available for sale investment securities	\$ —	\$ 32,400
Gross gains	—	302

Gross losses

Customers F-6

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

The following table shows investment 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 (in thousands):

	March 31, 2011			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$1,353	\$1,318	\$-	\$-
Due after one year through five years	2,941	2,602	-	-
Due after five years through ten years	140	140	-	-
Due after ten years	44	45	-	-
	4,478	4,105	-	-
Mortgage-backed securities	199,454	197,090	396,847	401,907
Total investment securities	\$203,932	\$201,195	\$396,847	\$401,907

Customers Bank'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 March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011					
	Less than 12 months		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	\$ 1,385	\$ (36)	\$ 114	\$ (1)	\$ 1,499	\$ (37)
Mortgage-backed securities	120,233	(3,059)	501	(63)	120,734	(3,122)
Municipal securities	—	—	1,745	(339)	1,745	(339)
Total investment securities available for sale	\$ 121,618	\$ (3,095)	\$ 2,360	\$ (403)	\$ 123,978	\$ (3,498)

	December 31, 2010					
	Less than 12 months		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	\$ 1,457	\$ (29)	\$ 116	\$ (1)	\$ 1,573	\$ (30)
Mortgage-backed securities	134,068	(3,104)	524	(65)	134,592	(3,169)
Municipal securities	—	—	1,851	(237)	1,851	(237)
Total investment securities available for sale	\$ 135,525	\$ (3,133)	\$ 2,491	\$ (303)	\$ 138,016	\$ (3,436)

At March 31, 2011, there were twenty-six 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. At December 31, 2010, there were thirty-three 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, such as but not limited to changes in economic conditions and the liquidity of the market, subsequent to the acquisition of specific securities. Customers Bank does not intend to sell and it is not more likely than not that Customers Bank will be required to sell the securities prior to maturity or market price recovery.

Customers F-7

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The composition of net loans receivable at March 31, 2011 and December 31, 2010 is as follows:

	2011	2010
Construction	\$ 36,644	\$ 38,280
Commercial real estate	72,990	75,245
Commercial and industrial	20,860	22,876
Residential real estate	23,468	23,822
Manufactured housing	4,232	4,662
Total loans receivable covered under FDIC loss sharing agreements	158,194	164,885
Construction	12,029	13,387
Commercial real estate	151,829	144,849
Commercial and industrial	42,266	35,942
Mortgage warehouse	203,037	186,113
Manufactured housing	100,597	102,924
Residential real estate	29,562	28,964
Consumer	1,440	1,581
Total loans receivable not covered under FDIC loss share agreements, net	540,760	513,760
Unearned origination costs, net	358	327
Allowance for loan losses	(17,298)	(15,129)
Total loans receivable not covered under FDIC loss share agreements, net	523,820	498,958
Loans receivable, net	\$ 682,014	\$ 663,843

Non-Covered Nonaccrual Loans and Loans Past Due

The following table summarizes non-covered nonaccrual loans and past due loans, by class, as of March 31, 2011:

	30-89 Days		Total Past Due(1)	Non- Accrual	Current(1)	Total Loans
	Past Due(1)	Greater Than 90 Days(1)				
Commercial and industrial	\$ 227	\$ —	\$ 227	\$ 2,511	\$ 39,528	\$ 42,266
Commercial real estate	4,527	—	4,527	18,438	128,864	151,829
Construction	—	—	—	4,268	7,761	12,029
Residential real estate						
First mortgages	102	—	102	832	13,884	14,818
Home equity	—	—	—	532	14,180	14,712
Acquired with credit deterioration	—	—	—	32	—	32
Consumer	46	—	46	49	1,345	1,440
Mortgage warehouse	—	—	—	—	203,037	203,037

Edgar Filing: - Form

Manufactured housing	2,163	—	2,163	—	98,434	100,597
Total	\$ 7,065	\$ —	\$ 7,065	\$ 26,662	\$ 507,033	\$ 540,760

(1) Loan balances do not include non-accrual loans.

Customers F-8

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table summarizes non-covered nonaccrual loans and past due loans, by class, as of December 31, 2010:

	30-89 Days Past Due(1)	Greater Than 90 Days(1)	Total Past Due(1) December 31, 2010	Non- Accrual	Current(1)	Total Loans
Commercial and industrial	\$—	\$ —	\$—	\$705	\$35,237	\$35,942
Commercial real estate	3,545	—	3,545	15,739	125,565	144,849
Construction	51	—	51	4,673	8,663	13,387
Residential real estate						
First mortgages	—	—	—	658	6,705	7,363
Home equity	400	—	400	467	20,702	21,569
Loans acquired with credit deterioration	—	—	—	32	—	32
Consumer	17	5	22	—	1,559	1,581
Mortgage warehouse	—	—	—	—	186,113	186,113
Manufactured housing	2,698	—	2,698	—	100,226	102,924
Total	\$6,711	\$ 5	\$6,716	\$22,242	\$484,802	\$513,760

(1) Loan balances do not include non-accrual loans

At March 31, 2011 and December 31, 2010, Customers Bank had non-covered other real estate owned of \$3,261 and \$1,906, respectively.

Covered Nonaccrual Loans and Loans Past Due

The following table summarizes covered nonaccrual loans and past due loans, by class, as of March 31, 2011:

	30-89 Days Past Due (1)	Greater than 90 days (1)	Total past due (1)	Non- accrual	Current	Total
Commercial and industrial						
Acquired with credit deterioration	\$-	\$167	\$167	\$2,458	\$74	\$2,699
Remaining loans (2)	1,110	260	1,370	695	16,096	18,161
Commercial real estate						
Acquired with credit deterioration	72	-	72	18,252	16,215	34,539

Edgar Filing: - Form

Remaining loans (2)	2,273	274	2,547	597	35,307	38,451
Construction						
Acquired with credit deterioration	-	-	-	20,303	1,980	22,283
Remaining loans (2)	1,511	-	1,511	-	12,850	14,361
Residential real estate						
Acquired with credit deterioration	-	-	-	4,266	1,647	5,913
First mortgages (2)	-	-	-	-	9,406	9,406
Home equity (2)	-	248	248	4	7,897	8,149
Manufactured housing						
Acquired with credit deterioration	-	-	-	93	-	93
Remaining loans (2)	60	-	60	94	3,985	4,139
	\$5,026	\$949	\$5,975	\$46,832	\$105,457	\$158,194

(1) Loan balances do not include non-accrual loans

(2) Loans that were not identified upon acquisition with credit deterioration.

Customers F-9

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 - LOANS RECEIVABLE (continued)

The following table summarizes covered nonaccrual loans and past due loans, by class, as of December 31, 2010:

	30-89 Days Past Due (1)	Greater than 90 days (1)	Total past due (1)	Non- accrual	Current	Total
Commercial and industrial						
Acquired with credit deterioration	\$419	\$-	\$419	\$1,790	\$1,003	\$3,212
Remaining loans (2)	53	-	53	-	19,611	19,664
Commercial real estate						
Acquired with credit deterioration	1,215	-	1,215	15,242	23,778	40,235
Remaining loans (2)	795	-	795	433	33,782	35,010
Construction						
Acquired with credit deterioration	3,884	-	3,884	19,869	-	23,753
Remaining loans (2)	-	-	-	1,912	12,615	14,527
Residential real estate						
Acquired with credit deterioration	-	-	-	4,013	1,751	5,764
First mortgages (2)	-	-	-	-	8,254	8,254
Home equity (2)	248	-	248	4	9,552	9,804
Manufactured housing						
Acquired with credit deterioration	-	-	-	95	7	102
Remaining loans (2)	113	-	113	96	4,351	4,560
	\$6,727	\$-	\$6,727	\$43,454	\$114,704	\$164,885

(1) Loan balances do not include non-accrual loans

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

Impaired Non-covered Loans

The following table presents a summary of the impaired non-covered loans at March 31, 2011.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					

Edgar Filing: - Form

Commercial and industrial	\$ 308	\$ 308	\$ —	\$ 10	\$ 2
Commercial real estate	9,613	9,613	—	6,775	358
Construction	1,598	1,598	—	—	—
Consumer	—	—	—	—	—
Residential real estate	\$ —	\$ —	\$ —	\$ —	\$ —
With an allowance recorded:					
Commercial and industrial	\$ 7,084	\$ 7,084	\$ 1,451	\$ 6,686	\$ 462
Commercial real estate	19,577	19,685	7,980	12,922	849
Construction	6,167	6,167	2,006	5,558	168
Consumer	—	—	—	—	—
Residential real estate	1,261	1,261	305	1,261	38
Total	\$ 45,608	\$ 45,716	\$ 11,742	\$ 33,212	\$ 1,877

Customers F-10

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following table presents a summary of the impaired non-covered loans at December 31, 2010.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	\$ 179	\$ 179	\$ —	\$ 83	\$ 2
Commercial real estate	10,825	10,825	—	4,737	356
Construction	551	551	—	278	—
Consumer	—	—	—	—	—
Residential real estate	\$ —	\$ —	\$ —	\$ —	—
With an allowance recorded:					
Commercial and industrial	\$ 7,382	\$ 7,382	\$ 1,456	\$ 6,383	\$ 462
Commercial real estate	18,185	18,293	6,551	11,715	857
Construction	6,168	6,168	2,006	6,198	168
Consumer	—	—	—	—	—
Residential real estate	1,278	1,278	305	1,164	38
Total	\$ 44,568	\$ 44,676	\$ 10,318	\$ 30,558	\$ 1,883

The following table presents a summary of the loans acquired with credit deterioration at March 31, 2011.

	March 31, 2011	
	Collectively reviewed for impairment Loan balance	Loans acquired with deteriorated credit quality Loan Balance
Commercial and industrial	\$ 18,161	\$ 2,699
Commercial real estate	38,451	34,539
Construction	14,361	22,283
Residential real estate		
First mortgages	9,406	4,471
Home equity	8,149	1,442
Manufactured housing	4,139	93
Total	\$ 92,666	\$ 65,527

The following table presents a summary of the loans acquired with credit deterioration at December 31, 2010.

	December 31, 2010	
	Collectively reviewed for impairment Loan balance	Loans acquired with deteriorated credit quality Loan Balance
Commercial and industrial	\$ 19,664	\$ 3,212
Commercial real estate	35,010	40,235
Construction	14,527	23,753
Residential real estate		
First mortgages	8,254	4,471
Home equity	9,804	1,293
Manufactured housing	4,560	102
Total	\$ 91,819	\$ 73,066

Acquired covered loans that have experienced deterioration since origination such that it is probable that the borrower will not be able to make all contractually required payments are considered to be impaired under ASC 310-30 Receivables, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Cash flow analyses were performed on all loans deemed impaired at date of acquisition in order to determine the cash flows expected to be collected. At December 31, 2010 and March 31, 2011, these covered loans did not have an allowance for loan losses specifically allocated to the loans.

Customers F-11

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following presents the credit quality tables as of March 31, 2011 and December 31, 2010 for the non-covered loan portfolio. Commercial and industrial, Commercial real estate, Residential real estate and Construction loans are based on an internally assigned risk rating system which 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.

March 31, 2011

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 29,601	\$ 113,562	\$ 3,929	\$ 27,963
Special Mention	288	9,796	1,284	—
Substandard	12,046	24,841	5,744	1,599
Doubtful	331	3,630	1,072	—
Total	\$ 42,266	\$ 151,829	\$ 12,029	\$ 29,562

	Consumer	Mortgage Warehouse	Manufactured Housing
Performing	\$ 1,345	\$ 203,037	\$ 98,434
Nonperforming (2)	95	—	2,163
Total	\$ 1,440	\$ 203,037	\$ 100,597

(2) Defined as past due thirty or more days at March 31, 2011.

December 31, 2010

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 27,771	\$ 107,480	\$ 4,653	\$ 27,566
Special Mention	534	8,500	1,416	—
Substandard	7,306	25,213	6,246	1,398
Doubtful	331	3,656	1,072	—
Total	\$ 35,942	\$ 144,849	\$ 13,387	\$ 28,964

	Consumer	Mortgage Warehouse	Manufactured Housing
Performing	\$ 1,559	\$ 186,113	\$ 100,226
Nonperforming (2)	22	—	2,698

Total	\$	1,581	\$	186,113	\$	102,924
-------	----	-------	----	---------	----	---------

(2) Defined as past due thirty or more days at December 31, 2010.

Customers F-12

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following presents the credit quality tables as of March 31, 2011 and December 31, 2010 for the covered loan portfolio.

March 31, 2011

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 18,934	\$ 42,732	\$ 12,647	\$ 16,718
Special Mention	1,050	15,925	17,538	3,211
Substandard	834	12,145	6,459	1,671
Doubtful	42	2,188		— 1,868
Total	\$ 20,860	\$ 72,990	\$ 36,644	\$ 23,468
				Manufactured Housing
Performing				\$ 3,985
Nonperforming (2)				247
Total				\$ 4,232

(2) Defined as past due thirty or more days at March 31, 2011.

December 31, 2010

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 20,854	\$ 41,395	\$ 10,450	\$ 17,219
Special Mention	1,060	16,118	19,573	3,214
Substandard	917	14,736	8,257	1,672
Doubtful	45	2,996		— 1,717
Total	\$ 22,876	\$ 75,245	\$ 38,280	\$ 23,882
				Manufactured Housing
Performing				\$ 4,281
Nonperforming (2)				281
Total				\$ 4,662

(2) Defined as past due thirty or more days at December 31, 2010.

Customers F-13

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

Allowance for loan losses

The changes in the allowance for loan losses for the three months ended March 31, 2011 are as follows:

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Beginning Balance, January 1, 2011	\$ 1,662	\$ 9,152	\$ 2,127	\$ 1,116
Charge-offs	—	(477)	(155)	—
Recoveries	—	5	—	—
Provision for loan losses	384	2,503	162	(300)
Ending Balance, March 31, 2011	\$ 2,046	\$ 11,183	\$ 2,134	\$ 816
Individually evaluated for impairment	\$ 1,451	\$ 7,980	\$ 2,006	\$ 305
Collectively evaluated for impairment	595	3,203	128	511
Loans acquired with deteriorated credit quality	—	—	—	—

	Consumer	Mortgage Warehouse	Unallocated	Total
Beginning Balance, January 1, 2011	\$11	\$465	\$596	\$15,129
Charge-offs	(4	)	—	(636
Recoveries	—	—	—	5
Provision for loan losses	5	42	4	2,800
Ending Balance, March 31, 2011	\$12	\$507	\$600	\$17,298
Individually evaluated for impairment	\$—	\$—	\$—	\$11,742
Collectively evaluated for impairment	12	507	600	5,556
Loans acquired with deteriorated credit quality	—	—	—	—

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 March 31, 2011, funds available for reimbursement, if necessary are \$9,478. Each quarter, these funds are evaluated to determine if they would be sufficient to absorb probable losses within the manufactured housing portfolio. As of March 31, 2011, there is no general or specified allowance for loan losses allocated to the manufactured housing portfolio loan segment.

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The changes in the allowance for loan losses for the three months ended March 31, 2010 are as follows:

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Beginning Balance, January 1, 2010	\$ 1,285	\$ 4,689	\$ 2,984	\$ 974
Charge-offs	—	(703)	(340)	—
Recoveries	—	8	—	—
Provision for loan losses	389	2,296	855	484
Ending Balance, March 31, 2010	\$ 1,674	\$ 6,285	\$ 3,499	\$ 1,458
Individually evaluated for impairment	\$ 1,338	\$ 4,525	\$ 3,065	\$ 345
Collectively evaluated for impairment	336	1,760	434	1,113
Loans acquired with deteriorated credit quality	—	—	—	—

	Consumer	Mortgage Warehouse	Unallocated	Total
Beginning Balance, January 1, 2010	\$ 49	\$ 51	\$ —	\$ 10,032
Charge-offs	—	—	—	(1,043)
Recoveries	—	—	—	3
Provision for loan losses	(6)	309	45	4,372
Ending Balance, March 31, 2010	\$ 43	\$ 360	\$ 45	\$ 13,364
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ 9,273
Collectively evaluated for impairment	43	360	45	4,091
Loans acquired with deteriorated credit quality	—	—	—	—

The following table presents the changes in the accretable yield for the three months ended March 31, 2011:

	ISN Bank	USA Bank
Balance, beginning of period	\$2,658	\$ 4,262
Additions resulting from acquisition	—	—
Accretion to interest income	(178)	(433)
Disposals	—	(32)
Reclassification (to)/from nonaccretable difference	(33)	(364)
Balance, end of period	\$2,447	\$ 3,433

Acquired covered loans that have experienced deterioration since origination such that it is probable that the borrower will not be able to make all contractually required payments are considered to be impaired under ASC 310-30 Receivables, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Cash flow analyses were performed on all loans deemed impaired at date of acquisition in order to determine the cash flows expected to be

collected.

Customers F-15

CUSTOMERS BANK
 NOTES TO UNAUDITED FINANCIAL STATEMENTS
 (Dollars, in thousands except for per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

Customers Bank established a policy to apply the cash flows received from the credit deteriorated loans (impaired loans) to principal until the cash flows of the loans accounted for under ASC 310-30-55 exceed initial estimates. These loans are currently on non-accrual status. The application of Customers Bank's current lending policy regarding the monitoring of delinquent loans and the establishment of more frequent borrower contact are anticipated to increase estimated cash flows over the life of the loan. Loans of the Acquired Banks were collateralized by real estate. If cash flow estimates of the impaired acquired loans increase, a reclassification from the nonaccretable discount to the accretable discount will be estimated and accreted over the life of the remaining loan. The outstanding balance of covered loans is \$110,553 at March 31, 2011 and \$113,279 at December 31, 2010 and were deemed impaired under ASC 310-30 on the acquisition dates.

FDIC Loss Sharing Receivable

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

The following table summarizes the activity related to the FDIC loss sharing receivable for the three months ended March 31, 2011:

Balance, beginning of period	\$ 16,702
Acquisition	—
Change in FDIC loss sharing receivable	1,504
Reimbursement from the FDIC	(1,977)
Balance, end of period	\$ 16,229

In April 2011, Customers Bank received a reimbursement from the FDIC of \$3,507.

NOTE 6 - STOCKHOLDERS' EQUITY

During the three months ended March 31, 2011, Customers Bank sold an aggregate of 4,166,679 shares, which included 2,638,750 shares of Common Stock and 1,527,929 shares of Class B Non-Voting Common Stock at a weighted average price of \$3.87 per share for net proceeds of \$15,534.

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 7 – EMPLOYEE BENEFIT PLANS

Stock Option Plan

Stock-based compensation expense of \$147 and \$0 was recognized for the three months ended March 31, 2011 and 2010, respectively. Unrecognized compensation expense related to unvested stock options was approximately \$2,459 at March 31, 2011 and is expected to be recognized over a period of 4.28 years. There were no grants of stock options in the first three months of 2010.

During the three months ended March 31, 2011, the Bank granted options to purchase 475,991 shares to employees at an exercise price of \$4.00 per share. The stock options vest over the next five anniversaries of the date of grant. The estimated fair value of the stock options granted using a Black-Scholes option pricing model using the following assumptions: risk-free interest rate was 2.09%; an expected dividend yield 0%; an expected volatility was 20% and an expected life of seven years. The weighted average fair value of the options granted was estimated to be \$1.15 per share. The expected compensation expense to be recorded over the vesting period is 4.28 years.

Stock option activity under the Company's stock option plans at March 31, 2011 is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding, January 1, 2011	2,274,731	\$3.46		
Issued	475,991	4.00		
Forfeited	(8,000)	10.72		
Outstanding, March 31, 2011	2,742,722	3.53	6.25	\$ 1,433
Options exercisable at March 31, 2011	20,850	\$ 10.62	4.74	—

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

Restricted Stock Units

The Bank granted restricted stock units to purchase 106,876 shares of common stock on February 17, 2011. These awards vest in three equal annual installments on the first, second and third anniversaries of the date of grant. The fair value of the restricted stock units granted on February 17, 2011 was \$4.00 per share. Unrecognized compensation expense related to unvested restricted stock units was approximately \$409 at March 31, 2011 and is expected to be recognized over a period of 2.87 years. There were no grants of restricted stock units in the first three months of

2010.

Customers F-17

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 8 - COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) are as follows:

	Three months ended March 31,	
	2011	2010
Unrealized holding gains on available for sale investment securities	\$ 135	\$ 175
Less: Reclassification adjustment for gains on sales of Investment securities recognized in the net loss	—	302
Net unrealized (losses) gains	135	(127)
Income tax benefit (expense)	(45)	42
Other comprehensive income (Loss), net	\$ 90	\$ (85)

NOTE 10 - REGULATORY MATTERS

Customers Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on Customers Bank's financial statements. Management believes, as of March 31, 2011, that Customers Bank meets all capital adequacy requirements to which it is subject. Customers Bank's capital amounts and ratios at March 31, 2011 and December 31, 2010 are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2011:						
Total capital (to risk weighted assets)	\$ 131,715	17.6%	\$ 60,002	≥ 8.0%	\$ 75,003	≥ 10.0%
Tier 1 capital (to risk weighted assets)	121,041	16.1%	30,001	≥ 4.0%	45,002	≥ 6.0%
Tier 1 capital (to average assets)	121,041	8.3%	58,533	≥ 4.0%	73,166	≥ 5.0%

As of December 31, 2010:

Edgar Filing: - Form

Total capital (to risk weighted assets)	\$ 115,147	21.1%	≥	\$ 43,571	≥	8.0%	≥	\$ 53,464	≥	10.0%
Tier 1 capital (to risk weighted assets)	107,036	19.7%	≥	21,557	≥	4.0%	≥	32,335	≥	6.0%
Tier 1 capital (to average assets)	107,036	8.7%	≥	49,397	≥	4.0%	≥	61,747	≥	5.0%

Customers F-18

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 11 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Customers Bank 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 Customers Bank, 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, Customers Bank utilized certain fair value measurement criteria under the FASB ASC 820, Fair Value Measurements and Disclosures, as explained below. The following methods and assumptions were used to estimate the fair values of Customers Bank's financial instruments at March 31, 2011 and December 31, 2010:

Cash and cash equivalents:

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

Investment Securities:

The fair value of investment securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or 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.

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

Loans receivable:

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

Impaired loans:

Impaired loans are those that are accounted for under FASB ASC 450, Contingencies, in which Customers Bank 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 was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC.

Accrued interest receivable and payable:

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

Deposit liabilities:

The fair values disclosed for demand 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.

Customers F-19

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

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

Borrowings:

The carrying amounts of short-term borrowings approximate their fair values.

Fair values of 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.

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.

Off-balance sheet financial instruments:

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

The estimated fair values of the Bank's financial instruments were as follows at March 31, 2011 and December 31, 2010.

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 86,160	\$ 86,160	\$ 238,724	\$ 238,724
Investment securities, available for sale	201,195	201,195	205,828	205,828
Investment securities, held to maturity	396,847	401,907	—	—
Loans held for sale	175,010	175,010	199,970	199,970
Loans receivable, net	682,014	706,836	663,843	661,320
FDIC loss sharing receivable	16,229	16,229	16,702	16,702
Restricted stock	5,085	5,085	4,267	4,267
Accrued interest receivable	3,928	3,928	3,196	3,196
Liabilities:				
Deposits	\$ 1,389,340	\$ 1,390,248	\$ 1,245,690	\$ 1,247,535
Subordinated debt	2,000	2,000	2,000	2,000
Borrowings	11,000	10,694	11,000	10,756
Accrued interest payable	1,768	1,768	1,657	1,657

Off-balance sheet financial instruments:

Commitments to extend credit and letters of credit	—	—	—	—
Unfunded commitments to fund mortgage warehouse lines	—	—	—	—
Standby letters of credit issued on Customers Bank's behalf	—	—	—	—

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 Customers Bank'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.

CUSTOMERS BANK
 NOTES TO UNAUDITED FINANCIAL STATEMENTS
 (Dollars, in thousands except for per share data)

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

The fair value guidance provides a consistent definition of fair value, which focuses on 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 measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011			Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	
U.S. Treasury and government agencies	\$ —	\$ 1,666	\$ —	\$ 1,666
Mortgage-backed securities	37	197,053	—	197,090
Asset-backed securities	—	694	—	694
Municipal securities	—	1,745	—	1,745
	\$ 37	\$ 201,158	\$ —	\$ 201,195

	December 31, 2010			Total Fair Value
	(Level 1) Quoted Prices in Active	(Level 2) Significant Other Observable	(Level 3) Significant Unobservable Inputs	

Edgar Filing: - Form

	Markets for Identical Assets		Inputs	
U.S. Treasury and government agencies	\$	—\$	1,681	\$ —\$ 1,681
Mortgage-backed securities		39	201,535	— 201,574
Asset-backed securities		—	722	— 722
Municipal securities		—	1,851	— 1,851
	\$	39	\$ 205,789	\$ —\$ 205,828

Customers F-21

CUSTOMERS BANK
 NOTES TO UNAUDITED FINANCIAL STATEMENTS
 (Dollars, in thousands except for per share data)

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

The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of March 31, 2011 and December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	March 31, 2011				Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs		
Non-covered impaired loans, net of specific reserves of \$11,742	\$	—\$	—\$	22,347	\$ 22,347
Loans held for sale		—	175,010		— 175,010
Other real estate owned		—		7,655	7,655
	\$	—\$	175,010	\$ 30,002	\$ 205,012

	December 31, 2010				Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs		
Non-covered Impaired Loans, net of specific reserves of \$10,318	\$	—\$	—\$	22,695	\$ 22,695
Loans held for sale		—	199,970		— 199,970
Other Real Estate Owned		—		7,248	7,248
	\$	—\$	199,970	\$ 29,943	\$ 229,913

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

NOTE 12 - LEGAL CONTINGENCIES

On November 15, 2010, Customers Bank filed suit against Open Solutions, Inc. (OSI) in the United States District Court for the Eastern District of Pennsylvania, seeking damages for failure to assist in the conversion of system and customer information associated with the former USA Bank and requesting injunctive relief to compel OSI to assist with the deconversion of the former USA Bank's systems. OSI filed counterclaims against Customers Bank on November 24, 2010, asserting claims for breach of contract and breach of settlement agreement. In support of its breach of contract claim, OSI alleged that Customers Bank "assumed" the former-USA Bank agreements and is bound by those agreements. OSI claimed that it has sustained damages in excess of \$1,000. Customers Bank disputed that it has any liability to OSI. Prior to trial, OSI dismissed with prejudice its settlement agreement claim. Trial was held on February 24, 2011. On March 7, 2011, the Court ruled against Customers Bank and in favor of OSI as follows: judgment was entered against Customers on OSI's claim that the agreements between OSI and USA Bank were assumed by Customers Bank and judgment was entered against Customers on its claims against OSI; judgment was entered for OSI on its breach of contract claim under one agreement, in the amount of \$104; the Court found there was no breach of the second agreement by Customers Bank and no proof of damages. OSI has filed a motion for payment of legal fees and costs associated with the litigation which are estimated to be \$205. Customers Bank has filed a motion with the District Court to vacate the judgment and to enter judgment in favor of Customers Bank on OSI's counterclaim. In addition, the FDIC has filed a motion to intervene in the litigation and has sought dismissal of OSI's counter claims on jurisdictional grounds. On May 3, 2011, the Court granted the FDIC's motion to intervene, and directed that OSI respond to the motion to dismiss the counterclaim. That motion to dismiss the counterclaim remains pending. Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on Customers Bank's financial statements.

CUSTOMERS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
(Dollars, in thousands except for per share data)

NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, providing additional guidance to creditors for evaluating troubled debt restructurings. The amendments clarify the guidance in ASC 310-40, Receivables: Troubled Debt Restructurings by Creditors, which requires a creditor to classify a restructuring as a troubled debt restructuring (TDR) if (1) the restructuring includes a concession by the creditor to the borrower and (2) the borrower is experiencing financial difficulties. The amended guidance requires a creditor to consider all aspects of the restructuring to determine whether it has granted a concession. It further clarifies that a creditor must consider the probability that a debtor could default in the foreseeable future when determining whether the debtor is facing financial difficulty, even though the debtor may not be in default at the date of restructuring. This new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and requires a company to retrospectively evaluate all restructurings occurring on or after the beginning of the fiscal year of adoption to determine if the restructuring is a TDR. Management is currently evaluating the impact of this new accounting guidance.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Customers Bank

We have audited the accompanying balance sheets of Customers Bank (formerly, New Century Bank) as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Customers Bank as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

Reading, Pennsylvania
June 10, 2011

CUSTOMERS BANK
BALANCE SHEETS

December 31,	2010	2009
	(dollar amounts in thousands, except per share data)	
ASSETS		
Cash and due from banks	\$ 6,396	\$ 4,171
Interest earning deposits	225,635	58,978
Federal funds sold	6,693	5,658
Cash and cash equivalents	238,724	68,807
Investment securities available for sale, at fair value	205,828	44,588
Loans held for sale	199,970	—
Loans receivable, net of allowance for loan losses \$15,129 in 2010; \$10,032 in 2009	498,958	220,266
Loans receivable covered under loss sharing agreements with the FDIC	164,885	—
Total loans receivable, net	663,843	220,266
FDIC loss sharing receivable	16,702	—
Bank premises and equipment, net	5,302	2,719
Bank owned life insurance	25,649	4,955
Other real estate owned (\$5,342 in 2010 and \$0 in 2009 covered by loss sharing agreements with the FDIC)	7,248	1,155
Accrued interest receivable and other assets	11,141	7,270
Total assets	\$ 1,374,407	\$ 349,760
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 72,268	\$ 18,502
Interest bearing	1,173,422	295,425
Total deposits	1,245,690	313,927
Borrowings	11,000	11,000
Subordinated debt	2,000	2,000
Accrued interest payable and other liabilities	10,577	1,330
Total liabilities	1,269,267	328,257
Stockholders' equity:		
Preferred stock, par value \$1,000 per share; 1,000,000 shares authorized, no shares issued and outstanding in 2010 and 2009	—	—
Common stock, par value \$1.00 per share; 100,000,000 shares authorized; shares issued and outstanding 2010 – 25,194,041; 2009 - 5,522,706	25,194	5,522
Additional paid in capital	71,336	29,243

Edgar Filing: - Form

Retained earnings (accumulated deficit)	10,506	(13,229)
Accumulated other comprehensive loss	(1,896)	(33)
Total stockholders' equity	105,140	21,503
Total liabilities and stockholders' equity	\$ 1,374,407	\$ 349,760

See accompanying notes to financial statements.

Customers F-25

CUSTOMERS BANK
STATEMENTS OF OPERATIONS

Years Ended December 31,	2010	2009	2008
	(dollar amounts in thousands, except per share data)		
Interest income:			
Loans receivable, including fees	\$ 29,021	\$ 12,142	\$ 13,644
Investment securities, taxable	1,382	1,140	1,419
Investment securities, non-taxable	110	191	413
Other	394	13	26
Total interest income	30,907	13,486	15,502
Interest expense:			
Deposits	11,112	5,729	6,832
Borrowed funds	366	461	1,112
Subordinated debt	68	146	194
Total interest expense	11,546	6,336	8,138
Net interest income	19,361	7,150	7,364
Provision for loan losses	10,397	11,778	611
Net interest income (loss) after provision for loan losses	8,964	(4,628)	6,753
Non-interest income:			
Service fees	643	458	637
Mortgage warehouse transaction fees	2,631	70	—
Bank owned life insurance	228	229	218
Gains (losses) on sales of investment securities	1,114	236	(361)
Impairment charges on investment securities	—	(15)	(940)
Bargain purchase gain on bank acquisitions	40,254	—	—
Other	800	96	96
Total non-interest income (loss)	45,670	1,074	(350)
Non-interest expense:			
Salaries and employee benefits	14,031	4,267	3,651
Occupancy	1,897	1,261	1,280
Technology, communication and bank operations	2,431	1,000	901
Advertising and promotion	1,007	191	231
Professional services	2,833	510	365
FDIC assessments, taxes, and regulatory fees	1,613	892	445
Impairment and losses on other real estate owned	702	381	100
Loan workout and other real estate owned	682	531	152
Other	972	648	529
Total non-interest expense	26,168	9,681	7,654
Income (loss) before taxes	28,466	(13,235)	(1,251)
Income taxes (benefit)	4,731	—	(426)
Net income (loss)	\$ 23,735	\$ (13,235)	\$ (825)

Edgar Filing: - Form

Basic income (loss) per share	\$	1.26	\$	(3.66)	\$	(0.41)
Diluted income (loss) per share	\$	1.23	\$	(3.66)	\$	(0.41)

See accompanying notes to financial statements.

Customers F-26

CUSTOMERS BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For Years Ended December 31, 2010, 2009, and 2008

	Preferred stock	Number of common stock shares	Common stock	Additional Paid in Capital	Retained Earnings (Accumulated deficit)	Accumulated other comprehensive loss	Total
(dollar amounts in thousands, except share amounts)							
Balance, December 31, 2007	\$—	2,021,078	\$2,021	\$14,123	\$ 835	\$ (149)	\$16,830
Comprehensive loss:							
Net loss					(825)		(825)
Change in net unrealized losses on securities available for sale, net of taxes						(106)	(106)
Total comprehensive loss							(931)
Preferred Stock Series A issued	980			(30)			950
Balance, December 31, 2008	980	2,021,078	2,021	14,093	10	(255)	16,849
Comprehensive loss:							
Net loss					(13,235)		(13,235)
Change in net unrealized losses on securities available for sale, net of taxes						222	222
Total comprehensive loss							(13,013)
Dividends paid on preferred stock Series A					(4)		(4)
Preferred stock Series A exchanged for common stock	(980)	178,164	178	802			—

Edgar Filing: - Form

Subordinated debt converted to common stock		213,219	213	787			1,000
Common stock shares issued		3,110,245	3,110	13,561			16,671
Balance, December 31, 2009	—	5,522,706	5,522	29,243	(13,229)	(33)	21,503
Comprehensive income:							
Net income					23,735		23,735
Change in net unrealized losses on investment securities available for sale, net of taxes						(1,863)	(1,863)
Total comprehensive income							21,872
Stock-based compensation expense				2,041			2,041
Common stock issued, net of costs		18,971,335	18,972	40,052			59,024
Shares issued under the management stock purchase plan		700,000	700				700
Balance, December 31, 2010	\$—	25,194,041	\$25,194	\$71,336	\$ 10,506	\$ (1,896)	\$105,140

See accompanying notes to financial statements.

Customers F-27

CUSTOMERS BANK
STATEMENTS OF CASH FLOWS

For Years Ended December 31,	2010	2009	2008
Cash Flows From Operating Activities	(dollars in thousands)		
Net income (loss)	\$ 23,735	\$ (13,235)	\$ (825)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Provision for loan losses	10,397	11,778	611
Provision for depreciation and amortization	840	726	846
Stock based compensation	2,041	—	—
Bargain purchase gain on bank acquisitions	(40,254)	—	—
Deferred income tax expense (benefit)	1,817	(394)	(17)
Net amortization of investment securities premiums and discounts	(133)	184	1
(Gain) loss on sale of investment securities	(1,114)	(236)	361
Gain on sale of loans	(98)	—	—
Origination of loans held for sale	(199,970)	—	—
Impairment charges on investment securities	—	15	940
Increase in FDIC loss sharing receivable	(520)	—	—
Accretion of fair value discounts	(417)	—	—
Loss on sales of other real estate owned	67	31	—
Impairment charges on other real estate owned	635	350	100
Earnings on investment in bank owned life insurance	(228)	(229)	(204)
Decrease (increase) in accrued interest receivable and other assets	(11,417)	(1,868)	(853)
Increase (decrease) in accrued interest payable and other liabilities	(6,927)	450	427
Net Cash (Used in) Provided by Operating Activities	(221,546)	(2,428)	1,387
Cash Flows from Investing Activities			
Purchases of investment securities available for sale	(303,681)	(34,489)	(5,910)
Proceeds from maturities, calls and principal repayments on investment securities available for sale	8,175	8,425	8,887
Proceeds from sales of investment securities available for sale	154,287	11,816	4,267
Sales of investment securities held to maturity	—	2,263	—
Proceeds from maturities and principal repayments on investment securities held to maturity	—	39	243
Net increase in loans	(175,183)	(14,507)	(11,264)
Purchase of loan portfolio	(94,632)	—	—
Proceeds on a sale of an SBA loan	1,465	—	—
Purchase of life insurance	(20,466)	—	—
Purchase of restricted stock	(2,143)	—	—
Proceeds and acquired cash in FDIC assisted transactions	72,931	—	—
Reimbursements from the FDIC on loss sharing agreements	11,115	—	—
Purchases of bank premises and equipment	(3,287)	(430)	(545)
Proceeds from sales of other real estate owned	2,633	3,071	—
Net Cash Used in Investing Activities	(348,786)	(23,812)	(4,432)
Cash Flows from Financing Activities			
Net increase in deposits	680,525	76,085	17,497
Net decrease in short—term borrowed funds	—	(4,000)	(11,900)

Edgar Filing: - Form

Proceeds from long—term borrowed funds	—	—	1,000
Repayment of long—term borrowed funds	—	—	(5,000)
Proceeds from issuance of common stock	59,724	16,671	—
Proceeds from issuance of preferred stock	—	—	950
Dividends on preferred stock	—	(4)	—
Net Cash Provided by Financing Activities	740,249	88,752	2,547
Net Increase in Cash and Cash Equivalents	169,917	62,512	(388)
Cash and Cash Equivalents — Beginning	68,807	6,295	6,683
Cash and Cash Equivalents — Ending	\$ 238,724	\$ 68,807	\$ 6,295

See accompanying notes to financial statements.

Customers F-28

CUSTOMERS BANK
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010 and 2009
 (Dollars, in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Customers Bank (the Bank) serves residences and businesses in eastern Pennsylvania. In 2010, Customers Bank acquired two banks, USA Bank and ISN Bank (the Acquired Banks), in FDIC assisted transactions that expanded its footprint into central New Jersey and southeast New York. Customers Bank has 11 branches and provides commercial banking products, primarily loans and deposits. Customers Bank also provides liquidity to mortgage market originators nationwide through its mortgage warehouse division. Customers Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Reserve Bank and is periodically examined by those regulatory authorities. New Century Bank changed its name to Customers Bank in 2010.

Basis of Presentation

The accounting policies and reporting policies of the Bank are in conformity with accounting principles generally accepted in the United States of America and predominant practices of the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported balances of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of restricted stock, the valuation of deferred tax assets, determination of other-than-temporary impairment losses on securities, and the fair value of financial instruments.

Customers Bank evaluated its December 31, 2010 financial statements for subsequent events through the date the financial statements were issued. Customers Bank is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as disclosed within the notes to the financial statements.

Business Combinations

At the date of acquisitions, the Bank records the assets acquired and liabilities assumed on the balance sheet at their estimated fair value, and goodwill or a bargain purchase gain is recognized based upon the purchase price and the estimated fair values. The results of operations for the acquired companies are included in the Bank's statement of operations beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the statement of operations during the period incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks with a maturity date of three months or less, and federal funds sold.

Supplementary Cash Flows Information

Interest paid	\$ 10,241	\$ 5,030	\$ 8,248
Income taxes paid (refunds received)	\$	—\$ (165)	\$ 152

**Supplemental Schedule of Noncash Investing and Financing
Activities**

Other real estate acquired in settlement of loans	\$ 4,786	\$ 3,088	\$ 1,619
Exchange of preferred shares to common stock	\$ —	\$ 980	\$ —
Conversion of subordinated term note to common stock	\$ —	\$ 1,000	\$ —

Restrictions on Cash and Amounts due from Banks

Customers Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2010 and 2009, these reserve balances amounted to \$3 and \$25, respectively.

Investment Securities

Investments securities classified as available for sale are those securities that Customers Bank intends to hold for an indefinite period of time but not necessarily to maturity. Investment securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings and recorded at the trade date. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Customers F-29

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities (continued)

Investment securities classified as held to maturity are those debt securities Customers Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities. As of December 31, 2010 and 2009, Customers Bank did not have any investment securities designated as held to maturity.

Other-than-temporary impairment means management believes the security's impairment is due to factors that could include its inability to pay interest or dividends, its potential for default, and/or other factors. When a held to maturity or available for sale debt security is assessed for other-than-temporary impairment, management has to first consider (a) whether Customers Bank intends to sell the security, and (b) whether it is more likely than not that Customers Bank will be required to sell the security prior to recovery of its amortized cost basis. If one of these circumstances applies to a security, an other-than-temporary impairment loss is recognized in the statement of operations equal to the full amount of the decline in fair value below amortized cost. If neither of these circumstances applies to a security, but Customers Bank does not expect to recover the entire amortized cost basis, an other-than-temporary impairment loss has occurred that must be separated into two categories: (a) the amount related to credit loss, and (b) the amount related to other factors. In assessing the level of other-than-temporary impairment attributable to credit loss, management compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings (as the difference between the fair value and the present value of the estimated cash flows), while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the statement of operations, less the portion recognized in other comprehensive income. When a debt security becomes other-than-temporarily impaired, its amortized cost basis is reduced to reflect the portion of the total impairment related to credit loss.

Loans Held for Sale

Loans originated with the intent to sell in the secondary market are carried at the lower of cost or fair value, determined in the aggregate. These loans are sold on a non-recourse basis with servicing released. Gains and losses on the sale of loans recognized in earnings are measured based on the difference between proceeds received and the carrying amount of the loans, inclusive of deferred origination fees and costs, if any.

As a result of changes in events and circumstances or developments regarding management's view of the foreseeable future, loans not originated or acquired with the intent to sell may subsequently be designated as held for sale. These loans are transferred to the held for sale portfolio at the lower of amortized cost or fair value.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. Customers Bank is generally amortizing these amounts over the contractual life of the loans. Loans acquired in

a FDIC-assisted acquisition, that are subject to a loss share agreement, are referred to as “covered loans” and are reported separately in the balance sheet.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans is applied against principal until all principal has been repaid. Thereafter, interest payments are recognized as income until all unpaid interest has been received. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a minimum of six months and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Transfers of financial assets, including loan participations sold, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Customers Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Customers Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable (continued)

Customers Bank segregates its loan portfolio into seven segments in the evaluation of the allowance for loan losses. Customers Bank loan segments are: commercial and industrial, construction, commercial real estate, residential real estate, mortgage warehouse, manufactured housing and consumer loans. Customers Bank also breaks the residential real estate loan segment into the first mortgage and home equity loan classes to further monitor credit risk. The inherent credit risks within the loan portfolio varies depending upon the loan type.

Commercial and industrial loans are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower's ability to repay their obligation as agreed. Commercial and industrial loans are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan facility. Accordingly, the repayment of a commercial and industrial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Construction loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates, in addition to independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation estimates may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of developed property. These loans are closely monitored by onsite inspections and are considered to be of a higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest rate sensitivity, and governmental regulation of real property.

Commercial real estate are subject to the underwriting standards and processes similar to commercial and industrial loans, in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan or the principal business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or the economy in general. Management monitors and evaluates commercial real estate loans based on collateral and risk-rating criteria. The Company also utilizes third-party experts to provide environmental and market valuations. The nature of commercial real estate loans makes them more difficult to monitor and evaluate.

Residential real estate loans are secured by one to four dwelling units. This segment is further divided into first mortgage and home equity loans. First mortgages have limited risk as they are originated at a loan to value ratio of 80% or less. Home equity loans have additional risks as a result of being in a second position in the event collateral is liquidated.

Mortgage warehouse loans represent loans to third party mortgage originators during the period of financing their loan inventory until the loans are sold to investors. Mortgage warehouse lending has a lower risk profile to other real estate loans because the loans are conforming one to four family real estate loans that are subject to purchase commitments from approved investors.

Edgar Filing: - Form

Manufactured housing loans represent loans that are secured by the personal property where the borrower may or may not own the home. Manufactured homes have a higher risk than a residential loan due to the borrower may not own the underlying real estate.

Consumer loans consist of loans to individuals through the Bank's retail network and are typically unsecured or secured by personal property. Consumer loans have a greater credit risk than residential loans because of the difference in the underlying collateral, if any. The application of various federal and state bankruptcy and insolvency laws and may limit the amount that can be recovered on such loans.

Loans covered under loss sharing arrangements, including loans acquired with credit deterioration, consist of the same portfolio segments as the non-covered loans with the additional component of the loss sharing arrangements. Covered loans with credit deterioration are presented as a separate class with the applicable portfolio segment.

Customers F-31

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable (continued)

On August 6, 2010, the Bank purchased a \$105.8 million manufactured housing loan portfolio from Tammac Holding Corporation for a purchase price of \$105.8 million, where \$94.6 million was funded on the purchase date and the remainder was held back under the provisions of the agreement and recorded in non-interest bearing deposit accounts. The Agreement of Sale of Loans (the Agreement) includes a hold-back for 10% of the purchase price for the fulfillment of the provisions of the Agreement, including the payment of past due amounts for principal and interest of the purchased loans during the hold-back period and servicing and indemnification obligations, should these events occur through the repayment of the loan portfolio. The loans purchased were originated on or before 2008 and are current with their payments as of August 6, 2010; accordingly, no loans were identified with credit deterioration on the purchase date.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Customers Bank disaggregates its loan portfolio into segments for purposes of determining the allowance for loan losses (ALLL). Customers Bank's portfolio segments include commercial and industrial, commercial real estate, construction, residential real estate, mortgage warehouse, manufactured housing and consumer. The Bank further disaggregates its residential real estate portfolio segment into two classes based upon certain risk characteristics; first mortgages and home equity. The remaining portfolio segments are also considered classes for purposes of monitoring and assessing credit quality based on certain risk characteristics.

Customers Bank's current methodology for determining the ALLL is based on historical loss rates, risk ratings, specific allocation on loans identified as impaired above specified thresholds and other qualitative adjustments. In addition, the allowance for loan losses is dependent upon the identification of problem loans in a timely manner. The ALLL allocation on individual commercial, commercial and industrial and construction loans (specific reserves) and the historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience (general reserves). An unallocated allowance is maintained to recognize the imprecision in estimating and measuring losses when evaluating allowances for individual loans or pools of loans.

Delinquency monitoring is used to identify credit risks and the general reserves are established based on the expected net charge-offs, adjusted for qualitative factors. Loss rates are based on the average net charge-off history by portfolio segment. Historical loss rates may be adjusted for significant factors that, in management's judgment, are necessary to reflect losses inherent in the portfolio. Factors that management considers in the analysis include the effects of the national and local economies; trends in the nature and volume of delinquencies, charge-offs and trends in nonaccrual loans; changes in loan mix; risk management and loan administration; changes in the internal lending policies and credit standards; collection practices and the Bank's credit examiners.

Charge-offs on the commercial and industrial, construction and commercial real estate loan segments are recorded when management estimates that there are insufficient cash flows to repay the loan contractual obligation based upon financial information available and valuation of the underlying collateral. Additionally, the Bank takes into account the strength of any guarantees and the ability of the borrower to provide value related to those guarantees in determining the ultimate charge-off or reserve associated with any impaired loans. Accordingly, the Bank may charge-off a loan to a value below the net appraised value if it believes that an expeditious liquidation is desirable in the circumstance and it has legitimate offers or other indications of interest to support a value that is less than the net appraised value. Alternatively, the Bank may carry a loan at a value that is in excess of the appraised value if the Bank has a guarantee from a borrower that the Bank believes has realizable value. In evaluating the strength of any guarantee, the Bank evaluates the financial wherewithal of the guarantor, the guarantor's reputation, and the guarantor's willingness and desire to work with the Bank. The Bank then conducts a review of the strength of a guarantee on a frequency established as the circumstances and conditions of the borrower warrant.

Customers Bank records a loan charge-off for the residential real estate, consumer, manufactured housing and mortgage warehouse portfolio segments after 120 days of delinquency or sooner when cash flows are determined to be insufficient for repayment. The Bank may also charge-off these loan types below the net appraised valuation if the Bank holds a junior mortgage position in a piece of collateral whereby the risk to acquiring control of the property through the purchase of the senior mortgage position is deemed to potentially increase the risk of loss upon liquidation due to the amount of time to ultimately market the property and the volatile market conditions. In such cases, the Bank may abandon its junior mortgage and charge-off the loan balance in full.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

Credit Quality Factors

To facilitate the monitoring of credit quality within the commercial and industrial, commercial real estate, construction portfolio and residential real estate segments, and for purposes of analyzing historical loss rates used in the determination of the ALLL for the respective portfolio segment, the Bank utilizes the following categories of risk ratings: pass, special mention, substandard, doubtful or loss. The risk rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass ratings, which are assigned to those borrowers that do not have identified potential or well defined weaknesses and for which there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgement, the risk rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to managing the loans.

The Bank assigns a special mention rating to loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bank's credit position.

The Bank assigns a substandard rating to loans that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans in this grade also are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.

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

Loans classified as loss are considered uncollectible and are charged off in the period in which they are determined uncollectible. Because loans and leases in this category are fully charged down, they are not included in the following tables.

Risk ratings are not established for home equity loans, consumer loans, installment loans and lease receivables, mainly because these portfolios consist of a larger number of loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history, through the monitoring of delinquency levels and trends.

Impaired loans

A loan is considered impaired when, based on current information and events, it is probable that Customers Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Fair value is measured based on the value of the collateral securing the loans, less cost to sell. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. The covered loans are and will continue to be subject to the Bank's internal and external credit review and monitoring that is applied to the non-covered loan portfolio. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a provision for loan losses will be charged to earnings. These provisions will be offset by an increase to the FDIC loss sharing receivable for the estimated portion anticipated to be received from the FDIC, and is recognized in non-interest income.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable Covered Under Loss Sharing Agreements

Loans acquired in the two FDIC assisted transactions are recorded at fair value at the acquisition date and are subject to loss sharing agreements with the FDIC. In the acquisitions of the Acquired Banks, the fair value was determined based on expected future cash flows and the fair value of the collateral. Factors considered in determining the fair value (Level 3) of the acquired loans include projected cash flows, type of loan and related collateral, classification status, contractual interest rate, term of loan, amortization status, current market conditions and discount rates. Loans were evaluated individually when applying valuation techniques for the majority of the loans of the Acquired Banks. The present values of projected cash flows are measured using discount rates that are based on current market rates for new originations of comparable loans. The discount rates do not include adjustments for credit losses that are included in the estimated cash flows.

At the date of the acquisitions, Customers Bank analyzed the delinquent and nonaccrual loans, the eighteen month history of delinquency and reviewed the financial information available for each loan with in the Acquired Banks' loan portfolios. The loans acquired from USA Bank that met the definition under ASC 310-30 as a loan with credit deterioration were individually reviewed and no loan pools were created. The loans acquired from ISN Bank that met the definition under ASC 310-30 were further evaluated and separated into loans to be individually reviewed and loans to be pooled based upon risk characteristics. Acquired loans with a fair market value of \$101,622 did not appear to have characteristics of credit deterioration on their acquisition date.

Acquired loans that were not individually reviewed but had characteristics of credit deterioration are aggregated into pools, based on individually evaluated common risk characteristics, and aggregate expected cash flows were estimated for each pool. Loans acquired from USA Bank were individually reviewed. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Bank aggregated three pools of acquired loans in the ISN Bank acquisition totaling \$6,211 at the acquisition date that were determined to have credit deterioration characteristics primarily based on non-accrual or significant delinquency status. A loan will be removed from a pool of loans only if the loan is sold, foreclosed, assets are received in satisfaction of the loan, or the loan is written off, and will be removed from the pool at the carrying value. If an individual loan is removed from a pool of loans, the difference between its relative carrying amount and the cash, fair value of the collateral, or other assets received will be recognized in income immediately and would not affect the effective yield used to recognize the accretable difference on the remaining pool.

The fair value of loans with evidence of credit deterioration are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included in the carrying amount of acquired loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in cash flows result in a reversal of the provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on accretion of interest income in future periods. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of those cash flows.

Restricted Stock

Restricted stock, included in other assets, represents required investment in the capital stock of the Federal Home Loan Bank and Atlantic Central Bankers Bank and is carried at cost as of December 31, 2010 and 2009. In December 2009, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB. Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2010 and 2009.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis. Certain other real estate owned (OREO) that was acquired from the Acquired Banks or through the foreclosure of loans of the Acquired Banks is subject to Loss Sharing Agreements with the FDIC.

After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of its carrying amount or fair value less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in the statement of operations.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FDIC Loss Sharing Receivable

The FDIC loss sharing receivable is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss share agreements of the Acquired Banks. The difference between the present value and the undiscounted cash flows the Bank expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC loss sharing receivable.

The FDIC loss sharing receivable is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC loss sharing receivable and any decreases in cash flow of the covered assets under those expected will increase the FDIC loss sharing receivable. Increases to the FDIC loss sharing receivable are recorded immediately as adjustments to non-interest income and decreases to the FDIC loss sharing receivable are recognized over the life of the loss share agreements.

Bank Owned Life Insurance

The Bank owned life insurance policies insure the lives of officers of the Bank, and name the Bank as beneficiary. Non-interest income is generated tax-free (subject to certain limitations) from the increase in the policies' underlying investments made by the insurance company. The Bank is capitalizing on the ability to partially offset costs associated with employee compensation and benefit programs with the bank owned life insurance.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Income Taxes

Customers Bank accounts for income taxes under the liability method of accounting for income taxes. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Customers Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

A tax position is recognized if it is more likely than not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information

available at the reporting date and is subject to management's judgment.

Stock Based Compensation

Customers Bank has two active stock-based compensation plans. Stock based compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of Customers Bank's common stock at the date of grant is used for restricted stock awards.

Comprehensive Income

Comprehensive income(loss) consists of net income(loss) and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on debt securities.

Earnings per Share

Basic earnings per share represents net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance.

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Information

Customers Bank has one reportable segment, “Community Banking.” All of the Company’s activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing the interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Bank as one segment or unit.

Reclassifications

Certain amounts reported in the 2009 and 2008 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications did not impact Customers Bank’s financial position or results of operations.

Change in Accounting Estimates

In 2009, Customers Bank refined the methodology for calculating the allowance for loan losses. FASB ASC 310-10-35, Receivables and ASC 450, Contingencies, considers two sections for estimating the allowance for loan losses. The first section is identifying individual problem assets and determining the current fair value using current appraisals, comparative asset values, discounted non-current appraisals, condition of the asset, and other relevant factors. The second section for estimating the allowance is for performing loans. Customers Bank considers eight years of historical trends by risk ratings by loan category, charge-offs by loan category, and delinquencies by loan category. Customers Bank includes additional allowance amounts by loan category based on one year trends in local, regional, and national qualitative factors such as: unemployment, real estate sales, and concentrations of credit, portfolio factors, and availability of current customer financial information. The impact of this change in methodology was to increase the allowance for loan losses by approximately \$800 in 2009 from the amount that would have been reported under the previous methodology. This change in accounting estimate was applied prospectively. The remaining \$11,000 of the provision for loan losses was due to specific reserves required on collateral deficient loans and loan charge-offs as a result of events arising in the year ended December 31, 2009.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (the FASB) issued accounting guidance changing the accounting principles and disclosure requirements related to securitizations and special-purpose entities. This guidance eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance also expands existing disclosure requirements to include more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The Bank applied this guidance on January 1, 2010 and application did not have a material impact on the Bank’s financial statements.

In January 2010, the FASB issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Bank applied this guidance in the first quarter of 2010 and application did not have a material impact on the Bank's financial statements.

In July 2010, the FASB issued accounting guidance to provide financial statement users with greater transparency of an entity's allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio's risk and performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010 with the exception of the troubled debt restructuring disclosures which are anticipated to be effective for interim and annual reporting periods ending after June 15, 2011. The application of this guidance did not have a material impact on the Bank's financial statements and see Note 5 for the expanded disclosures required by this guidance.

In April 2011, the FASB issued ASU 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, providing additional guidance to creditors for evaluating troubled debt restructurings. The amendments clarify the guidance in ASC 310-40, Receivables: Troubled Debt Restructurings by Creditors, which requires a creditor to classify a restructuring as a troubled debt restructuring (TDR) if (1) the restructuring includes a concession by the creditor to the borrower and (2) the borrower is experiencing financial difficulties. The amended guidance requires a creditor to consider all aspects of the restructuring to determine whether it has granted a concession. It further clarifies that a creditor must consider the probability that a debtor could default in the foreseeable future when determining whether the debtor is facing financial difficulty, even though the debtor may not be in default at the date of restructuring. This new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and requires a company to retrospectively evaluate all restructurings occurring on or after the beginning of the fiscal year of adoption to determine if the restructuring is a TDR. Management is currently evaluating the impact of this new accounting guidance.

(dollars in thousands, except per share data)

NOTE 2 – ACQUISITION ACTIVITY

Berkshire Bancorp, Inc. Acquisition

On August 24, 2010, Customers Bank entered into a definitive agreement to acquire Berkshire Bancorp, Inc. and its subsidiary Berkshire Bank (collectively, Berkshire) upon the formation of its Holding Company. Berkshire is a \$150,000 bank holding company located in Berks County, Pennsylvania with five branch offices. Customers Bank will issue shares of its common stock valued at its tangible book value at the month-end prior to closing for Berkshire and Customers Bank. In addition, the Bank will provide Berkshire approximately \$3,000 to repurchase the preferred shares held by the U.S. Department of the Treasury under the Troubled Asset Relief Program Capital Purchase Program. The merger is expected to close in the second quarter of 2011 and will require both regulatory and Berkshire's and the Bank's shareholder approval.

FDIC Assisted Acquisitions

On July 9, 2010, Customers Bank acquired certain assets and assumed certain liabilities of USA Bank from the Federal Deposit Insurance Corporation (FDIC) in an FDIC-assisted transaction (the USA Bank acquisition). USA Bank was headquartered in Port Chester, New York and operated one branch. On September 17, 2010, Customers Bank acquired certain assets and assumed certain liabilities of ISN Bank, from the FDIC in an FDIC-assisted transaction (the ISN Bank acquisition). ISN Bank was headquartered in Cherry Hill, New Jersey and operated one branch. The acquisitions were accounted for under the acquisition method of accounting in accordance with ASC Topic 805 Business Combinations. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values.

As part of the Purchase and Assumption Agreement entered into by Customers Bank with the FDIC (the Agreement) in connection with the USA Bank and ISN Bank acquisitions, Customers Bank entered into loss sharing agreements, in accordance with which the FDIC will cover a substantial portion of any future losses on the acquired loans. Excluding certain consumer loans, the loans and other real estate owned acquired are covered by a loss share agreement between Customers Bank and the FDIC which affords Customers Bank protection against future losses. Under the Agreement, the FDIC will cover 80% of losses on the disposition of the loans and OREO covered under the Agreements (collectively, the Covered Assets). The term for loss sharing and Customers Bank reimbursement to the FDIC is five years for non-single family loans and ten years for single family loans. The reimbursable losses from the FDIC are based on the book value of the relevant loans as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the provisions of the loss share agreement. Customers Bank has recorded an aggregate receivable from the FDIC of \$28,337 for the USA Bank and ISN Bank acquisitions which represents the estimated fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to Customers Bank.

The Agreement with the FDIC for each acquisition provided Customers Bank with an option to purchase at appraised value the premises, furniture, fixtures, and equipment of each bank and assume the leases associated with these offices. Customers Bank exercised the option to purchase the assets of USA Bank during the third quarter. Customers Bank did not exercise the option to purchase the assets of ISN Bank and has received approval from the FDIC to move the deposit relationships to its Hamilton, New Jersey branch on January 18, 2011.

The acquired assets and liabilities, as well as the adjustments to record the assets and liabilities at fair value, are presented in the following table. Cash received from the FDIC is included in the fair value adjustments to arrive at the

total assets acquired. Because the consideration paid to the FDIC was less than the net fair value of the acquired assets and liabilities, the Bank recorded a bargain purchase gain as part of the acquisitions.

Customers F-37

(dollars in thousands, except per share data)

NOTE 2 – ACQUISITION ACTIVITY (continued)

A summary of the net assets acquired and the estimated fair value adjustments for USA Bank as of July 9, 2010 and ISN Bank as of September 17, 2010 resulting in a bargain purchase gain as follows:

Cost basis of assets acquired in excess of liabilities assumed	\$ 20,586
Cash payments received from the FDIC	31,519
Net assets acquired before fair value adjustments	52,105
Fair value adjustments:	
Loans receivable	(35,733)
FDIC loss share receivable	28,337
Other real estate owned	(4,261)
Bank premises and equipment and reposed assets	(194)
Total fair value adjustments	(11,851)
Pre-tax gain on the acquisition	40,254
Income taxes	(13,109)
Gain on the acquisition of the Acquired Banks, net of taxes	\$ 27,145

The net after-tax gain represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed, and is influenced significantly by the FDIC-assisted transaction process. As indicated in the preceding table, net assets of \$20,586 (i.e., the cost basis) were transferred to Customers Bank in the USA Bank and ISN Bank acquisitions and the FDIC made cash payments to the Bank totaling \$31,519.

In many cases, the determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. These fair value estimates are considered preliminary, and are subject to change as additional information relative to closing date fair values becomes available.

The following table sets forth the assets acquired and liabilities assumed, at the estimated fair value, in the USA Bank and ISN Bank acquisitions:

	USA Bank July 9, 2010	ISN Bank September 17, 2010
Assets Acquired		
Cash and cash equivalents, including federal funds sold	\$ 54,140	\$ 18,791
Investment securities	15,330	6,181
Loans receivable – covered under FDIC loss sharing	123,312	51,348
Loans receivable – not covered under FDIC loss sharing	1,414	26
Total loans receivable	124,726	51,374
Other real estate owned	3,406	1,234
FDIC loss sharing receivable	22,728	5,609

Edgar Filing: - Form

Other assets	785	713
Total assets acquired	221,115	83,902
Liabilities Assumed		
Deposits		
Non-interest bearing	7,584	972
Interest bearing	171,764	70,919
Total deposits	179,348	71,891
Deferred income tax liability	9,390	3,719
Other liabilities	13,370	154
	p	
Total liabilities assumed	202,108	75,764
Net Assets Acquired	\$ 19,007	\$ 8,138

In accordance with the guidance provided in SEC Staff Accounting Bulletin Topic 1.K, Financial Statements of Acquired Troubled Financial Institutions (“SAB 1: K”) and a request for relief granted by the SEC, historical financial information of USA Bank and ISN Bank has been omitted from the financial statements. Relief is provided for acquisitions of troubled institutions, including transactions such as the acquisitions of USA Bank and ISN Bank in which an institution engages in an acquisition of a troubled financial institution for which audited financial statements are not reasonably available and in which federal assistance is an essential and significant part of the transaction.

Customers F-38

(dollars in thousands, except per share data)

NOTE 3 – EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if (i) options to issue common stock were exercised and (ii) warrants to issue common stock were exercised. Potential common shares that may be issued related to outstanding stock options and warrants are determined using the treasury stock method.

The following are the components of Customers Bank's earnings (loss) per share for the periods presented:

	December 31,		
	2010	2009	2008
Net income (loss) allocated to common shareholders	\$ 23,735	\$ (13,235)	\$ (825)
Weighted average number of common shares outstanding - basic	18,909,014	3,618,002	2,021,078
Stock-based compensation plans	293,680	—	—
Warrants	144,346	—	—
Weighted average number of common shares - diluted	19,347,040	3,618,002	2,021,078
Basic earnings (loss) per share	\$ 1.26	\$ (3.66)	\$ (0.41)
Diluted earnings (loss) per share	\$ 1.23	\$ (3.66)	\$ (0.41)

Stock options outstanding for 28,850 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 and warrants for 33,591 shares of common stock with an exercise price of \$5.50 for the year ended December 31, 2010 were not dilutive because the exercise price was greater than the average market price. Stock options outstanding for 44,810 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 and warrants for 716,921 shares of common stock with an exercise price of \$5.50 for the year ended December 31, 2009 were not dilutive due to losses in 2009. Stock options outstanding for 44,810 shares of common stock with exercise prices ranging from \$10.25 to \$11.00 were not dilutive due to losses in 2008.

NOTE 4 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of available for sale investment securities as of December 31, 2010 and 2009 are summarized as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. Treasury and government agencies	\$ 1,711	\$ —	\$ (30)	\$ 1,681
Mortgage-backed securities	204,182	561	(3,169)	201,574
Asset-backed securities	719	3	—	722
Municipal securities	2,088	—	(237)	1,851

Edgar Filing: - Form

\$	208,700	\$	564	\$	(3,436)	\$	205,828
----	---------	----	-----	----	---------	----	---------

Customers F-39

(dollars in thousands, except per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

	Amortized Cost	December 31, 2009 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. Treasury and government agencies	\$ 435	\$ 17	\$ —	\$ 452
Mortgage-backed securities	39,314	317	(228)	39,403
Asset-backed securities	843	—	(4)	839
Municipal securities	4,048	3	(157)	3,894
	\$ 44,640	\$ 337	\$ (389)	\$ 44,588

The amortized cost and fair value of available for sale investment securities as of December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 198	\$ 198
Due after one year through five years	3,601	3,334
	3,799	3,532
Mortgage-backed securities	204,182	201,574
Asset-backed securities	719	722
	\$ 208,700	\$ 205,828

Proceeds from the sale of available for sale securities were \$154,287, \$11,816 and \$4,267 in 2010, 2009 and 2008, respectively. Proceeds from the sale of held to maturity securities was \$2,263 in 2009. There were gains on the sales of available for sale and held to maturity securities in 2010 and 2009 of \$1,117 and \$236. Customers Bank's decision to sell all of its held to maturity securities resulted from concerns of the economy and the resulting impact on asset quality, the opportunity to take advantage of gains that existed in the three securities, and to help maintain regulatory capital ratios within the "Well Capitalized" status before raising capital in June 2010. There were losses on the sales of available for sale investment securities in 2010 and 2008 of \$3 and \$361, respectively. Customers Bank recorded other than temporary impairment charges of \$15 and \$940 in 2009 and 2008, respectively.

Customers Bank's investments securities' 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 December 31, 2010 and 2009 are as follows:

Less than 12 months		December 31, 2010 12 months or more		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Available for Sale:

Edgar Filing: - Form

U.S. Treasury and government agencies	\$1,457	\$(29)	\$116	\$(1)	\$1,573	\$(30)
Mortgage-backed securities	134,068	(3,104)	524	(65)	134,592	(3,169)
Municipal securities	—	—	1,851	(237)	1,851	(237)
Total investment securities available for sale	\$135,525	\$(3,133)	\$2,491	\$(303)	\$138,016	\$(3,436)

Customers F-40

(dollars in thousands, except per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

	Less than 12 months		December 31, 2009 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Mortgage-backed securities	\$ 10,142	\$ (21)	\$ 1,934	\$ (207)	\$ 12,076	\$ (228)
Asset-backed securities	122	—	717	(4)	839	(4)
Municipal securities	374	(1)	1,949	(156)	2,323	(157)
Total investment securities available for sale	\$ 10,638	\$ (22)	\$ 4,600	\$ (367)	\$ 15,238	\$ (389)

At December 31, 2010, there were thirty-three 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. At December 31, 2009, there were nine available for sale investment securities in the less than twelve months category and sixteen available for sale securities in the twelve months or more category. In management's opinion, the unrealized losses reflect primarily changes in interest rates, such as but not limited to changes in economic conditions and the liquidity of the market, subsequent to the acquisition of specific securities. Customers Bank does not intend to sell and it is not more likely than not that Customers Bank will be required to sell the securities prior to maturity or market price recovery. Management believes that as of December 31, 2010 there is no other than temporary impairment of these securities.

In 2008, Customers Bank recorded a \$940 charge when management determined that the FHLMC preferred stock and the Lehman Bros. Holding floater note had been other-than-temporarily impaired. In 2009, Customers Bank wrote down the remaining value of the FHLMC preferred stock for \$15 and sold the Lehman Bros Holding floater for a \$14 gain.

As of December 31, 2010 and 2009, Customers Bank pledged municipal and mortgage-backed securities of \$2,062 and \$9,048 as collateral for borrowings.

NOTE 5 - LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2010 and 2009 is as follows:

	2010	2009
Construction	\$ 38,280	\$ —
Commercial real estate	75,245	—
Commercial and industrial	22,876	—
Residential real estate	23,822	—
Manufactured housing	4,662	—
Total loans receivable covered under FDIC loss sharing agreements	164,885	—
Commercial construction	13,387	21,742
Commercial real estate	144,849	133,433
Commercial and industrial	35,942	25,290

Edgar Filing: - Form

Mortgage warehouse	186,113	16,435
Manufactured housing	102,924	—
Residential real estate	28,964	27,422
Consumer	1,581	5,524
Total loans receivable not covered under FDIC loss share agreements, net	513,760	229,846
Unearned origination costs, net	327	452
Allowance for loan losses	(15,129)	(10,032)
Total loans receivable not covered under FDIC loss share agreements, net	498,958	220,266
Loans receivable, net	\$ 663,843	\$ 220,266

Customers F-41

(dollars in thousands, except per share data)

NOTE 5 - LOANS RECEIVABLE (continued)

Non-Covered Nonaccrual Loans and Loans Past Due

The following table summarizes non-covered nonaccrual loans and past due loans, by class, as of December 31, 2010:

	30-89 Days Past Due(1)	Greater Than 90 Days(1)	Total Past Due(1) December 31, 2010	Non- Accrual	Current(1)	Total Loans
Commercial and industrial	\$—	\$ —	\$—	\$705	\$35,237	\$35,942
Commercial real estate	3,545	—	3,545	15,739	125,565	144,849
Construction	51	—	51	4,673	8,663	13,387
Residential real estate						
First mortgages	—	—	—	658	6,705	7,363
Home equity	400	—	400	467	20,702	21,569
Loans acquired with credit deterioration	—	—	—	32	—	32
Consumer	17	5	22	—	1,559	1,581
Mortgage warehouse	—	—	—	—	186,113	186,113
Manufactured housing	2,698	—	2,698	—	100,226	102,924
Total	\$6,711	\$ 5	\$6,716	\$22,242	\$484,802	\$513,760

(1) Loan balances do not include non-accrual loans

At December 31, 2010 and 2009, Customers Bank had non-covered other real estate owned of \$1,906 and \$1,155, respectively. At December 31, 2009, Customers Bank had non-accrual loans and loans greater than 90 days and still accruing of \$10,341 and \$4,119, respectively.

Impaired Non-covered Loans

The following table presents a summary of the impaired non-covered loans at December 31, 2010.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no related allowance recorded:					
Commercial and industrial	\$ 179	\$ 179	\$ —	\$ 83	\$ 2
Commercial real estate	10,825	10,825	—	4,737	356
Construction	551	551	—	278	—
Consumer	—	—	—	—	—
Residential real estate, first mortgages	658	658	—	496	22
With an allowance recorded:					

Edgar Filing: - Form

Commercial and industrial	\$ 7,382	\$ 7,382	\$ 1,456	\$ 6,383	\$ 462
Commercial real estate	18,185	18,293	6,551	11,715	857
Construction	6,168	6,168	2,006	6,198	168
Consumer	—	—	—	—	—
Residential real estate, home equity	620	620	305	668	16
Total	\$ 44,568	\$ 44,676	\$ 10,318	\$ 30,558	\$ 1,883

As of December 31, 2009, Customers Bank had impaired loans of \$17,543 with an allowance for loan losses of \$6,763. At December 31, 2009, Customers Bank did not have any impaired loans where there was no related allowance for loan losses recognized. For the years ended December 31, 2009 and 2008, the average recorded investment of impaired loans was \$17,960 and \$6,517, respectively, and interest income recognized on impaired loans was \$638 and \$172, respectively.

Customers F-42

(dollars in thousands, except per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following presents the credit quality table as of December 31, 2010 for the non-covered loan portfolio. Commercial and industrial, Commercial real estate, Residential real estate and Construction loans are based on an internally assigned risk rating system which 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.

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$27,771	\$107,480	\$4,653	\$27,566
Special Mention	534	8,500	1,416	—
Substandard	7,306	25,213	6,246	1,398
Doubtful	331	3,656	1,072	—
Total	\$35,942	\$144,849	\$13,387	\$28,964

	Consumer	Mortgage Warehouse	Manufactured Housing
Performing	\$1,559	\$186,113	\$100,226
Nonperforming (1)	22	—	2,698
Total	\$1,581	\$186,113	\$102,924

(1) Defined as past due thirty or more days at December 31, 2010.

The changes in the allowance for loan losses for the years ended December 31, 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Balance, January 1	\$10,032	\$2,876	\$2,460
Provision for loan losses	10,397	11,778	611
Loans charged off	(5,265)	(4,630)	(195)
Recoveries	15	8	—
Transfers (1)	(50)	—	—
Balance, December 31	\$15,129	\$10,032	\$2,876

(1) In 2010, the Bank had a reserve of \$50 for unfunded commitments previously included within the allowance for loan losses. The reserve for unfunded loan commitments was reclassified to other liabilities.

The following table presents a summary of the non-covered loans evaluated collectively and loans evaluated individually and their related allowance for loan losses, by loan portfolio segment:

December 31, 2010	Collectively reviewed for impairment	Individually reviewed for impairment
-------------------	---	---

Edgar Filing: - Form

	Loan balance	Allowance for loan losses	Loan Balance	Allowance for loan losses
Commercial and industrial	\$ 28,381	\$ 206	\$ 7,561	\$ 1,456
Commercial real estate	115,839	2,601	29,010	6,551
Construction	6,668	1,201	6,719	2,006
Residential real estate	27,686	811	1,278	305
Mortgage warehouse	186,113	465	—	—
Manufactured housing	102,924	—	—	—
Consumer	1,581	11	—	—
Total	\$ 469,192	\$ 4,811	\$ 44,568	\$ 10,318

Customers F-43

(dollars in thousands, except per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

Covered Nonaccrual Loans and Loans Past Due

The following table summarizes covered nonaccrual loans and past due loans, by class, as of December 31, 2010:

	30-89 Days Past Due (1)	Greater than 90 days (1)	Total past due (1)	Non- accrual	Current	Total
Commercial and industrial						
Acquired with credit deterioration	\$419	\$-	\$419	\$1,790	\$1,003	\$3,212
Remaining loans (2)	53	-	53	-	19,611	19,664
Commercial real estate						
Acquired with credit deterioration	1,215	-	1,215	15,242	23,778	40,235
Remaining loans (2)	795	-	795	433	33,782	35,010
Construction						
Acquired with credit deterioration	3,884	-	3,884	19,869	-	23,753
Remaining loans (2)	-	-	-	1,912	12,615	14,527
Residential real estate						
Acquired with credit deterioration	-	-	-	4,013	1,751	5,764
First mortgages (2)	-	-	-	-	8,254	8,254
Home equity (2)	248	-	248	4	9,552	9,804
Manufactured housing						
Acquired with credit deterioration	-	-	-	95	7	102
Remaining loans (2)	113	-	113	96	4,351	4,560
	\$6,727	\$-	\$6,727	\$43,454	\$114,704	\$164,885

(1) Loan balances do not include non-accrual loans

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

The following presents the credit quality indicators as of December 31, 2010 for the covered loan portfolio. Commercial and industrial, Commercial real estate, Residential real estate and Construction loans are based on an internally assigned risk rating system which are assigned at the loan origination and reviewed on a periodic or on an “as needed” basis. Manufactured housing loans are evaluated based on the payment activity of the loan. Loans acquired with credit deterioration are grouped into the loan portfolio segment based upon their loan type.

December 31, 2010

Edgar Filing: - Form

	Commercial and Industrial	Commercial Real Estate	Construction	Residential Real Estate
Pass/Satisfactory	\$ 20,854	\$ 41,395	\$ 10,450	\$ 17,219
Special Mention	1,060	16,118	19,573	3,214
Substandard	917	14,736	8,257	1,672
Doubtful	45	2,996		— 1,717
Total	\$ 22,876	\$ 75,245	\$ 38,280	\$ 23,822

	Manufactured Housing
Performing	\$ 4,358
Nonperforming (3)	304
Total	\$ 4,662

(3) Defined as past due thirty or more days at December 31, 2010.

The following table presents the covered loans evaluated collectively and loans acquired with deteriorated credit quality:

	December 31, 2010	
	Collectively reviewed for impairment Loan balance	Loans acquired with deteriorated credit quality Loan Balance
Commercial and industrial	\$ 19,664	\$ 3,212
Commercial real estate	35,010	40,235
Construction	14,527	23,753
Residential real estate		
First mortgages	8,254	4,471
Home equity	9,804	1,293
Manufactured housing	4,560	102
Total	\$ 91,819	\$ 73,066

Acquired covered loans that have experienced deterioration since origination such that it is probable that the borrower will not be able to make all contractually required payments are considered to be impaired under ASC 310-30 Receivables, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Cash flow analyses were performed on all loans deemed impaired at date of acquisition in order to determine the cash flows expected to be collected. At December 31, 2010, these covered loans did not have an allowance for loan losses specifically allocated to the loans.

(dollars in thousands, except per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following table presents the loans acquired in 2010 with credit deterioration:

	ISN Bank September 17, 2010	USA Bank July 9, 2010
Contractually required payments receivable	\$ 34,137	\$ 88,963
Credit Discount (nonaccretable difference)	(8,400)	(33,392)
Cash flows expected to be collected	25,737	55,572
Market Discount (accretable yield)	(3,082)	(3,750)
Fair value of loans acquired with credit deterioration	\$ 22,656	\$ 51,822

Customers Bank established a policy to apply the cash flows received from the credit deteriorated loans (impaired loans) to principal until the cash flows of the loans accounted for under ASC 310-30-55 exceed initial cash flow estimates. Contractual cash flows related to nonaccrual loans totaled \$18,344 and \$51,511 for ISN Bank and USA Bank at their acquisition dates, respectively. The application of Customers Bank's current lending policy regarding the monitoring of delinquent loans and the establishment of more frequent borrower contact are anticipated to increase estimated cash flows over the expected life of the loan. Loans of the Acquired Banks were collateralized by real estate. If cash flows estimate of the impaired acquired loans increase, a reclassification from the nonaccretable discount to the accretable discount will be estimated and accreted over the remaining life of the loan. The accretable balance will be recognized over the anticipated life of the loans and is approximately 3.0 years and 5.4 years, for USA Bank and ISN Bank, respectively. The outstanding balance, as defined by ASC 310-30-50-1, of impaired covered loans is \$113,279 at December 31, 2010.

The following table presents the changes in the accretable yield for the year ended December 31, 2010:

	ISN Bank	USA Bank
Balance, beginning of period	\$ —	\$ —
Additions resulting from acquisition	3,082	3,750
Accretion to interest income	(267)	(960)
Disposals	—	—
Reclassification (to)/from nonaccretable difference	(157)	1,472
Balance, end of period	\$ 2,658	\$ 4,262

Covered Other Real Estate Owned

All OREO acquired in FDIC-assisted acquisitions that are subject to an FDIC loss share agreement are referred to as "covered OREO" and disclosed separately in the Balance Sheet. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the loan's carrying value, inclusive of the acquisition date fair value discount. The following table summarizes the activity related to covered OREO for the year ended December 31, 2010:

Edgar Filing: - Form

December 31,
2010

Balance, beginning of period	\$	—
Acquisition		4,640
Additions to covered OREO		922
Cash received on dispositions of OREO		(220)
Valuation adjustments		—
Balance, end of period	\$	5,342

FDIC Loss Sharing Receivable

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

The following table summarizes the activity related to the FDIC loss sharing receivable for the year ended December 31, 2010:

December 31, 2010

Balance, beginning of period	\$	—
Acquisition		28,337
Change in FDIC loss sharing receivable		(520)
Reimbursement from the FDIC		(11,115)
Balance, end of period	\$	16,702

(dollars in thousands, except per share data)

NOTE 6 - BANK PREMISES AND EQUIPMENT

The components of bank premises and equipment at December 31, 2010 and 2009 are as follows:

		2010	2009
Leasehold improvements	3 to 25 years	\$ 3,764	\$ 2,917
Furniture, fixtures and equipment	5 to 10 years	1,639	815
IT equipment and software	3 to 5 years	2,490	1,422
Automobiles	5 to 10 years	127	51
Construction in process		600	52
		8,620	5,257
Less accumulated depreciation		(3,318)	(2,538)
		\$ 5,302	\$ 2,719

NOTE 7 - DEPOSITS

The components of deposits at December 31, 2010 and 2009 are as follows:

	2010	2009
Demand, non-interest bearing	\$ 72,268	\$ 18,502
Demand, interest bearing	387,013	84,996
Savings	17,649	9,037
Time, \$100,000 and over	434,453	76,985
Time, other	334,307	124,407
Total deposits	\$ 1,245,690	\$ 313,927

Included in time deposits, \$100 and over, at December 31, 2009 are public fund certificates of deposit of \$5,000 that matured in April 2010 and were not renewed.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

	2010
2011	\$ 684,766
2012	62,824
2013	9,536
2014	5,709
2015	5,916
Thereafter	9
	\$ 768,760

NOTE 8 - OTHER BORROWINGS AND SUBORDINATED DEBT

At December 31, 2010, Customers Bank had long-term advances from the Federal Home Loan Bank totaling \$11,000 with an average interest rate of 3.24%. At December 31, 2009, Customers Bank had short-term and long-term

Edgar Filing: - Form

advances from the Federal Home Loan Bank totaling \$11,000 with an average interest rate of 3.24%.

The contractual maturities of fixed rate long-term advances at December 31, 2010 are as follows:

2013	\$	1,000
2015		10,000
	\$	11,000

The \$10,000 in Federal Home Loan Bank advances maturing in 2015 and thereafter are convertible select advances. One \$5,000 advance may be converted to a floating rate advance any quarter. The rate would be the three month LIBOR plus 17 basis points. The other \$5,000 advance may be converted to a floating rate advance any quarter after May 2011. The rate would be the three month LIBOR plus 18 basis points. If these advances convert to a floating rate, we have the right to prepay the advance with no penalty.

Customers F-46

(dollars in thousands, except per share data)

NOTE 8 - OTHER BORROWINGS AND SUBORDINATED DEBT (continued)

Customers Bank has a total borrowing capacity with the Federal Home Loan Bank and Federal Reserve Bank of Philadelphia of approximately \$127,986 and \$74,203, respectively at December 31, 2010. Advances from the Federal Home Loan Bank and Federal Reserve Bank of Philadelphia are secured by certain qualifying assets of Customers Bank totaling \$214,167.

Customers Bank issued a subordinated term note during the second quarter of 2004. The note was issued for \$2,000 at a floating rate based upon the three-month LIBOR rate, determined quarterly, plus 2.75% per annum. Quarterly interest payments are made on this note in January, April, July and October. At December 31, 2010, the quarterly interest rate was 3.04%. The note matures in the third quarter of 2014.

Customers Bank issued a subordinated term note during the fourth quarter of 2008. The note was issued for \$1,000 at a fixed rate of 7.50% per annum. Quarterly interest payments were made on this note in January, April, July and October. The note was converted to voting common stock in the third quarter of 2009 due to a significant change in the Board of Directors. See Note 9 – Stockholders' Equity for a more detailed discussion.

NOTE 9 - STOCKHOLDERS' EQUITY

In December 2010, Customers Bank sold an aggregate of 2,232,641 shares, which included 2,084,841 shares of Common Stock and 147,800 shares of Class B Non-Voting Common Stock at a weighted average price of \$3.94 per share. In September 2010, Customers Bank sold an aggregate of 236,098 shares of Common Stock at an average price of \$3.55 with gross proceeds of \$852. In July 2010, Customers Bank sold an aggregate of 305,000 shares, which included 25,000 shares of Common Stock and 280,000 shares of Class B Non-Voting Common Stock at a price of \$3.50 per share with gross proceeds of \$1,068. In March 2010, the Bank sold 1,950,798 total shares, which included 761,596 shares of Common Stock and 1,189,202 shares of Class B Non-Voting Common Stock at a price of \$3.76 per share. In February 2010, the Bank sold 10,078,139 total shares, which included 6,529,550 shares of Common Stock and 3,548,589 shares of Class B Non-Voting Common Stock at a price of \$4.28 per share (collectively, the 2010 Capital Raises).

The proceeds of the 2010 Capital Raises were \$59,024, net of offering costs of approximately \$1,800. As a result of the July 2010 and March 2010 capital raises at a price less than the original per share purchase price, 3,289,490 shares of Common Stock and 879,169 shares of Class B Non-Voting Common Stock at a price of \$3.50 per share were issued to the existing investors pursuant to anti-dilution agreements between the Bank and those investors. Following the close of these transactions, no investor owns or controls more than 9.9% of the aggregate outstanding shares of the Bank's Common Stock and Class B Non-Voting Common Stock, including for purposes of this calculation any shares issuable under unexercised warrants.

Each investor who participated in the 2010 Capital Raises and owns more than 9% of the common equity of the Bank has been identified by the Bank as a Lead Investor. The 2010 Capital Raises resulted in seven Lead Investors who received warrants equal to 5% of the shares that they purchased in 2010 and have exercise prices (after taking into account anti-dilution repricing) of \$3.50 per share (collectively, the 2010 Warrants). The 2010 Warrants are for the issuance of 253,885 shares of the Bank's Common Stock and 204,638 shares of the Bank's Class B Non-Voting Common Stock. The Lead Investors also have the right to invest in future capital raises until February 17, 2011 at the issuance price of \$3.76 per share.

Edgar Filing: - Form

The Bank agreed to extend and amend the anti-dilution agreements with shareholders who purchased shares in June 2009 or later, to extend anti-dilution protections from June 30, 2010 through March 31, 2011 for any capital raising transactions at a price or value below \$3.50 per share, but, after June 30, 2010, only where the capital raising transaction involves share issuances for cash.

During 2009, Customers Bank sold 3,110,245 shares of common stock at \$5.50 per share, which resulted in net proceeds of \$16,671. In addition, 692,421 warrants were issued in the offering. Each warrant allows for the purchase of one (1) share of common stock at \$5.50 per share. These warrants expire in seven (7) years. Holders of these shares of common stock and warrants are beneficiaries of anti-dilution agreements providing each of them price protection until March 31, 2011, such that if we issue any shares of our common stock at or prior to that date at a price less than \$5.50, we will issue sufficient additional shares to them to maintain the values of their holdings of common stock at the new, lower issuance price. The cost of raising this capital was \$400.

The new Chairman and CEO managed a private equity firm before joining Customers Bank. He was instrumental in raising the net proceeds of \$16,671 and received 670,136 warrants as an incentive to raise more than \$10,000 in capital before he joined Customers Bank. The fair value of the warrants that he received was calculated using a Black-Scholes model and recorded in additional paid in capital.

Customers F-47

(dollars in thousands, except per share data)

NOTE 9 - STOCKHOLDERS' EQUITY (continued)

The fair value of warrants issued during 2009 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

Expected life	7 years
Expected volatility	20.00%
Range of risk-free interest rates	2.93% - 3.19%
Weighted average fair value of options granted	\$1.29

The expected volatility is based on historic volatility of Customers Bank's common stock. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on their expiration date.

Customers Bank issued \$980 in 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock during 2008. This stock paid a 10% dividend that is non-cumulative. The preferred shares were exchanged for common stock during 2009 in conjunction with the capital raise of \$16,671. 178,164 shares of common stock were exchanged for 98 shares of preferred stock at a price of \$5.50 per share. In addition, 24,500 warrants were issued in this exchange. Each warrant allows for the purchase of one share of common stock at \$5.50 per share and expires in seven years.

During 2009, \$1,000 of subordinated debt, issued in December 2008, was converted to common stock. The conversion was required under the terms of the subordinated term note due to the significant change in the membership of the Board of Directors. Based on the terms of the subordinated term note, 213,219 shares of common stock were issued at a price of \$4.69 per share to the holders of the subordinated debt.

The Pennsylvania Department of Banking has certain restrictions for paying dividends on all classes of stock.

NOTE 10 - COMPREHENSIVE INCOME

The components of other comprehensive income (loss) are unrealized holding gains (losses), net of deferred taxes, on investment securities available for sale.

	Years Ended December 31,		
	2010	2009	2008
Unrealized holding gains (losses) on available for sale securities	\$ (1,706)	\$ 556	\$ (1,462)
Reclassification adjustment for impairment charges recognized in income on available for sale securities	—	15	940
Reclassification adjustment for (gains) losses recognized in income on available for sale	(1,114)	(236)	361
Net unrealized gains (losses)	(2,820)	335	(161)
Income tax effect	957	(113)	55
Unrealized (losses) gains, net of taxes	\$ (1,863)	\$ 222	\$ (106)

NOTE 11 – EMPLOYEE BENEFIT PLANS

Customers Bank has a 401(k) profit sharing plan whereby eligible employees may contribute up to 15% of their salary to the Plan. Customers Bank provides a matching contribution equal to 50% of the first 6% of the contribution made by the employee. Employer contributions for the years ended December 31, 2010, 2009, and 2008 were approximately \$101, \$56 and \$60, respectively.

Supplemental Executive Retirement Plans

Customers Bank entered into a supplemental executive retirement plan (SERP) with its Chairman and Chief Executive Officer that provides annual retirement benefits of \$300 a year for a 15 year period upon his reaching the age of 65. The Bank intends to fund its obligations under the deferred compensation arrangements with the increase in cash surrender value of life insurance policies. As a result of the acquisition of USA Bank on July 9, 2010, the SERP became effective and the Chairman and Chief Executive Officer is entitled to receive the balance of his account in accordance with the terms of the SERP. For the year ended December 31, 2010, the Bank recorded compensation expense for the SERP of \$2,595 which represents the present value of payments based upon an estimated retirement period of 5.9 years and a discount rate of 4.27%.

Customers F-48

(dollars in thousands, except per share data)

NOTE 12 – STOCK BASED COMPENSATION PLANS

During 2010, the stockholders of Customers Bank approved the 2010 Incentive Equity and Deferred Compensation Plan (“2010 Plan”) and during 2004, the stockholders of Customers Bank approved the 2004 Incentive Equity and Deferred Compensation Plan (“2004 Plan”). The purpose of these plans is to promote the success and enhance the value of Customers Bank by linking the personal interests of the members of the Board of Directors and Customers Bank’s employees, officers and executives to those of Customers Bank’s stockholders and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to stockholders of Customers Bank. The 2010 Plan and 2004 Plan are intended to provide flexibility to Customers Bank in its ability to motivate, attract and retain the services of members of the Board of Directors, employees, officers and executives of Customers Bank. Stock options granted normally vest over five years for the 2010 Plan and three years for the 2004 Plan.

The 2010 and 2004 Plan are administered by the Compensation Committee of the Board of Directors. It provides for the grant of options, some or all of which may be structured to qualify as Incentive Stock Options if granted to employees, and for the grant of stock appreciation rights (“SARS”), restricted stock and unrestricted stock for the pool of the lesser of 10,000,000 shares of Common Stock of Customers Bank, or 15% of the number of shares of Common Stock and Class B Non-Voting Common Stock issued by Customers Bank and 200,000 shares, respectively, of Common Stock or Non-Voting Common Stock.

The following summarizes changes in stock options outstanding under the 2010 Plan and 2004 Plan for the years ended December 31, 2010, 2009 and 2008:

	2010		Years Ended December 31, 2009		2008	
	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price	Number of Options	Wtd Avg Exercise Price
Outstanding at beginning of each year	45,410	\$ 10.68	46,827	\$ 10.67	48,034	\$ 10.67
Options Granted	2,245,881	3.37	—	—	—	—
Options Forfeited	(16,560)	10.79	(1,417)	10.46	(1,207)	10.68
Outstanding at December 31	2,274,731	\$ 3.46	45,410	\$ 10.68	46,827	\$ 10.67
Exercisable at December 31	28,850	\$ 10.62	45,410	\$ 10.68	46,827	\$ 10.67

No stock options were granted in 2009 and 2008. For the year ended December 31, 2010, the Company recognized \$290 in stock option compensation expense as a component of salaries and benefits. The weighted average remaining contractual life of the outstanding stock options at December 31, 2010 is approximately 6.36 years. Unvested compensation was \$2,056 at December 31, 2010. The aggregate intrinsic value of options outstanding was \$1,433 at December 31, 2010.

For the year ended December 31, 2010, Customers Bank estimated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

2010

Edgar Filing: - Form

Risk-free interest rates	2.81%
Expected dividend yield	0%
Expected volatility	20.0%
Expected lives (years)	7.00
Weighted average fair value of options granted	\$ 0.893

Customers F-49

(dollars in thousands, except per share data)

NOTE 12 – STOCK BASED COMPENSATION PLANS (continued)

Management Stock Purchase Plan

Customers Bank initiated a Management Stock Purchase Program (MSPP) in 2010 where certain employees were offered an option to purchase shares of common stock at \$1.00 per share for an aggregate issuance of 700,000 shares of common stock. The MSPP offers vested in accordance with the plan document in the third quarter of 2010 as result of the acquisition of USA Bank on July 9, 2010. Customers Bank's common stock had a market value of \$3.50 at the offer date and compensation expense of \$1,750 was recorded as a component of salaries and benefits during the year ended December 31, 2010. In December 2010, the offer period was completed and 700,000 shares of common stock were issued.

NOTE 13 - FEDERAL INCOME TAXES

The components of income tax (benefit) expense are as follows:

For the year ended December 31,	2010	2009	2008
Current	\$ 2,914	\$ 394	\$ (409)
Deferred	1,817	(394)	(17)
	\$ 4,731	\$ —	\$ (426)

Effective tax rates differ from the federal statutory rate of 34% applied to income (loss) before income tax expense (benefit) due to the following:

	2010		2009		2008	
	Amount	% of pretax income	Amount	% of pretax income	Amount	% of pretax income
Federal income tax at statutory rate	\$ 9,552	34.00%	\$ (4,500)	(34.00)%	\$ (425)	(34.00)%
Tax exempt interest	(74)	(0.27)%	(104)	(0.79)%	(183)	(14.63)%
Interest disallowance	4	0.02%	12	0.09%	23	1.84%
Bank owned life insurance	(67)	(0.24)%	(69)	(0.53)%	(69)	(5.53)%
(Reversal) recordation of valuation allowance	(6,605)	(23.51)%	4,652	35.15%	360	28.78%
Other	1,921	6.83%	9	0.08%	(132)	(10.52)%
Effective income tax rate	\$ 4,731	16.83%	\$ —	0.00%	\$ (426)	(34.1)%

The components of the net deferred tax (liability) asset at December 31, 2010 and 2009 are as follows:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$ 5,240	\$ 3,411
Net unrealized losses on securities	977	18

Edgar Filing: - Form

Bank premises and equipment	168	230
Impairment charge on securities	304	139
OREO expenses	66	104
Non-accrual interest	576	239
Net operating losses	1,142	3,922
Deferred compensation	869	—
Other	185	72
Total deferred tax assets	9,527	8,135
Valuation allowance	—	(6,605)
Total deferred tax assets, net of valuation allowance	9,527	1,530
Deferred tax liabilities:		
Tax basis discount on acquisitions	(9,369)	—
Deferred loan costs	(259)	(71)
Other	(482)	—
Total deferred tax liabilities	(10,110)	(71)
Net deferred tax (liability) asset	\$ (583)	\$ 1,459

Customers F-50

(dollars in thousands, except per share data)

NOTE 14 - FEDERAL INCOME TAXES (continued)

In 2009, Customers Bank generated net operating income tax losses of approximately \$6,700 which are available to be carried back to prior open tax years. The Bank's deferred tax asset includes an net operating loss carry forward of \$3,400 that expires in 2029. The utilization of the net operating loss is limited annually, as defined by U.S. Internal Revenue Code Section 382, due to ownership changes in 2009 and 2010. Customers Bank recognizes deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits. Federal tax credit carry-forwards at December 31, 2010 of approximately \$167 have no expiration date. Our returns are subject to examination by taxing authorities for all years after 2007.

Management evaluated the deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including historical profitability and projections of future reversals of temporary differences and future taxable income. Customers Bank is required to establish a valuation allowance for deferred tax assets and record a charge to income or stockholders' equity if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, Customers Bank estimates future taxable income based on management approved business plans and ongoing tax planning strategies. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances between projected operating performance, actual results and other factors.

In assessing the realizability of the Bank's deferred tax assets and the reversal of the valuation allowance during the year ended December 31, 2010, the positive and negative evidence was evaluated based on the more likely than not criteria of such assets being realized. Despite the negative evidence of the past three years of losses, the realization of deferred tax assets is based on the Bank's ability to generate taxable income from the two bank acquisitions which resulted in an aggregate deferred tax liability of approximately \$13,109. In addition, in the third quarter of 2009, a new management team was hired to expand the Bank's markets and return the Bank to profitability in 2010. No tax planning strategies were used in the evaluation of the taxable income to determine for the reversal of the valuation allowance. Based on this evaluation, and considering the weight of the positive evidence compared to the negative evidence, management has concluded a valuation allowance is no longer necessary as of September 30, 2010. The following represents the change in the valuation allowance during the year ended December 31, 2010:

Beginning Balance, January 1, 2010	\$ (6,605)
Additions during period January 1, 2010 through June 30, 2010	(1,548)
Reversal of the valuation allowance	8,153
Ending Balance, December 31, 2010	\$ —

NOTE 15 - TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

Customers Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. There were no related party loans at December 31, 2010 and 2009.

Edgar Filing: - Form

Some current directors, nominees for director and executive officers of Customers Bank and entities or organizations in which they were executive officers or the equivalent or owners of more than 10% of the equity were customers of and had transactions with or involving Customers Bank in the ordinary course of business during the fiscal year ended December 31, 2010. None of these transactions involved amounts in excess of 5% of Customers Bank's gross revenues during 2010 or \$200, nor was Customers Bank indebted to any of the foregoing persons or entities in an aggregate amount in excess of 5% of Customers Bank's total consolidated assets at December 31, 2010. Additional transactions with such persons and entities may be expected to take place in the ordinary course of business in the future.

On December 30, 2010, Customers Bank executed a loan participation agreement with Atlantic Coast Bank, a federal savings bank with main offices in Jacksonville, Florida. Jay Sidhu, Customers Bank's Chief Executive Officer, is the Non-executive Chairman of the Board, and Bhanu Choudhrie is a director of Customers Bank and of Atlantic Coast Financial Corporation's Board for a principal amount up to \$6,250. This participating interest is based upon specified Atlantic Coast Bank customer activity and will be repaid to Customers Bank upon the release of the underlying mortgage collateral. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features.

Customers F-51

(dollars in thousands, except per share data)

NOTE 15 - TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS (continued)

On August 13, 2010, Customers Bank executed a loan participation agreement in the principal amount of up to \$25,000 to Atlantic Coast Bank. This participating interest is based upon the loan activity by certain mortgage warehouse customer activity and will be repaid upon the release of the underlying mortgage collateral. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features. This agreement was terminated on December 30, 2010.

On June 30, 2010, Customers Bank extended a term loan in the principal amount of \$5,000 to Atlantic Coast Financial Corporation, which is the holding company for Atlantic Coast Bank. This lending transaction was in the ordinary course of Customers Bank's business, made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other non-affiliated customers, and did not involve more than the normal risk of collectability or present other unfavorable features. Customers Bank sold the full amount of the term loan to accredited investors in August 2010. Two of Customers Bank's directors had material interests in this transaction: \$500 of the loan was participated to a director and \$2,000 of the loan was participated to a company for which a director of the Bank's is a managing member.

For the years ended December 31, 2010 and 2009, Customers Bank has paid approximately \$300 and \$84 to Clipper Magazine and its affiliates. A director of Customers Bank, is the Chief Executive Officer of Clipper Magazine, a subsidiary of Gannett.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Customers Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

Customers Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. Customers Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2010	2009
Commitments to fund loans	\$ 23,446	\$ 3,922
Unfunded commitments to fund mortgage warehouse loans	228,167	28,565
Unfunded commitments under lines of credit	40,948	16,842
Letters of credit	1,085	854

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Mortgage warehouse loan commitments are agreements to purchase mortgage loans from mortgage bankers that agree to purchase the loans back in a short period of time. These commitments generally fluctuate monthly as existing loans are repurchased by the mortgage bankers and new loans are purchased by Customers Bank.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Customers Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Customers Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by Customers Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. Customers Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liabilities as of December 31, 2010 and 2009 for guarantees under standby letters of credit issued is not material.

(dollars in thousands, except per share data)

NOTE 17 - LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

The Bank leases certain of our premises and equipment under non-cancelable operating leases with terms expiring through 2022 exclusive of renewal option periods. Our annual aggregate minimum rental commitments under these leases are summarized as follows:

2011	\$	1,433
2012		1,429
2013		1,419
2014		1,208
2015		806
Thereafter		3,439
	\$	9,734

Rent expense, which includes reimbursements to the lessor for real estate taxes, was approximately \$1,108, \$788, and \$729 for the years ended December 31, 2010, 2009 and 2008, respectively. Included in 2008 rent expense was \$178 related to incentives included in the new lease contract, which will be amortized over the term of the lease.

NOTE 18 – LEGAL CONTINGENCIES

On November 15, 2010, Customers Bank filed suit against Open Solutions, Inc. (OSI) in the United States District Court for the Eastern District of Pennsylvania, seeking damages for failure to assist in the conversion of system and customer information associated with the former USA Bank and requesting injunctive relief to compel OSI to assist with the deconversion of the former USA Bank's systems. OSI filed counterclaims against Customers Bank on November 24, 2010, asserting claims for breach of contract and breach of settlement agreement. In support of its breach of contract claim, OSI alleged that Customers Bank "assumed" the former-USA Bank agreements and is bound by those agreements. OSI claimed that it has sustained damages in excess of \$1,000. Customers Bank disputed that it has any liability to OSI. Prior to trial, OSI dismissed with prejudice its settlement agreement claim. Trial was held on February 24, 2011. On March 7, 2011, the Court ruled against Customers Bank and in favor of OSI as follows: judgment was entered against Customers on OSI's claim that the agreements between OSI and USA Bank were assumed by Customers Bank and judgment was entered against Customers on its claims against OSI; judgment was entered for OSI on its breach of contract claim under one agreement, in the amount of \$104; the Court found there was no breach of the second agreement by Customers Bank and no proof of damages. OSI has filed a motion for payment of legal fees and costs associated with the litigation which are estimated to be \$205. Customers Bank has filed a motion with the District Court to vacate the judgment and to enter judgment in favor of Customers Bank on OSI's counterclaim. In addition, the FDIC has filed a motion to intervene in the litigation and has sought dismissal of OSI's counter claims on jurisdictional grounds. These motions are pending consideration by the District Court. As of December 31, 2010, the \$104 has been properly accrued and Customers Bank has not provided notice of termination of the contract with OSI for the former USA Bank system and continues to accrue amounts as services are rendered.

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on Customers Bank's financial statements.

NOTE 19 - REGULATORY MATTERS

Customers Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on Customers Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Customers Bank must meet specific capital guidelines that involve quantitative measures of Customers Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Customers Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Customers Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2010 and 2009, that Customers Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification received from federal banking agencies categorized Customers Bank as well capitalized under the regulatory framework for prompt corrective action. Customers Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios set forth in the table. There are no conditions or events since that notification that management believes have changed Customers Bank's category.

(dollars in thousands, except per share data)

NOTE 19 - REGULATORY MATTERS (continued)

Customers Bank's actual capital amounts and ratios at December 31, 2010 and 2009 are presented below:

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
As of December 31, 2010:								
Total capital (to risk weighted assets)	\$ 115,147	21.1%	≥ \$ 43,571	≥ 8.0%	≥ \$ 53,464	≥ 10.0%		
Tier 1 capital (to risk weighted assets)	107,036	19.7	≥ 21,557	≥ 4.0	≥ 32,335	≥ 6.0		
Tier 1 capital (to average assets)	107,036	8.7	≥ 49,397	≥ 4.0	≥ 61,747	≥ 5.0		
As of December 31, 2009:								
Total capital (to risk weighted assets)	\$ 25,958	11.8%	≥ \$ 17,648	≥ 8.0%	≥ \$ 22,060	≥ 10.0%		
Tier 1 capital (to risk weighted assets)	21,537	9.8	≥ 8,824	≥ 4.0	≥ 13,236	≥ 6.0		
Tier 1 capital (to average assets)	21,537	6.7	≥ 12,906	≥ 4.0	≥ 16,132	≥ 5.0		

Customers Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Customers Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. 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 Customers Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on 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

Edgar Filing: - Form

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).

Customers F-54

(dollars in thousands, except per share data)

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

An asset's or liability'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 measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 and 2009 are as follows:

	As of December 31, 2010			Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	
U.S. Treasury and government agency	\$ —	\$ 1,681	\$ —	\$ 1,681
Mortgage-backed securities	39	201,535	—	201,574
Asset-backed securities	—	722	—	722
Municipal securities	—	1,851	—	1,851
	\$ 39	\$ 205,789	\$ —	\$ 205,828

	As of December 31, 2009			Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	
U.S. Treasury and government agency	\$ 452	\$ —	\$ —	\$ 452
Mortgage-backed securities	1,207	38,196	—	39,403
Asset-backed securities	—	839	—	839
Municipal securities	—	3,894	—	3,894
	\$ 1,659	\$ 42,929	\$ —	\$ 44,588

The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of December 31, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2010			Total Fair Value
	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	
Non-covered Impaired Loans, net of specific reserves of \$10,318	\$ —	\$ —	22,037	\$ 22,037
Loans held for sale	—	199,970	—	199,970
Other Real Estate Owned	—	—	7,248	7,248

\$ —\$ 199,970 \$ 29,285 \$ 229,225

December 31, 2009

	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs	Total Fair Value
Non-covered Impaired Loans, net of specific reserves of \$6,763	\$ —	\$ —	10,780	\$ 10,780
Other Real Estate Owned	—	—	1,155	1,155
	\$ —	\$ —	11,935	\$ 11,935

Customers F-55

(dollars in thousands, except per share data)

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Cash and cash equivalents:

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

Investment securities:

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or 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.

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

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments of the underlying mortgage originator and third party investors, resulting in a Level 2 classification.

Loans receivable:

The fair values of loans receivable 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.

Impaired loans:

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 (Level 3) was estimated using projected cash flows related to the loss share agreements based on the expected reimbursements for losses using the applicable loss share percentages and the estimated true-up payment. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC.

Accrued interest receivable and payable:

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

Deposit liabilities:

The fair values disclosed for demand 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.

Under the terms of the Agreement, Customers Bank had the right to adjust various terms, including interest rates, on deposit liabilities for the Acquired Banks. Customers Bank adjusted interest rates on time deposits with maturity dates extending beyond 90 days after the assumption date when the contractual interest rate exceeded acquisition date market rates. With this adjustment, the carrying value of all deposits is considered to be a reasonable estimate of fair value on the date of acquisition.

(dollars in thousands, except per share data)

NOTE 20 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Short-term borrowings:

The carrying amounts of short-term borrowings approximate their fair values.

Long-term debt:

Fair values of 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.

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.

Off-balance sheet financial instruments:

Fair values for Customers Bank'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.

Customers Bank has issued public fund certificates of deposit that are backed by letters of credit issued at the Federal Home Loan Bank. Customers Bank does not foresee the need to utilize these letters of credit. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2010 and 2009.

	December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 238,724	\$ 238,724	\$ 68,807	\$ 68,807
Investment securities, available for sale	205,828	205,828	44,588	44,588
Loans held for sale	199,970	199,970	—	—
Loans receivable, net	663,843	661,320	220,266	213,901
FDIC loss sharing receivable	16,702	16,702	—	—
Restricted stock	4,267	4,267	2,026	2,026
Accrued interest receivable	3,196	3,196	2,055	2,055
Liabilities:				
Deposits	\$ 1,245,690	\$ 1,247,535	\$ 313,927	\$ 316,377

Edgar Filing: - Form

Subordinated debt	2,000	2,000	2,000	2,000
Borrowings	11,000	10,756	11,000	11,290
Accrued interest payable	1,657	1,657	575	575
Off-balance sheet financial instruments:				
Commitments to extend credit and letters of credit	—	—	—	—
Unfunded commitments to fund mortgage warehouse lines	—	—	—	—
Standby letters of credit issued on Customers Bank's behalf	—	—	—	—

NOTE 21 – SUBSEQUENT EVENTS

During the first quarter of 2011, Customers Bank sold an aggregate of 4,166,679 shares of common stock, which included 2,638,750 shares of Common Stock and 1,527,929 shares of Class B Non-Voting Common Stock at a weighted average price of \$3.87 with total proceeds of \$16,131.

Customers F-57

INDEX TO BERKSHIRE FINANCIAL STATEMENTS

Contents

Unaudited Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010	BBI F-2
Unaudited Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010	BBI F-3
Unaudited Consolidated Statements of Shareholder's Equity for the three months ended March 31, 2011 and 2010	BBI F-4
Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010	BBI F-5
Notes to Unaudited Consolidated Financial Statements	BBI F-7
Independent Auditor's Report	BBI F-35
Audited Balance Sheets as of December 31, 2010 and 2009	BBI F-36
Audited Statements of Operations for the years ended December 31, 2010 and 2009	BBI F-37
Audited Statements of Shareholders' Equity for the years ended December 31, 2010 and 2009	BBI F-38
Audited Statements of Cash Flows for the years ended December 31, 2010 and 2009	BBI F-39
Notes to Audited Financial Statements for the years ended December 31, 2010 and 2009	BBI F-41
Independent Auditor's Report	BBI F-65
Audited Balance Sheets as of December 31, 2009 and 2008	BBI F-66
Audited Statements of Operations for the years ended December 31, 2009 and 2008	BBI F-67
Audited Statements of Shareholders' Equity for the years ended December 31, 2009 and 2008	BBI F-68
Audited Statements of Cash Flows for the years ended December 31, 2009 and 2008	BBI F-69
Notes to Audited Financial Statements for the years ended December 31, 2009 and 2008	BBI F-71

BBI F-1

Berkshire Bancorp, Inc.
 UNAUDITED CONSOLIDATED BALANCE SHEETS
 (Amounts in Thousands, Except Share Data)

	March 31, 2011	December 31, 2010
Assets		
Cash and Due from Banks	\$2,396	\$1,995
Interest-Bearing Deposits with other Banks	4,374	4,362
Federal Funds Sold	8,795	7,151
Cash and cash equivalents	15,565	13,508
Investment Securities Available for Sale, at fair value	1,626	1,657
Loans Receivable (net of allowance for loan losses of \$1,371 and \$1,593, as of March 31, 2011 and December 31, 2010, respectively)	105,634	105,781
Loans Held for Sale	370	574
Bank Premises and Equipment, net	3,794	3,870
Bank-owned Life Insurance	2,456	2,431
Accrued Interest Receivable and Other Assets	2,424	2,524
Other Real Estate Owned (OREO)	4,507	4,936
	\$136,376	\$135,281
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	\$7,530	\$6,973
Interest-bearing	117,269	116,280
Total deposits	124,799	123,253
Borrowings	739	764
Accrued interest payable and other accrued liabilities	653	732
Total liabilities	126,191	124,749
Commitments and Contingencies (Notes 9, 17 and 20)		
Shareholders' Equity		
Cumulative perpetual preferred stock, \$1 par value, 10,000,000 shares authorized;		
Series A-5% for five years, 9% thereafter, \$1,000 liquidation preference, 2,892 shares issued and outstanding	2,772	2,765
Series B-9%, \$1,000 liquidation preference, 145 shares issued and outstanding	166	166
Non-Cumulative perpetual preferred stock, Series C-6%, \$1,000 liquidation preference, 50 shares issued and outstanding	-	-
Common stock, \$1 par value, 10,000,000 shares authorized; 4,051,063 shares issued and outstanding	4,051	4,051
Additional paid-in-capital	11,343	11,343
Accumulated deficit	(8,147)	(7,805)

Edgar Filing: - Form

Accumulated other comprehensive income	-	12
	10,185	10,532
See Notes to Unaudited Consolidated Financial Statements.	\$136,376	\$135,281

BBI F-2

Berkshire Bancorp, Inc.
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Amounts in Thousands, Except Share Data)

	Three months ended March 31,	
	2011	2010
Interest income		
Interest and fees on loans	\$1,538	\$1,602
Interest and dividends on securities	20	139
Interest on federal funds sold	2	2
Interest, other	8	3
Total interest and dividend income	1,568	1,746
Interest expense		
Interest on deposits	438	516
Interest on borrowings	8	24
Total interest expense	446	540
Net interest income	1,122	1,206
Provision for loan losses	26	11
Net interest income after provision for loan losses	1,096	1,195
Noninterest income		
Gain on the sale of loans	86	34
Gain on the sale of available for sale securities	-	1
(Loss) gain on the sale of OREO	(42)	25
Other income	103	87
Total noninterest income	147	147
Noninterest expenses		
Compensation and benefits, net	544	572
Occupancy and data processing	422	428
Marketing and business development	4	5
Professional services	103	61
Other operating expenses	505	237
Total noninterest expenses	1,578	1,303
(Loss) income before income taxes	(335)	39
Income taxes	-	-
Net (loss) income	(335)	39
Preferred stock dividends and discount accretion	(46)	(47)
Net loss attributable to common shareholders	\$(381)	\$(8)
Net loss per common share:		
Basic and diluted	\$(-.09)	\$-
Weighted average shares outstanding:		
Basic and diluted	4,051,063	3,876,063

See Notes to Unaudited Consolidated Financial Statements.

BBI F-3

Berkshire Bancorp, Inc.
 UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN
 SHAREHOLDERS' EQUITY
 (Amounts in Thousands,
 Except Share Data)

	Preferred Stock	Common Stock	Additional Paid-In- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2009	\$2,905	\$3,876	\$11,084	\$ (6,339)	\$ (120)	\$ 11,406
Capital stock offering fees from Series C						
Preferred Offering	-	-	(3)	-	-	(3)
Accretion of preferred stock discount	6	-	-	(6)	-	-
Dividends on preferred stock, Series A & B	-	-	-	(41)	-	(41)
Comprehensive income:						
Net income	-	-	-	39	-	39
Change in net unrealized loss on securities available for sale, net of tax effect	-	-	-	-	101	101
Total comprehensive income	-	-	-	-	-	140
Balance, March 31, 2010	\$2,911	\$3,876	\$11,081	\$ (6,347)	\$ (19)	\$ 11,502

	Preferred Stock	Common Stock	Additional Paid-In- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2010	\$2,931	\$4,051	\$11,343	\$ (7,805)	\$ 12	\$ 10,532
Accretion of preferred stock discount	7	-	-	(7)	-	-

Comprehensive loss:						
Net loss	-	-	-	(335)	-	(335)
Change in net unrealized gain on securities available for sale, net of tax effect						
	-	-	-	-	(12)	(12)
Total comprehensive loss	-	-	-	-	-	(347)
Balance, March 31, 2011	\$ 2,938	\$ 4,051	\$ 11,343	\$ (8,147)	\$ -	\$ 10,185

See Notes to Unaudited Consolidated Financial Statements.

BBI F-4

Berkshire Bancorp, Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31,

(Amounts in Thousands, Except Share Data)

	2011	2010
Cash Flows from Operating Activities		
Net (loss) income	\$(335)	\$39
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	77	81
Provision for loan losses	26	11
Valuation writedown on OREO	61	-
Net amortization of premiums/discounts on securities	-	1
Net accretion of fair value adjustment on loans and deposits acquired	(4)	(4)
Preferred stock amortization/accretion, net	-	6
Gain on the sale of loans	(86)	(33)
Net gain on the sale of investment securities	-	(1)
Loans originated for sale	(2,377)	(1,993)
Proceeds from sale of loans held for sale	2,667	1,174
Net loss (gain) on sale of OREO	42	(25)
Earnings on Bank owned life insurance, net	(25)	(38)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	52	(182)
(Decrease) increase in accrued interest payable and other accrued liabilities	(79)	117
Net cash provided by (used in) operating activities	19	(847)
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	-	(999)
Proceeds from redemption of FHLB stock	53	-
Proceeds from sales, maturities, calls and principal payments on investment securities available for sale	14	1,668
Net increase in loans	(427)	(1,397)
Proceeds from sale of OREO	878	203
Net purchases of premises and equipment	(1)	(30)
Net cash provided by (used in) investing activities	517	(555)
Cash Flows from Financing Activities		
Cash payments on preferred stock	-	(41)
Offering costs related to the preferred stock, Series C	-	(3)
Net proceeds from borrowings	-	1,291
Repayment of borrowings	(25)	(24)
Increase in interest-bearing deposits	989	2,363
Increase (decrease) in non interest-bearing deposits	557	(326)
Net cash provided by financing activities	1,521	3,260
Increase in cash and cash equivalents	2,057	1,858
Cash and Cash Equivalents, January 1	13,508	11,552

Cash and Cash Equivalents, March 31	\$15,565	\$13,410
-------------------------------------	----------	----------

(Continued)

BBI F-5

Berkshire Bancorp, Inc.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Three months ended March 31,
 (Amounts in Thousands, Except Share Data)

	2011	2010
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	\$445	\$690
Income taxes	-	-
	\$445	\$690
Non-cash items:		
Transfer from loans to OREO	\$552	\$1,059
Change in unrealized gain (loss) on AFS Securities	(17	) 233

See Notes to Unaudited Consolidated Financial Statements.

BBI F-6

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies

Description of Business: Berkshire Bancorp, Inc. (“the Company”) is a bank holding company headquartered in Wyomissing, Pennsylvania. Through its wholly owned subsidiary, Berkshire Bank, the Company provides individuals, corporations and other businesses, commercial and retail banking services, principally loans and deposits. Berkshire Bancorp, Inc. was incorporated on September 1, 2006 under the laws of the State of Pennsylvania for the sole purpose of becoming the holding company of Berkshire Bank (the “Bank”).

Berkshire Bank (the “Bank”) is a commercial bank incorporated on May 14, 2002 under the laws of the Commonwealth of Pennsylvania. The Bank commenced operations on September 23, 2003. The Bank is chartered by the Pennsylvania Department of Banking and insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at Wyomissing, Pennsylvania but also has branch offices in Muhlenberg Township, West Reading, Route 183 Airport, and Exeter, Pennsylvania. The Bank provides financial services primarily to Berks County and the surrounding Pennsylvania counties.

Zenith Mortgage Company, LLC, a subsidiary of the Bank, was established in 2007 for the purpose of providing mortgage brokerage and related services to the public. Zenith Mortgage is a limited liability company owned by Berkshire Bank (51%) and a third party. Zenith Mortgage Company, LLC has been dormant since 2008.

Principles of Consolidation: The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of the consolidated financial position, results of operations and cash flows are summarized below. The consolidated financial statements for 2011 and 2010 include the accounts of Berkshire Bancorp, Inc. and Berkshire Bank. All intercompany balances and transactions have been eliminated.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, interest bearing deposits with banks and federal funds sold, all of which mature within ninety days.

Investment Securities Available for Sale: Management determines the appropriate classification of investments at the time of purchase. All securities are classified “available for sale” and carried at fair value. The Company has no trading securities or securities classified “held to maturity.”

The cost of investment securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization or accretion recorded as adjustments to interest and dividends are included in interest income from investments. Realized gains and losses are included in gains (losses) on investment securities in the statements of operations. Gains and losses on

the sale of securities are recorded on the trade date and are determined based on the specific-identification method.

BBI F-7

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Investment Securities Available for Sale (Continued): Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, whether the Company intends to sell the security, or whether it is more likely than not that the Company will be required to sell the security before recovery of the cost basis, which may be maturity. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security or it is not more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Company holds investments in the common stocks of Atlantic Central Bankers Bank (“ACBB”) and Federal Home Loan Bank of Pittsburgh (“FHLB”). These investments in restricted stock are carried at cost and are included in Other Assets. The stock has no quoted market value and is subject to redemption restrictions. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Management considers such criteria as the significance of the decline in all assets, if any, of the FHLB, the length of time the situation has persisted, commitments by the FHLB to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the FHLB and the liquidity position of the FHLB. As of March 31, 2011 and 2010, the Company’s holdings of restricted stock were not deemed impaired.

Loans: The Company makes commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Berks County. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Loans are stated at the outstanding principal amount, adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and

residential loans for impairment disclosures.

BBI F-8

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Loans Held for Sale: The Company periodically sells residential mortgage loans and the guaranteed portion of loans guaranteed by the Small Business Administration (SBA). Loans held for sale are residential mortgage loans and the guaranteed portion of SBA loans and are carried at the lower of aggregate cost or market value. The net amount of loan origination fees on loans sold is included in the carrying value and in the gain or loss on the sale. The Company originates loans to customers under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. When the sale of the guaranteed portion of an SBA loan occurs, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income over the estimated life of the loan. As a result of the Company's adoption of Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing, on January 1, 2010, any gains on the sale of SBA loans are deferred for 90 days.

All sales are made without recourse and, with the exception of the SBA loans, servicing is released.

Loans - Nonaccrual: Loans are placed on nonaccrual status and the accrual of interest income ceases, when a default of principal or interest exists for a period of ninety days except when, in management's judgment, the collection of principal and interest is reasonably anticipated (i.e. the loan is well secured and in the process of collection). Interest receivable on nonaccrual loans previously credited to interest income is reversed. Nonaccrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectability is reasonably assured.

Concentration of Credit Risk: The Company's loans are generally to diversified customers in Berks, Montgomery and Chester counties, Pennsylvania. Loans to professional real estate management enterprises and lessors, general building contractors and developers, miscellaneous food stores and restaurants constitute approximately 40%, 9% and 7%, respectively, of commercial loans as of March 31, 2011. These concentrations were approximately 41%, 8% and 7%, respectively, of commercial loans as of December 31, 2010. Generally, loans are collateralized by assets of the borrower and are expected to be repaid from the cash flow or proceeds from the sale of selected assets of the borrower.

Loan Fees: Loan fees and direct costs associated with loan originations are netted and deferred. The deferred amount is recognized as an adjustment to loan interest over the term of the related loans on the interest method.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition.

Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

Edgar Filing: - Form

Various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

BBI F-9

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued): The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected losses given the Company's internal risk rating process. Other qualitative adjustments are made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data. These qualitative factors include trends in classified loans, charge-offs, delinquencies and non-accruals, changes in loan policy and underwriting standards, changes in credit personnel, industry conditions, national and local economic conditions, concentrations, etc.

Interest Rate Risk: The Company is principally engaged in the business of attracting deposits from the general public and using these deposits, together with any borrowed funds, to make commercial, commercial mortgage, residential mortgage, and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Company to assume interest rate risk that results from differences in the maturities and re-pricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Bank Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

The estimated useful lives for calculating depreciation and amortization on furniture and equipment are between three and seven years. Leasehold improvements are depreciated over the lesser of the economic life or the term of the related lease, generally terms ranging from five to twenty-nine years.

Other Real Estate Owned (OREO): OREO is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses.

Bank Owned Life Insurance: The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Income generated from the increase in cash surrender value of the policies is included in other income on the income statement. BOLI is indirectly used to fund the Nonqualified Supplemental Executive Retirement Plan discussed in Note 15.

Edgar Filing: - Form

Goodwill: Goodwill representing the excess of the cost over fair value of net assets of the acquired businesses. The Company acquired two branches that resulted in goodwill which is not amortized, but

BBI F-10

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The valuation of the carrying amount of goodwill is more fully discussed in Note 21.

Income Taxes: Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense on the income statement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as other comprehensive income (loss), a separate component of the equity section of the balance sheet. Such items, along with net income (loss), are components of comprehensive income (loss).

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

The components of accumulated other comprehensive income (loss) and related tax effects for are as follows:

	March 31, 2011	December 31, 2010
Net unrealized holding gains on available for sale securities	\$-	\$17
Tax effect	-	5
Net-of-tax amount	\$-	\$12

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share are computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Loss attributable to common shareholders has been increased by declared and undeclared preferred stock dividends and discount accretion related to the Company's participation in the Capital Purchase Program, as described in Note 14. Diluted earnings (loss) per common share considers common stock equivalents (when dilutive) outstanding during the period such as options and warrants outstanding. Both basic and diluted earnings (loss) per common share computations give retroactive effect to stock dividends paid as a 5 for 4 stock splits in prior years. In computing diluted earnings (loss) per share for 2011 and 2010, warrants to purchase approximately 774,571 shares of common stock were excluded from the computation noting the effect of these shares would be anti-dilutive.

Note 2. Recent Accounting Pronouncements

FASB ASC Topic 820, Fair Value Measurements and Disclosures: New authoritative accounting guidance (Accounting Standards Update No. 2010-6) provides amendments to ASC Topic 820 that require new disclosures as follows: 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). The new authoritative guidance also clarifies existing disclosures as follows: 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. These new disclosures and clarifications of existing disclosures were effective for the Company's financial statements beginning after December 15, 2009 (except for the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity of Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010) and did not have a significant impact on the Company's financial statements.

Edgar Filing: - Form

FASB ASC Topic 860, Transfers and Servicing: On January 1, 2010, the Company adopted the authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, which amends prior

BBI F-12

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 2. Recent Accounting Pronouncements (Continued)

accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. FASB ASC Topic 860, Transfers and Servicing requires that the gains on sales of SBA 7(a) loans be deferred for a 90-day period after the sale. There was one loan sold in the first quarter of 2010 with a gain of \$20 thousand deferred until the second quarter of 2010. As a result of the SBA removing the warranty period requirement effective February 12, 2011, the deferral requirement has been lifted. Consequently, all gains for the loans originated in 2011 have been recorded and no gains have been deferred as of March 31, 2011.

In February 2010, the FASB issued (ASU) 2010-10 Consolidation (Topic 810). The objective of this Update is to defer the effective date of the amendments to the consolidation requirements made by Financial Accounting Standards Board (FASB) Statement 167 to a reporting entity’s interest in certain types of entities and clarify other aspects of the Statement 167 amendments. As a result of the deferral, a reporting entity will not be required to apply the Statement 167 amendments to the ASC Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. This Update also clarifies how a related party’s interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the Update also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker’s or service provider’s fee is a variable interest. The amendments in this Update are effective as of the beginning of a reporting entity’s first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. No significant impact was reported in the consolidated financial position or results of operations from the adoption of ASU 2010-10.

FASB ASU Topic 310 2010-20 Receivables: In July 2010, the FASB issued (ASU) 2010-20 Receivables (Topic 310) covering disclosures about the credit quality of financing receivables and the allowance for credit losses. This Update is intended to provide additional information and greater transparency to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The Update requires increased disclosures on the nature of the credit risk inherent in the entity’s portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. Entities will need to provide a roll forward schedule of the allowance for credit losses for the reporting period with ending balances further disaggregated on the basis of impairment methods, the related recorded investments in financing receivables, the nonaccrual status of financing receivables by class and the impaired financing receivables by class. The Update will also require additional disclosures on credit quality indicators of financing receivables, the aging of past due financing receivables by class, the nature and extent of troubled debt restructurings by class with their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings by class for the past 12 months that defaulted during the reporting period and significant purchases and sales of financing receivables during the reporting period. The amendments in this Update are effective for public entities for annual reporting periods ending on or after December 15, 2010 and for non-public entities such as the Company, for interim and annual reporting periods ending on or after December 15, 2011. The amendments in this Update encourage, but do not require, comparative

Edgar Filing: - Form

disclosures for earlier reporting periods that ended before initial adoption. No significant impact to amounts reported in the consolidated financial position or results of operations are expected from the adoption of ASU 2010-20.

BBI F-13

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 2. Recent Accounting Pronouncements (Continued)

New authoritative accounting guidance (Accounting Standards Update No. 2011-02) under ASC Topic 310 "Receivables" amends prior accounting guidance for creditors that restructure receivables that fall within ASC Subtopic 310-40 "Receivables – Troubled Debt Restructurings." The amendments clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties to facilitate the determination of whether a restructuring constitutes a troubled debt restructuring ("TDR"). In addition, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables when evaluating whether a restructuring constitutes a TDR. For non-public entities, these amendments are effective for annual reporting periods ending on or after December 15, 2012, including interim periods within those annual periods. Early adoption is permitted for any interim period of the fiscal year of adoption. The Company is evaluating the impact this new guidance will have on its consolidated financial statements.

Note 3. Reclassifications

Certain items in the 2010 financial statements have been reclassified to conform to the 2011 presentation, with no effect on the statements of operations or statements of changes in shareholders' equity.

Note 4. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy minimum deposit requirements, and to compensate other banks for certain correspondent services. The Federal Deposit Insurance Corporation insures these accounts up to \$250,000 per account. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Company as of March 31, 2011 and December 31, 2010.

Note 5. Investment Securities

The amortized cost and estimated fair value of securities available for sale at March 31, 2011, summarized by contractual maturities are shown below. Expected maturities may differ from contractual maturities for mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without any penalties; therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	1,500	-	(5)	1,495

Edgar Filing: - Form

	1,500	-	(5	)	1,495
Mortgage-backed securities	126	5	-		131
	\$1,626	\$5	\$(5	)	\$1,626

BBI F-14

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 5. Investment Securities (Continued)

The amortized cost and estimated fair value of securities available for sale at December 31, 2010, summarized by contractual maturity, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	1,500	12	-	1,512
	1,500	12	-	1,512
Mortgage-backed securities	140	5	-	145
	\$1,640	\$17	\$-	\$1,657

Securities with a carrying value of \$431 and \$448 at March 31, 2011 and December 31, 2010, respectively, were pledged as collateral to secure borrowings at the Federal Home Loan Bank of Pittsburgh and for the public deposits.

For the three months ended March 31, 2011 and March 31, 2010, proceeds from sales and calls of securities available for sale amounted to \$0 and \$1,500, respectively.

There were two investment securities in an unrealized loss position at March 31, 2011. Both of the U.S. Government agency securities were in an unrealized loss position for less than twelve months.

BBI F-15

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 5. Investment Securities (Continued)

Securities available-for-sale are stated at fair value with an adjustment to shareholders' equity for unrealized gains and losses. Securities with unrealized losses at March 31, 2011 consist of 2 securities. The unrealized loss on these investments was caused by movement in interest rates. Management periodically evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost (2) the financial condition and near term prospects of the issuer, (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (4) whether it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity. Management does not consider these securities to be other-than-temporarily impaired.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in earnings in the period in which the other-than-temporary impairment is identified.

Note 6. Loans

The composition of loans follows:

	March 31, 2011	December 31, 2010
Commercial	\$86,311	\$86,076
Residential real estate	17,682	18,199
Consumer	2,613	2,690
Total loans	106,606	106,965
Less:		
Allowance for loan losses	(1,371)	(1,593)
Net deferred loan costs	399	409
Net loans	\$105,634	\$105,781

BBI F-16

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 6. Loans (Continued)

Below is a summary of the Bank's impaired loan information:

	March 31, 2011	December 31, 2010
Impaired loans without a valuation allowance	\$-	\$175
Impaired loans with a valuation allowance	1,165	1,929
Troubled debt restructuring	1,363	1,363
Total impaired loans	\$2,528	\$3,467
Valuation allowance related to impaired loans	\$228	\$490
Total nonaccrual loans	2,128	2,218
Total loans past-due ninety days or more and still accruing	78	-
Average investment in impaired loans	2,824	3,160
Interest income recognized on impaired loans	-	-
Interest income recognized on a cash basis on impaired loans	-	-

Troubled debt restructurings ("TDRs") occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, such as a below market interest rate, extending the maturity of a loan, or a combination of both. At March 31, 2011 and December 31, 2010, the Company had one loan in the amount of \$1.4 million that was classified a TDR and included in total impaired loans. As of March 31, 2011, the restructured loan continues to perform under its modified terms as an interest only loan.

Note 7. Loans and Deposits to Related Parties

In the normal course of business, the Company has granted loans to executive officers, directors and their affiliates (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability.

An analysis of the activity of such related party loans is as follows:

	March 31, 2011	December 31, 2010
Balance, beginning of year	\$2,396	\$2,210
Advances	-	340
Less: repayments	(132)	(154)
Balance, end of year	\$2,264	\$2,396

At March 31, 2011 and December 31, 2010, deposits from related parties totaled approximately \$586 and \$717, respectively.

BBI F-17

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 8. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	Three Months ended March 31,		Year ended December 31,
	2011	2010	2010
Balance, Beginning of Period	\$ 1,593	\$ 1,655	\$ 1,655
Loan charge-offs:			
Commercial construction	-	-	49
Commercial real estate	49	-	145
Commercial and industrial	-	112	239
Residential construction	-	-	-
Consumer residential	195	26	283
Consumer and other	7	7	48
Total Charge-offs	251	145	764
Loan Recoveries:			
Commercial construction	-	-	-
Commercial real estate	-	-	-
Commercial and industrial	-	-	-
Consumer residential	-	-	26
Consumer and other	3	1	4
Total Recoveries	3	1	30
Total Net Charge-offs	248	144	734
Provision for loan losses	26	11	672
Balance, End of Period	\$ 1,371	\$ 1,522	\$ 1,593

BBI F-18

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 9. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment is as follows:

	March 31, 2011	December 31, 2010
Leasehold improvements	\$4,297	\$4,297
Furniture and equipment	1,041	1,040
	5,338	5,337
Less: accumulated depreciation and amortization	(1,544)	(1,467)
Bank premises and equipment	\$3,794	\$3,870

The Company has a fifteen-year operating lease agreement for its main banking office which commenced in September 2002. The Company has the option to extend the lease agreement for two additional five-year periods. In September 2004, the Company entered into a five-year operating lease for its Operations Center located in Shillington. The Company had the option to extend the lease agreement for an additional five-year period and exercised this option in 2009. In December 2005, the Company entered into a fifteen-year operating lease for its second branch office located in Muhlenberg. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period.

In February 2006, the Company entered into a fifteen-year operating land lease for its third branch office in Exeter Township. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period. In June 2007, as part of two branch acquisitions from Fleetwood Bank, the Company assumed the following leases: Airport office on Route 183: five-year term with the option to extend the lease agreement for an additional five years. West Reading office lease: five-year term with the option to extend the lease agreement for an additional six years and six months.

In each case, in addition to the base rent, the Company is also required to pay a monthly fee for its portion of certain operating expenses.

BBI F-19

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 9. Bank Premises and Equipment (Continued)

At March 31, 2011, the required future rental payments under leases are as follows:

Years Ending December 31,	
2011	\$312
2012	430
2013	361
2014	301
2015	283
Thereafter	894
Total minimum lease payments	
	\$2,581

Rent expense of approximately \$103 and \$110 is reflected in the statements of operations for the three months ended March 31, 2011 and March 31, 2010, respectively.

Note 10. Deposits

Deposits consisted of the following:

	March 31, 2011	December 31, 2010
Demand deposits, noninterest-bearing	\$7,530	\$6,973
Demand deposits, interest-bearing	67,894	68,424
Savings deposits	2,036	1,957
Time deposits of \$100,000 or more	13,290	13,300
Other time deposits	34,049	32,599
Total deposits	\$124,799	\$123,253

Scheduled maturities of certificates of deposit at March 31, 2011 are as follows:

Years Ending December 31,	
2011	\$42,266
2012	3,203
2013	915
2014	135
2015	655

Thereafter

165

\$47,339

BBI F-20

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 11. Borrowings

The Company has maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh of approximately \$50,594, of which \$739 and \$764 was outstanding at March 31, 2011 and December 31, 2010, respectively as follows:

	Amount		Weighted Average Rate			
	March 31,	December	March 31,		December	
	2011	31,	2011	31,	2010	
		2010				
Mid-Term Repurchase Agreement maturing:						
2013	266	266	3.91	%	3.91	%
Amortized fixed rate term note due:						
2015	473	498	4.59	%	4.59	%
	\$739	\$764				

Advances from the Federal Home Loan Bank are secured by qualifying assets of the Company and include Federal Home Loan Bank stock, certain investment securities and first mortgage loans aggregating approximating \$8,787 at March 31, 2011.

The Company also has available a line of credit agreement to purchase federal funds from the Atlantic Central Bankers Bank totaling \$4,000 of which advances up to \$1,000 would be unsecured. Additional advances up to the remaining \$3,000 would be secured by investments held in safekeeping at Atlantic Central Bankers Bank. There were no borrowings outstanding at March 31, 2011 and December 31, 2010.

BBI F-21

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 12. Income Taxes

The Company has incurred cumulative net losses for several years since its inception through March 31, 2011 which has caused there to be no provision for income taxes for the three months ended March 31, 2011 and 2010.

The components of the net deferred tax asset are as follows:

	March 31, 2011	December 31, 2010
Deferred tax assets:		
Allowance for loan losses	\$312	\$433
Deferred Compensation	167	156
Organizational costs	13	14
Goodwill	106	108
Purchase accounting adjustment	42	43
Net operating loss carryforwards	2,234	2,094
Other	206	198
	3,080	3,046
Valuation allowance	(2,758)	(2,694)
Total deferred tax assets, net of valuation allowance	322	352
Deferred tax liabilities:		
Depreciation	50	57
Deferred loan costs	157	160
Cash basis conversion	-	24
Prepaid expenses	90	79
Net unrealized gain on securities available for sale	-	5
Servicing assets	25	27
	322	352
Net deferred taxes	\$-	\$-

The Company has net operating loss carryforwards available for federal income tax purposes of approximately \$6,571 at March 31, 2011, which expire from 2023 through 2031.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

BBI F-22

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters

Capital Ratios: The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the Regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Capital Ratios (Continued): Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2011 and December 31, 2010, the Bank met all capital adequacy requirements to which it is subject.

De novo banks (those insured seven years or less), such as Berkshire Bank are required to maintain Tier I capital to average assets (leverage) ratios of at least 8% during this period. This requirement did not apply to the Bank as confirmed by the FDIC. The most recent notification from the Federal Deposit Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. Under these guidelines, the Company and the Bank were considered well capitalized as of March 31, 2011 and December 31, 2010.

BBI F-23

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
As of March 31, 2011:							
Total Risk Based Capital (to Risk Weighted Assets)							
Bank	\$11,443	10.62	% \$8,622	8.0	% \$10,777	10.0	%
Consolidated	11,533	10.70	% 8,622	8.0	% N/A	N/A	
Tier I Capital (to Risk Weighted Assets)							
Bank	10,095	9.37	% 4,311	4.0	% 6,466	6.0	%
Consolidated	10,185	9.45	% 4,311	4.0	% N/A	N/A	
Tier I Capital (to Average Assets)							
Bank	10,095	7.43	% 5,437	4.0	% 6,796	5.0	%
Consolidated	10,185	7.49	% 5,437	4.0	% N/A	N/A	
As of December 31, 2010:							
Total Risk Based Capital (to Risk Weighted Assets)							
Bank	\$11,788	10.91	% \$8,645	8.0	% \$10,807	10.0	%
Consolidated	11,878	10.99	% 8,644	8.0	% N/A	N/A	
Tier I Capital (to Risk Weighted Assets)							
Bank	10,430	9.65	% 4,323	4.0	% 6,484	6.0	%
Consolidated	10,520	9.74	% 4,322	4.0	% N/A	N/A	
Tier I Capital (to Average Assets)							
Bank	10,430	7.64	% 5,462	4.0	% 6,828	5.0	%
Consolidated	10,520	7.70	% 5,462	4.0	% N/A	N/A	

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

Capital Ratios (Continued): Banking regulations limit the amount of dividends that may be paid without prior regulatory agency approval. Since the Bank's deposits are insured by the FDIC, no dividends may be paid if the Bank is in default on any assessment due the FDIC. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable "well capitalized" capital requirements.

Note 14. Shareholders' Equity

Share Purchase Agreement: In 2003, the Company entered into an agreement with East Penn Financial Corporation (East Penn) whereby East Penn purchased 19.9% of the Company's stock in the initial public offering. The agreement included the issuance of a stock warrant that allowed East Penn to purchase and own up to 24.9 % of the Company's outstanding shares. East Penn has since been acquired by Harleysville National Corporation (HNC), which assumed the right to 19.9% ownership in the Company with the same terms as was extended to East Penn.

On April 9, 2010, First Niagara Financial Group ("First Niagara") acquired Harleysville National Corporation ("HNC"), a bank holding company that had, until this time, held a passive investment interest in the Company pursuant to "Crown X" written commitment provided by HNC to the Federal Reserve Bank of Philadelphia. As part of the acquisition, First Niagara assumed HNC ownership percentage of 19.9% with the same terms as was extended to HNC. Pursuant to this commitment, First Niagara may not acquire or retain the Company shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of the Company or any of its subsidiaries.

Stock Offering: On March 22, 2007, the Bank commenced the sale of 300,000 units of its common stock, which was completed in two stages through August 31, 2007. Each unit consisted of one share of common stock and one five-year, non-detachable warrant to purchase one share of common stock, exercisable until December 31, 2012 at various original exercise prices ranging from \$10.00 to \$17.50 from August 31, 2007 through December 31, 2012. The exercise prices were adjusted to reflect the stock split effected as a stock dividend. The adjusted exercise prices ranged from \$8.32 to \$11.20 ratably over the exercise term.

On October 26, 2009, the Bank commenced the sale of 6,000 shares of its 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C, par value \$1.00 per share, \$1,000 per share. During the year ended December 31, 2009, the Company sold 50 shares for total gross proceeds of \$50. Direct offering expenses of \$65 in 2009 and \$3 in 2010 are netted against the gross proceeds, if any, and charged against additional paid-in capital.

In September of 2010, a private placement of 175,000 shares of common stock at \$2.00 per share was completed by Berkshire Bancorp, Inc.

TARP Capital Purchase Program: One of the provisions resulting from the Emergency Economic Stabilization Act of 2008 ("EESA") Act was the Treasury Capital Purchase Program ("CPP") which provides direct equity investment of preferred stock by the U.S. Treasury in qualified financial institutions. The CPP provides for a minimum investment of 1 percent of Risk-Weighted-Assets, with a

BBI F-25

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 14. Shareholders' Equity (Continued)

maximum investment of the lesser of 3 percent of Risk-Weighted Assets or \$25 Billion. The cumulative perpetual preferred stock, Series A has a dividend rate of 5 percent per year until the fifth anniversary of the Treasury investment and a dividend of 9 percent, thereafter. The CPP also requires the Treasury to receive warrants for fixed rate cumulative perpetual preferred stock, Series B with liquidation value equal to 5 percent of the capital invested by the Treasury. The exercise price of the warrants was \$1.00. The Series B preferred stock has a dividend rate of 9 percent per year.

On June 12, 2009, the Company received an investment in preferred stock of \$2.892 million. On the same date the warrant for 145 shares of cumulative perpetual preferred stock, Series B was exercised. The proceeds for the preferred stock were allocated between the Series A and Series B preferred stock based on their relative fair value, using a discount rate of 12%. The original net discount is being accreted over the expected term of five years using the effective interest method. The Company has recorded dividends in the approximate amount of \$87 and \$81 through December 31, 2009 and May 31, 2010, respectively. In accordance with state law, because the Company is in an accumulated deficit position, the preferred stock dividends are declared from additional paid-in capital. All dividends that have accrued through May 31, 2010 have been paid to the U.S. Treasury.

The Company did not declare a dividend on the Series A and Series B preferred stock for the third and fourth quarters of 2010 and the first quarter of 2011; consequently, an additional amount of \$81 and \$39 is not reflected in accumulated deficit as of December 31, 2010 and March 31, 2011. However, this amount is considered in computing the net loss and related per share amounts attributable to common shareholders. The accretion of the quarter ended March 31, 2011 is \$7 and is also considered in computing the net loss and related per share amounts attributable to common shareholders. The total preferred stock dividends and discount accretion amount reflected on the consolidated statements of operations as of March 31, 2011 is \$46. The cumulative amount of unpaid dividends as of March 31, 2011 is \$120. Since this is an unpaid amount on cumulative preferred stock, it would be payable before any other dividends are declared. The two preferred stock series qualify for and are accounted for as equity securities and included in the Company's Tier I Capital on the date of receipt.

Provisions introduced by the American Recovery and Reinvestment Act of 2009 indicate that once the Company notifies Treasury that it would like to redeem the CPP preferred stock, the Treasury must permit the Company to do so subject to consultation with the Company's federal regulator. The Company will be subject to existing supervisory procedures for approving redemption requests for capital instruments. The federal regulator will weigh the Company's desire to redeem the preferred stock against the contribution of Treasury capital to the Company's overall soundness, capital adequacy and ability to lend, including confirming that the Company has a comprehensive internal capital assessment process.

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 14. Shareholders' Equity (Continued)

Stock Warrants: The Company issued stock purchase warrants in 2003 with its initial public offering at a price of \$3.28 per share. Subsequently, in 2007, as part of the stock offering, the Company issued non-detachable warrants exercisable until December 31, 2012 at varying share prices ranging from \$7.36 through December 31, 2008 to \$11.20 through December 31, 2012. These prices and warrants reflect the adjusted amounts for the previous 5-for-4 stock splits.

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Number of Warrants	Weighted- average Exercise Price	Number of Warrants	Weighted- average Exercise Price
Outstanding, beginning of period	774,571	\$5.08	774,571	\$5.08
Granted	-	-	-	-
Expired/terminated	-	-	-	-
Exercised	-	-	-	-
Outstanding, end of period	774,571	\$5.08	774,571	\$5.08

The initial offering warrants and the 2008 stock offering warrants have a weighted-average remaining contractual life of 2.50 years and 1.75 years, respectively and the number of warrants exercisable totaled 433,537 and 341,034, respectively as of March 31, 2011.

Note 15. Employee Benefit Plans

The Company has a 401(k) deferred contribution salary deferral plan (with matching contributions) which covers substantially all full-time employees who meet the required criteria. The amount charged to expense was \$12 and \$11, respectively for the three months ended March 31, 2011 and the three months ended March 31, 2010.

BBI F-27

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 15. Employee Benefit Plans (Continued)

The Company has a Nonqualified Supplemental Executive Retirement Plan for its Chief Executive Officer (“CEO”), President and Chief Financial Officer (“CFO”) of the Company which provides a retirement benefit. The Plan is indirectly funded by life insurance. For the three months ended March 31, 2011 and March 31, 2010, \$32 and \$29 was charged to expense and included in other accrued liabilities in connection with the Plan.

Note 16. Other Related Party Transactions

A member of the Board of Directors is a principal of a property and casualty insurance agency that provides all the insurance coverage for the Company. The cost of the insurance was approximately \$17 and \$16 for the three months ended March 31, 2011 and March 31, 2010. Effective September 1, 2004, the Bank has been making annual lease payments of approximately \$28 to another Director for its Operations Center in Shillington, Pennsylvania (Note 9).

Note 17. Commitments and Contingencies

During the period in which preferred stock issued under the TARP Capital Purchase Program is issued and outstanding, certain “change in control” agreements with the CEO, President and CFO of the Company, which provide for continued payment of certain employment salaries and benefits in the event of a change in control, as defined, will be prohibited in accordance with EESA provisions.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank’s involvement in these particular classes of financial instruments. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of March 31, 2011 and December 31, 2010, commitments to extend credit amounted to approximately \$8,796 and \$8,596, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of March 31, 2011 and December 31, 2010, standby letters of credit with customers were \$390 and \$428, respectively.

BBI F-28

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 17. Commitments and Contingencies (Continued)

The Bank does not issue or hold derivative instruments. The Bank does have standby letters of credit and these instruments are issued in the ordinary course of business to meet customer needs. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 18. Fair Value of Financial Instruments

Fair Value Measurements: The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, 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 Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on 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. In accordance with this guidance, the Company groups its assets and liabilities carried at fair value in three levels as follows:

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 for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active.
- Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (e.g., interest rates, yield curves, credit risks, prepayment speeds or volatilities) or “market corroborated inputs.”

Level 3 Inputs

-

Edgar Filing: - Form

Prices or valuation techniques that require inputs that are both unobservable (i.e. supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.

- These assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as

BBI F-29

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value Measurements (Continued): instruments for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Fair Value on a Recurring Basis:

Available for Sale Securities Portfolio: The fair value of available for sale securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

Loans Held for Sale: The fair value of loans held for sale is the market value based upon quoted market prices provided by the investor at the time of sale. The carrying value is the lower of cost or quoted market prices.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

March 31, 2011	Level 1	Level 2	Level 3	Total
Financial Assets:				
U.S. Government agencies and corporations		\$ 1,495		\$ 1,495
Mortgage-backed securities		131		131
Securities available for sale	\$-	\$ 1,626	\$-	\$ 1,626
Loans held for sale	370	-	-	370
December 31, 2010				
	Level 1	Level 2	Level 3	Total
Financial Assets:				
U.S. Government agencies and corporations		\$ 1,512		\$ 1,512
Mortgage-backed securities		145		145
Securities available for sale	\$-	\$ 1,657	\$-	\$ 1,657
Loans held for sale	574	-	-	574

Fair Value on a Non-Recurring Basis:

Impaired Loans: The carrying value of impaired loans is derived in accordance with FASB ASC Topic 310, "Receivables". Fair value is determined based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Appraised values may be discounted based upon Management's historical knowledge and changes in market conditions from the time of valuation. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheets. The valuation allowance for impaired loans at March 31, 2011 was \$228 resulting in a decrease in fair value of \$677 for the three months ended March 31, 2011. The valuation allowance at December 31, 2010 was \$490 resulting in a decrease in fair value of \$488 for the year ended December 31, 2010.

OREO: The fair value of OREO is determined by the net realizable value of the real estate as of the reporting date. Such fair value is established by current appraised values adjusted for reasonable disposition costs. The appraised value may be discounted based on management's review and changes in market conditions (Level 3) inputs.

BBI F-30

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value on a Non-Recurring Basis (Continued):

The following table presents the assets measured at fair value on a recurring basis.

March 31, 2011	Level 1	Level 2	Level 3	Total
Financial Assets:				
Other real estate owned	\$-	\$-	\$4,507	\$4,507
Impaired loans	-	-	937	937
December 31, 2010	Level 1	Level 2	Level 3	Total
Financial Assets:				
Other real estate owned	\$-	\$-	\$4,936	\$4,936
Impaired loans	-	-	1,439	1,439

Fair Value of Financial Instruments: FASB ASC Topic 825, Financial Instruments requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets that are measured on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

For cash and cash equivalents, interest-bearing demand deposits with other banks, and accrued interest receivable, the carrying values approximate their fair values.

The net loan portfolio other than impaired loans is valued using a present value discounted cash flow method where market prices were not available. The discount rate used in these calculations is the estimated current market rate.

The carrying values of accrued interest receivable and FHLB stock approximate their fair values.

The estimated fair values of non interest-bearing demand deposits, interest-bearing checking deposits, savings and certain types of money market accounts are, by their definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying values). The carrying values of variable rate deposit accounts approximate their fair values. For fixed maturity certificates of deposit, fair value is estimated using current market rates for deposits of similar remaining maturities. The carrying value of accrued interest payable approximates its fair value.

The estimated fair values of borrowings are based on the discounted value of estimated cash flows. The discounted rate is estimated using current market rates for similar instruments.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend

credit and the fair value of letters of credit, are considered immaterial.

BBI F-31

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments (Continued): The carrying values and estimated fair values of the Company's financial instruments as of March 31, 2011 are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$2,396	\$2,396	\$1,995	\$1,995
Federal funds sold	8,795	8,795	7,151	7,151
Interest-bearing demand deposits				
with other banks	4,374	4,374	4,362	4,362
Investment securities, available for sale	1,626	1,626	1,657	1,657
Loans, net of unearned income	105,634	106,965	105,781	107,988
Loans held for sale	370	370	574	574
FHLB stock	1,000	1,000	1,053	1,053
Accrued interest receivable	430	430	426	426
Financial liabilities:				
Noninterest-bearing demand	7,530	7,530	6,973	6,973
Interest-bearing demand and time deposits	117,269	117,983	116,280	117,070
Borrowings	739	784	764	814
Accrued interest payable	54	54	53	53

Note 19. Other Real Estate Owned

The table below presents a summary of the activity related to other real estate owned:

	March 31, 2011	March 31, 2010
Beginning Balance	\$4,936	\$1,765
Additions	552	1,059
Sales	(920)	(203)
Net (loss) gain on sale of other real estate owned	(42)	25
Writedowns	(61)	-
Ending Balance	\$4,507	\$4,936

Expenses applicable to other real estate owned include the following:

Three Months Ended
March 31, March 31,

Edgar Filing: - Form

	2011	2010
Net (loss) gain on sale of real estate	\$(42)	\$25
Operating expenses, net of rental income	140	37
	\$(182)	\$(12)

BBI F-32

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 20. Pending Merger

On August 24, 2010, Berkshire Bancorp, Inc. (“The Company”), the parent company of Berkshire Bank and Customers Bancorp, Inc. (“CBI”), the parent company of Customers Bank entered into a definitive merger agreement whereby the Company would merge with and into CBI (the “Merger Agreement”). The total estimated value of the transaction as of July 31, 2010 is approximately \$11.8 million based on 3,876,063 shares of the Company’s common stock outstanding, 774,571 common stock warrants outstanding, repayment of approximately \$3 million in TARP to the Treasury and conversion of 50 Series C Preferred Stock into common stock, although the actual value of the transaction will depend on several factors including changes to the tangible book value of the Company and CBI and increases to the Company’s loan loss reserve.

Pursuant to the Merger Agreement, each share of the Company’s common stock will be converted into the right to receive the number of shares of CBI voting common stock equal to an exchange ratio to be calculated at the effective time of the merger and cash in lieu of fractional shares. The exchange ratio is the “Berkshire Valuation” divided by three (3) times the “NCB Valuation.”

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

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

The merger is subject to the approval of Customers Bank’s shareholders to reorganize into a bank holding company under CBI, shareholder approvals by the Company and CBI of the merger agreement and customary federal and state regulatory approvals. Further, as part of the Merger Agreement, prior to the effective time, CBI will invest \$3,180,000 net cash in securities qualifying as Tier 1 capital into the Company.

By operation of the Merger Agreement, if the merger had not been consummated by March 31, 2011, the agreement allowed for an extension of 45 days until May 15, 2011. This covenant of the Merger Agreement and the merger date was automatically extended until May 15, 2011.

Subsequently, On April 27, 2011, an amendment to the Agreement and Plan merger was approved by Customers Bank and the Company whereby Article 9, Section 9.1.3 of the Agreement was amended and restated so that if the merger has not been consummated on or before July 31, 2011, the parties agree to extend the Agreement for a period of an additional 45 days.

BBI F-33

Berkshire Bancorp, Inc.

Notes to Unaudited Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 21. Goodwill and Intangible Assets

Goodwill represents the excess of the cost over fair value of net assets of an acquired business. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is tested using a two step process. If the carrying amount exceeds the estimated fair value, an indicator of goodwill impairment exists and a second step test is performed to determine if any goodwill impairment exists. In the second step, the Company calculates the implied value of goodwill by emulating a business combination. This step subtracts the estimated fair value of the net assets from the step one estimated fair value to determine the implied value of goodwill. If the implied value of goodwill is less than the carrying value of the goodwill, goodwill is not impaired, but if the implied value of goodwill is less than the carrying value of the goodwill allocated, an impairment charge is recognized for the difference in the consolidated statements of operations with a corresponding reduction to goodwill on the consolidated balance sheet. The Company has evaluated goodwill and determined that impairment existed as of December 31, 2010. Therefore an impairment charge of \$418 was recorded as of December 31, 2010. The balance of goodwill as of March 31, 2011 and December 31, 2010 was \$0.

Note 22. Subsequent Events

The Company has evaluated subsequent events for potential recognition and or disclosure through June 10, 2011 and has determined that no such events have occurred that would warrant inclusion or disclosure in these financial statements.

BBI F-34

Independent Auditor's Report

To the Board of Directors
Berkshire Bancorp, Inc.
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Berkshire Bancorp, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Bancorp, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blue Bell, Pennsylvania
March 15, 2011

BBI F-35

Berkshire Bancorp, Inc.

Consolidated Balance Sheets
 December 31, 2010 and 2009
 (Amounts in Thousands, Except Share Data)

	2010	2009
Assets		
Cash and Due from Banks	\$ 1,995	\$ 1,787
Interest-Bearing Deposits with other Banks	4,362	506
Federal Funds Sold	7,151	9,259
Cash and cash equivalents	13,508	11,552
Investment Securities Available for Sale, at fair value	1,657	11,845
Loans Receivable (net of allowance for loan losses of \$1,593 and \$1,655, as of December 31, 2010 and 2009, respectively)	105,781	108,560
Loans Held for Sale	574	978
Bank Premises and Equipment, net	3,870	4,164
Bank-owned Life Insurance	2,431	2,319
Goodwill	-	418
Accrued Interest Receivable and Other Assets	2,524	2,749
Other Real Estate Owned (OREO)	4,936	1,765
	\$ 135,281	\$ 144,350
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 6,973	\$ 6,821
Interest-bearing	116,280	121,257
Total deposits	123,253	128,078
Borrowings	764	4,304
Accrued interest payable and other accrued liabilities	732	562
Total liabilities	124,749	132,944
Commitments and Contingencies (Notes 9, 17 and 20)		
Shareholders' Equity		
Cumulative perpetual preferred stock, \$1 par value, 10,000,000 shares authorized; Series A-5% for five years, 9% thereafter, \$1,000 liquidation preference, 2,892 shares issued and outstanding in 2010	2,765	2,737
Series B-9%, \$1,000 liquidation preference, 145 shares issued and outstanding in 2010	166	168

Non-Cumulative perpetual preferred stock, Series C-6%, \$1,000 liquidation preference, 50 shares issued and outstanding in 2010	-	-
Common stock, \$1 par value, 10,000,000 shares authorized 4,051,063 and 3,876,063 shares issued and outstanding at December 31, 2010 and 2009, respectively	4,051	3,876
Additional paid-in-capital	11,343	11,171
Accumulated deficit	(7,805)	(6,426)
Accumulated other comprehensive income (loss)	12	(120)
	10,532	11,406
	\$ 135,281	\$ 144,350

See Notes to Consolidated Financial Statements.

BBI F-36

Berkshire Bancorp, Inc.

Consolidated Statements of Operations
 Years Ended December 31, 2010 and 2009
 (Amounts in Thousands, Except Share Data)

	2010	2009
Interest income		
Interest and fees on loans	\$6,410	\$6,398
Interest and dividends on securities	360	558
Interest on federal funds sold	10	2
Interest, other	32	1
Total interest and dividend income	6,812	6,959
Interest expense		
Interest on deposits	1,937	2,518
Interest on borrowings	119	436
Total interest expense	2,056	2,954
Net interest income	4,756	4,005
Provision for loan losses	672	809
Net interest income after provision for loan losses	4,084	3,196
Noninterest income		
Gain on the sale of loans	570	365
Gain (loss) on the sale of available for sale securities	62	(10)
Gain (loss) on the sale of OREO	(60)	103
Gain on the disposition of assets, net	-	2
Other income	345	270
Total noninterest income	917	730
Noninterest expenses		
Compensation and benefits, net	2,248	2,141
Occupancy and data processing	1,595	1,525
Marketing and business development	28	46
Professional services	524	321
Impairment charge on goodwill	418	-
Other operating expenses	1,460	1,143
Total noninterest expenses	6,273	5,176
Loss before income taxes	(1,272)	(1,250)
Income taxes	-	-

Edgar Filing: - Form

Net loss	(1,272)	(1,250)
Preferred stock dividends and discount accretion	(186)	(100)
Net loss attributable to common shareholders	\$(1,458)	\$(1,350)
Net loss per common share:		
Basic and diluted	\$(0.37)	\$(0.35)
Weighted average shares outstanding:		
Basic and diluted	3,927,844	3,875,605

See Notes to Consolidated Financial Statements.

BBI F-37

Consolidated Statements of Shareholders' Equity
 Years Ended December 31, 2010 and 2009
 (Amounts in Thousands, Except Share Data)

	Preferred Stock	Common Stock	Additional Paid-In- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2008	\$-	\$3,875	\$11,178	\$ (5,076)	\$ (19)	\$ 9,958
Exercise of 1,040 stock warrants at a weighted average price of \$8.32	-	1	8	-	-	9
Issuance of preferred stock, 2,892 shares Series A and 145 shares Series B	2,892	-	-	-	-	2,892
Issuance of preferred stock, Series C, net of offering costs of \$65	-	-	(15)	-	-	(15)
Accretion of preferred stock discount	13	-	-	(13)	-	-
Dividends on preferred stock, Series A & B	-	-	-	(87)	-	(87)
Comprehensive loss:						
Net loss - 2009	-	-	-	(1,250)	-	(1,250)
Change in net unrealized loss on securities available for sale, net of tax effect	-	-	-	-	(101)	(101)
Total comprehensive loss	-	-	-	-	-	(1,351)
Balance, December 31, 2009	2,905	3,876	11,171	(6,426)	(120)	11,406
Sale of 175,000 shares of common stock at \$2.00 per share	-	175	175	-	-	350
Net offering costs of preferred stock, Series C	-	-	(3)	-	-	(3)

Edgar Filing: - Form

Accretion of preferred stock discount	26	-	-	(26)	-	-
Dividends on preferred stock, Series A & B	-	-	-	(79)	-	(79)
Dividends on preferred stock, Series C	-	-	-	(2)	-	(2)
Comprehensive loss:						
Net loss - 2010	-	-	-	(1,272)	-	(1,272)
Change in net unrealized gain on securities available for sale, net of tax effect	-	-	-	-	132	132
Total comprehensive loss	-	-	-	-	-	(1,140)
Balance, December 31, 2010	\$2,931	\$4,051	\$11,343	\$ (7,805)	\$ 12	\$ 10,532

See Notes to Consolidated Financial Statements.

BBI F-38

Berkshire Bancorp, Inc.

Consolidated Statements of Cash Flows
 Years Ended December 31, 2010 and 2009
 (Amounts in Thousands, Except Share Data)

	2010	2009
Cash Flows from Operating Activities		
Net loss	\$(1,272)	\$(1,250)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	328	328
Provision for loan losses	672	809
Valuation writedown on OREO	104	80
Impairment charge on Goodwill	418	-
Net amortization of premiums/discounts on securities	3	9
Net amortization of the SBA servicing asset and discount	3	-
Net accretion of fair value adjustment on loans and deposits acquired	(15)	-
Gain on the sale of loans	(570)	(365)
Net (gain) loss on the sale of investment securities	(62)	10
Loss on the disposition of repossessed assets	-	2
Loss on the disposition of fixed assets	-	2
Loans originated for sale	(8,184)	(16,482)
Proceeds from sale of loans held for sale	9,158	16,289
Net (loss) gain on sale of OREO	60	(103)
Earnings on Bank owned life insurance, net	(112)	(95)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	170	(574)
Increase (decrease) in accrued interest payable and other accrued liabilities	170	36
Net cash provided by (used in) operating activities	871	(1,304)
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(1,500)	(8,247)
Purchases of FHLB stock	-	(32)
Proceeds from redemption of FHLB stock	55	-
Proceeds from maturities, calls and principal payments on investment securities available for sale	10,311	9,370
Proceeds from the sale of investment securities available for sale	1,637	1,336
Net increase in loans	(2,262)	(7,104)
Proceeds from sale of OREO	977	771
Net purchases of premises and equipment	(34)	(60)
Net cash provided by (used in) investing activities	9,184	(3,966)
Cash Flows from Financing Activities		
Net proceeds from the issuance of common stock	350	-
Net proceeds from the exercise of common stock warrants	-	9
Dividends paid on preferred stock, Series A & B	(79)	(67)

Edgar Filing: - Form

Dividends paid on preferred stock, Series C	(2)	-
Proceeds from the issuance of preferred stock, Series A & B	-	2,892
Proceeds from the issuance of preferred stock, Series C	-	50
Offering costs related to the preferred stock, Series C	(3)	(65)
Net proceeds from borrowings	-	1,440
Net proceeds from federal funds purchased	-	(396)
Repayment of borrowings	(3,540)	(13,934)
(Decrease) increase in interest-bearing deposits	(4,977)	1,060
Increase in non interest-bearing deposits	152	23,701
Net cash (used in) provided by financing activities	(8,099)	14,690
Increase in cash and cash equivalents	1,956	9,420
Cash and Cash Equivalents, January 1	11,552	2,132
Cash and Cash Equivalents, December 31	\$13,508	\$11,552

(Continued)

BBI F-39

Berkshire Bancorp, Inc.

Consolidated Statements of Cash Flows (Continued)
 Years Ended December 31, 2010 and 2009
 (Amounts in Thousands, Except Share Data)

	2010	2009
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	\$2,080	\$3,055
Income taxes	-	-
	\$2,080	\$3,055
Non-cash items:		
Transfer from loans to OREO	\$4,312	\$1,235
Change in unrealized loss on AFS Securities	200	(155)
See Notes to Consolidated Financial Statements.		

BBI F-40

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies

Description of Business: Berkshire Bancorp, Inc. (“the Company”) is a bank holding company headquartered in Wyomissing, Pennsylvania. Through its wholly owned subsidiary, Berkshire Bank, the Company provides individuals, corporations and other businesses, commercial and retail banking services, principally loans and deposits. Berkshire Bancorp, Inc. was incorporated on September 1, 2006 under the laws of the State of Pennsylvania for the sole purpose of becoming the holding company of Berkshire Bank (the “Bank”).

Berkshire Bank (the “Bank”) is a commercial bank incorporated on May 14, 2002 under the laws of the Commonwealth of Pennsylvania. The Bank commenced operations on September 23, 2003. The Bank is chartered by the Pennsylvania Department of Banking and insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at Wyomissing, Pennsylvania but also has branch offices in Muhlenberg Township, West Reading, Route 183 Airport, and Exeter, Pennsylvania. The Bank provides financial services primarily to Berks County and the surrounding Pennsylvania counties.

Zenith Mortgage Company, LLC, a subsidiary of the Bank, was established in 2007 for the purpose of providing mortgage brokerage and related services to the public. Zenith Mortgage is a limited liability company owned by Berkshire Bank (51%) and a third party. Zenith Mortgage Company, LLC has been dormant since 2008.

Principles of Consolidation: The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of the consolidated financial position, results of operations and cash flows are summarized below. The consolidated financial statements for 2010 and 2009 include the accounts of Berkshire Bancorp, Inc. and Berkshire Bank. All intercompany balances and transactions have been eliminated.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, interest bearing deposits with banks and federal funds sold, all of which mature within ninety days.

Investment Securities Available for Sale: Management determines the appropriate classification of investments at the time of purchase. As of December 31, 2010, all securities are classified “available for sale” and carried at fair value. The Company has no trading securities or securities classified “held to maturity.”

The cost of investment securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization or accretion recorded as adjustments to interest and dividends are included in interest income from investments. Realized gains and losses are included in gains (losses) on investment securities in the statements of operations. Gains and losses on

the sale of securities are recorded on the trade date and are determined based on the specific-identification method.

BBI F-41

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Investment Securities Available for Sale (Continued): Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, whether the Company intends to sell the security, or whether it is more likely than not that the Company will be required to sell the security before recovery of the cost basis, which may be maturity. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security or it is not more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Company holds investments in the common stocks of Atlantic Central Bankers Bank (“ACBB”) and Federal Home Loan Bank of Pittsburgh (“FHLB”). These investments in restricted stock are carried at cost and are included in Other Assets. The stock has no quoted market value and is subject to redemption restrictions. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Management considers such criteria as the significance of the decline in all assets, if any, of the FHLB, the length of time the situation has persisted, commitments by the FHLB to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the FHLB and the liquidity position of the FHLB. As of December 31, 2010 and 2009, the Company’s holdings of restricted stock were not deemed impaired.

Loans: The Company makes commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Berks County. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Loans are stated at the outstanding principal amount, adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively

evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

BBI F-42

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Loans Held for Sale: The Company periodically sells residential mortgage loans and the guaranteed portion of loans guaranteed by the Small Business Administration (SBA). Loans held for sale are residential mortgage loans and the guaranteed portion of SBA loans and are carried at the lower of aggregate cost or market value. The net amount of loan origination fees on loans sold is included in the carrying value and in the gain or loss on the sale. The Company originates loans to customers under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. When the sale of the guaranteed portion of an SBA loan occurs, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income over the estimated life of the loan. As a result of the Company's adoption of Accounting Standards Codification (ASC) Topic 860, Transfers and Servicing, on January 1, 2010, any gains on the sale of SBA loans are deferred for 90 days.

All sales are made without recourse and, with the exception of the SBA loans, servicing is released.

Loans - Nonaccrual: Loans are placed on nonaccrual status and the accrual of interest income ceases, when a default of principal or interest exists for a period of ninety days except when, in management's judgment, the collection of principal and interest is reasonably anticipated (i.e. the loan is well secured and in the process of collection). Interest receivable on nonaccrual loans previously credited to interest income is reversed. Nonaccrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectability is reasonably assured.

Concentration of Credit Risk: The Company's loans are generally to diversified customers in Berks, Montgomery and Chester counties, Pennsylvania. Loans to professional real estate management enterprises and lessors, general building contractors and developers, miscellaneous food stores and restaurants constitute approximately 41%, 8% and 7%, respectively, of commercial loans as of December 31, 2010. These concentrations were approximately 38%, 10% and 8%, respectively, of commercial loans as of December 31, 2009. Generally, loans are collateralized by assets of the borrower and are expected to be repaid from the cash flow or proceeds from the sale of selected assets of the borrower.

Loan Fees: Loan fees and direct costs associated with loan originations are netted and deferred. The deferred amount is recognized as an adjustment to loan interest over the term of the related loans on the interest method.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition.

Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

Edgar Filing: - Form

Various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

BBI F-43

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued): The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected losses given the Company's internal risk rating process. Other qualitative adjustments are made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data. These qualitative factors include trends in classified loans, charge-offs, delinquencies and non-accruals, changes in loan policy and underwriting standards, changes in credit personnel, industry conditions, national and local economic conditions, concentrations, etc.

Interest Rate Risk: The Company is principally engaged in the business of attracting deposits from the general public and using these deposits, together with any borrowed funds, to make commercial, commercial mortgage, residential mortgage, and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Company to assume interest rate risk that results from differences in the maturities and re-pricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Bank Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

The estimated useful lives for calculating depreciation and amortization on furniture and equipment are between three and seven years. Leasehold improvements are depreciated over the lesser of the economic life or the term of the related lease, generally terms ranging from five to twenty-nine years.

Other Real Estate Owned (OREO): OREO is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses.

Bank Owned Life Insurance: The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Income generated from the increase in cash surrender value of the policies is included in other income on the income statement. BOLI is indirectly used to fund the Nonqualified Supplemental Executive Retirement Plan discussed in Note 15.

Edgar Filing: - Form

Goodwill: Goodwill representing the excess of the cost over fair value of net assets of the acquired businesses. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The valuation of the carrying amount of goodwill is more fully discussed in Note 21.

BBI F-44

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes: Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense on the income statement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as other comprehensive income (loss), a separate component of the equity section of the balance sheet. Such items, along with net income (loss), are components of comprehensive income (loss).

The components of accumulated other comprehensive income (loss) and related tax effects for are as follows:

	2010	2009
Net unrealized holding gains (losses) on available for sale securities	\$ 17	\$ (183)

Edgar Filing: - Form

Tax effect	5	63
Net-of-tax amount	\$ 12	\$ (120)

BBI F-45

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share are computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Loss attributable to common shareholders has been increased by preferred stock dividends and discount accretion related to the Company's participation in the Capital Purchase Program, as described in Note 14. Diluted earnings (loss) per common share considers common stock equivalents (when dilutive) outstanding during the period such as options and warrants outstanding. Both basic and diluted earnings (loss) per common share computations give retroactive effect to stock dividends paid as a 5 for 4 stock splits in prior years. In computing diluted earnings (loss) per shares for 2010 and 2009, warrants to purchase approximately 774,571 shares of common stock were excluded from the computation noting the effect of these shares would be anti-dilutive.

Note 2. Recent Accounting Pronouncements

FASB ASC Topic 820, Fair Value Measurements and Disclosures: New authoritative accounting guidance (Accounting Standards Update No. 2010-6) provides amendments to ASC Topic 820 that require new disclosures as follows: 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number). The new authoritative guidance also clarifies existing disclosures as follows: 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. These new disclosures and clarifications of existing disclosures were effective for the Company's financial statements beginning after December 15, 2009 (except for the disclosures about the purchases, sales, issuances, and settlements in the roll forward activity of Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010) and did not have a significant impact on the Company's financial statements.

FASB ASC Topic 860, Transfers and Servicing: On January 1, 2010, the Company adopted the authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, which amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. FASB ASC Topic 860, Transfers and Servicing requires that the gains on sales of SBA 7(a) loans be deferred for a 90-day period after the sale. There were no SBA loans originated and sold during the fourth quarter of 2010. Consequently, no gains are deferred as of December 31, 2010.

BBI F-46

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 2. Recent Accounting Pronouncements (Continued)

In February 2010, the FASB issued (ASU) 2010-10 Consolidation (Topic 810). The objective of this Update is to defer the effective date of the amendments to the consolidation requirements made by Financial Accounting Standards Board (FASB) Statement 167 to a reporting entity's interest in certain types of entities and clarify other aspects of the Statement 167 amendments. As a result of the deferral, a reporting entity will not be required to apply the Statement 167 amendments to the ASC Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. This Update also clarifies how a related party's interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the Update also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. The amendments in this Update are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. No significant impact was reported in the consolidated financial position or results of operations from the adoption of ASU 2010-10.

In July 2010, the FASB issued (ASU) 2010-20 Receivables (Topic 310) covering disclosures about the credit quality of financing receivables and the allowance for credit losses. This Update is intended to provide additional information and greater transparency to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The Update requires increased disclosures on the nature of the credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. Entities will need to provide a roll forward schedule of the allowance for credit losses for the reporting period with ending balances further disaggregated on the basis of impairment methods, the related recorded investments in financing receivables, the nonaccrual status of financing receivables by class and the impaired financing receivables by class. The Update will also require additional disclosures on credit quality indicators of financing receivables, the aging of past due financing receivables by class, the nature and extent of troubled debt restructurings by class with their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings by class for the past 12 months that defaulted during the reporting period and significant purchases and sales of financing receivables during the reporting period. The amendments in this Update are effective for public entities for interim and annual reporting periods ending on or after December 15, 2010 and for non-public entities such as the Company, for interim and annual reporting periods ending on or after December 15, 2011. The amendments in this Update encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. No significant impact to amounts reported in the consolidated financial position or results of operations are expected from the adoption of ASU 2010-20.

Note 3. Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to 2010 presentation, with no effect on the statements of operations or statements of changes in shareholders' equity.

Note 4. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy minimum deposit requirements, and to compensate other banks for certain correspondent services. The Federal Deposit Insurance Corporation insures these accounts up to \$250,000 per account. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Company as of December 31, 2010 and 2009.

BBI F-47

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 5. Investment Securities

The amortized cost and estimated fair value of securities available for sale at December 31, 2010, summarized by contractual maturities are shown below. Expected maturities may differ from contractual maturities for mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without any penalties; therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	1,500	12	-	1,512
	1,500	12	-	1,512
Mortgage-backed securities	140	5	-	145
	\$1,640	\$17	\$-	\$1,657

The amortized cost and estimated fair value of securities available for sale at December 31, 2009, summarized by contractual maturity, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	9,745	1	(230)	9,516
	9,745	1	(230)	9,516
Mortgage-backed securities	2,283	46	-	2,329
	\$12,028	\$47	\$(230)	\$11,845

Securities with a carrying value of \$448 and \$7,665 at December 31, 2010 and 2009, respectively, were pledged as collateral to secure borrowings at the Federal Home Loan Bank of Pittsburgh and for the public deposits.

Edgar Filing: - Form

For the years ended December 31, 2010 and 2009, proceeds from sales of securities available for sale amounted to \$1,637 and \$1,336, respectively. In addition, during 2010, the proceeds from security calls amounted to \$9,750. Gross realized gains were \$58 and \$4 for security sales and calls, respectively. Gross realized losses were \$0 in 2010. Gross realized gains were \$2 and gross realized losses were \$12 in 2009.

BBIF-48

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 5. Investment Securities (Continued)

There were no investment securities in an unrealized loss position at December 31, 2010. The following table depicts those securities in an unrealized loss position at December 31, 2009:

	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$8,516	\$(230)	\$-	\$-
Mortgage-backed securities	-	-	-	-
Total temporarily impaired securities	\$8,516	\$(230)	\$-	\$-

Securities available-for-sale are stated at fair value with an adjustment to shareholders' equity for unrealized gains and losses. The fair value of securities with unrealized losses by length of time that the individual securities have been in a continuous loss position at December 31, 2009, consist of 12 securities. The unrealized loss on these investments was caused by movement in interest rates. Management periodically evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost (2) the financial condition and near term prospects of the issuer, (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (4) whether it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity. Management does not consider these securities to be other-than-temporarily impaired.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Note 6. Loans

The composition of loans follows:

	December 31,	
	2010	2009
Commercial	\$ 86,076	\$ 87,197

Edgar Filing: - Form

Residential real estate	18,199	19,170
Consumer	2,690	3,397
Total loans	106,965	109,764
Less:		
Allowance for loan losses	(1,593)	(1,655)
Net deferred loan costs	409	451
Net loans	\$ 105,781	\$ 108,560

BBI F-49

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 6. Loans (Continued)

Below is a summary of the Bank's impaired loan information:

	December 31,	
	2010	2009
Impaired loans without a valuation allowance	\$ 175	\$ 555
Impaired loans with a valuation allowance	1,929	3,808
Troubled debt restructuring	1,363	-
Total impaired loans	\$ 3,467	\$ 4,363
Valuation allowance related to impaired loans	\$ 490	\$ 898
Total nonaccrual loans	2,218	5,412
Total loans past-due ninety days or more and still accruing	-	87
Average investment in impaired loans	3,160	2,850
Interest income recognized on impaired loans	-	-
Interest income recognized on a cash basis on impaired loans	-	-

Troubled debt restructurings ("TDRs") occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, such as a below market interest rate, extending the maturity of a loan, or a combination of both. At December 31, 2010, the Company had one loan in the amount of \$1.4 million that was classified a TDR and included in total impaired loans. As of December 31, 2010, the restructured loan continues to perform under its modified terms. There were no loans that management considered a TDR at December 31, 2009.

Note 7. Loans and Deposits to Related Parties

In the normal course of business, the Company has granted loans to executive officers, directors and their affiliates (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability.

An analysis of the activity of such related party loans is as follows:

	December 31,	
	2010	2009
Balance, beginning of year	\$ 2,210	\$ 2,111

Edgar Filing: - Form

Advances	340	238
Less: repayments	(154)	(139)
Balance, end of year	\$ 2,396	\$ 2,210

At December 31, 2010 and 2009, deposits from related parties totaled approximately \$717 and \$751, respectively.

BBI F-50

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 8. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	2010	2009
Balance, January 1	\$ 1,655	\$ 1,267
Provision for loan losses	672	809
Charge-offs	(764)	(431)
Recoveries	30	10
Balance, December 31	\$ 1,593	\$ 1,655

Note 9. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment is as follows:

	December 31,	
	2010	2009
Leasehold improvements	\$ 4,297	\$ 4,297
Furniture and equipment	1,040	1,029
	5,337	5,326
Less: accumulated depreciation and amortization	(1,467)	(1,162)
Bank premises and equipment	\$ 3,870	\$ 4,164

The Company has a fifteen-year operating lease agreement for its main banking office which commenced in September 2002. The Company has the option to extend the lease agreement for two additional five-year periods. In September 2004, the Company entered into a five-year operating lease for its Operations Center located in Shillington. The Company had the option to extend the lease agreement for an additional five-year period and exercised this option in 2009. In December 2005, the Company entered into a fifteen-year operating lease for its second branch office located in Muhlenberg. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period.

In February 2006, the Company entered into a fifteen-year operating land lease for its third branch office in Exeter Township. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period. In June 2007, as part of two branch acquisitions from Fleetwood Bank, the Company assumed the following leases: Airport office on Route 183: five-year term with the option to extend the lease agreement for an additional five years. West Reading office lease: five-year term with the option to extend the lease agreement for an additional six years and six months.

In each case, in addition to the base rent, the Company is also required to pay a monthly fee for its portion of certain operating expenses.

BBI F-51

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 9. Bank Premises and Equipment (Continued)

At December 31, 2010, the required future rental payments under leases are as follows:

Years Ending December 31,	
2011	\$ 415
2012	430
2013	361
2014	301
2015	283
Thereafter	894
	-
Total minimum lease payments	\$ 2,684

Rent expense of approximately \$427 and \$426 is reflected in the statements of operations for the periods ended December 31, 2010 and 2009, respectively.

Note 10. Deposits

Deposits consisted of the following:

	December 31,	
	2010	2009
Demand deposits, noninterest-bearing	\$ 6,973	\$ 6,821
Demand deposits, interest-bearing	68,424	60,376
Savings deposits	1,957	1,970
Time deposits of \$100,000 or more	13,300	14,700
Other time deposits	32,599	44,211
Total deposits	\$ 123,253	\$ 128,078

Scheduled maturities of certificates of deposit at December 31, 2010 are as follows:

Years Ending December 31,	
2011	\$ 30,517

Edgar Filing: - Form

2012	10,407
2013	3,396
2014	83
2015	1,496
Thereafter	-
	\$ 45,899

BBI F-52

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 11. Borrowings

The Company has maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh of approximately \$51,955, of which \$764 and \$4,304 was outstanding at December 31, 2010 and 2009, respectively as follows:

	Amount		Weighted Average Rate	
	2010	2009	2010	2009
Mid-Term Repurchase Agreement maturing:				
2010	\$ -	\$ 1,440	0.00 %	0.44 %
2011	-	2,000	0.00 %	1.61 %
2013	266	266	3.91 %	3.91 %
Amortized fixed rate term note due:				
2015	498	598	4.59 %	4.59 %
	\$ 764	\$ 4,304		

Advances from the Federal Home Loan Bank are secured by qualifying assets of the Company and include Federal Home Loan Bank stock, certain investment securities and first mortgage loans aggregating approximating \$9,970.

The Company also has available a line of credit agreement to purchase federal funds from the Atlantic Central Bankers Bank totaling \$4,000 of which advances up to \$1,000 would be unsecured. Additional advances up to the remaining \$3,000 would be secured by investments held in safekeeping at Atlantic Central Bankers Bank. There were no borrowings outstanding at December 31, 2010 and 2009.

Note 12. Income Taxes

The Company has incurred cumulative net losses for several years since its inception through December 31, 2010 which has caused there to be no provision for income taxes, deferred taxes and income taxes payable for the years ended December 31, 2010 and 2009.

BBI F-53

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 12. Income Taxes (Continued)

The components of the net deferred tax asset are as follows:

	December 31,	
	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$ 433	\$ 507
Deferred Compensation	156	114
Organizational costs	14	15
Goodwill	108	118
Purchase accounting adjustment	43	48
Net unrealized loss on securities - Available for Sale	-	63
Net operating loss carryforwards	2,094	1,963
Other	198	103
	3,046	2,931
Valuation allowance	(2,694)	(2,568)
Total deferred tax assets, net of valuation allowance	352	363
Deferred tax liabilities:		
Depreciation	57	44
Deferred loan costs	160	174
Cash basis conversion	24	106
Prepaid expenses	79	39
Net unrealized gain on securities available for sale	5	-
Servicing assets	27	-
Other	-	-
	352	363
Net deferred taxes	\$ -	\$ -

The Company has net operating loss carryforwards available for federal income tax purposes of approximately \$6,158, which expire from 2023 through 2030.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Note 13. Regulatory Matters

Capital Ratios: The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the Regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

BBI F-54

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

Capital Ratios (Continued): Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010 and 2009, the Bank met all capital adequacy requirements to which it is subject.

De novo banks (those insured seven years or less), such as Berkshire Bank are required to maintain Tier I capital to average assets (leverage) ratios of at least 8% during this period. This requirement did not apply to the Bank as confirmed by the FDIC. The most recent notification from the Federal Deposit Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. Under these guidelines, the Company and the Bank were considered well capitalized as of December 31, 2010 and 2009.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010:						
Total Risk Based Capital						
(to Risk Weighted Assets)						
Bank	\$11,788	10.91	% \$8,645	8.0	% \$10,807	10.0
Consolidated	11,878	10.99	% 8,644	8.0	% N/A	N/A
Tier I Capital						
(to Risk Weighted Assets)						
Bank	10,430	9.65	% 4,323	4.0	% 6,484	6.0
Consolidated	10,520	9.74	% 4,322	4.0	% N/A	N/A
Tier I Capital						
(to Average Assets)						
Bank	10,430	7.64	% 5,462	4.0	% 6,828	5.0
Consolidated	10,520	7.70	% 5,462	4.0	% N/A	N/A
As of December 31, 2009:						
Total Risk Based Capital						
(to Risk Weighted Assets)						
Bank	\$12,680	11.62	% \$8,731	8.0	% \$10,913	10.0

Edgar Filing: - Form

Consolidated	12,472	11.46	%	8,706	8.0	%	N/A	N/A	
Tier I Capital									
(to Risk Weighted Assets)									
Bank	11,316	10.37	%	4,365	4.0	%	6,548	6.0	%
Consolidated	11,108	10.21	%	4,353	4.0	%	N/A	N/A	
Tier I Capital									
(to Average Assets)									
Bank	11,316	7.68	%	5,891	4.0	%	7,364	5.0	%
Consolidated	11,108	7.54	%	5,891	4.0	%	N/A	N/A	

BBI F-55

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

Capital Ratios (Continued): Banking regulations limit the amount of dividends that may be paid without prior regulatory agency approval. Since the Bank's deposits are insured by the FDIC, no dividends may be paid if the Bank is in default on any assessment due the FDIC. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable "well capitalized" capital requirements.

Note 14. Shareholders' Equity

Share Purchase Agreement: In 2003, the Company entered into an agreement with East Penn Financial Corporation (East Penn) whereby East Penn purchased 19.9% of the Company's stock in the initial public offering. The agreement included the issuance of a stock warrant that allowed East Penn to purchase and own up to 24.9 % of the Company's outstanding shares. East Penn has since been acquired by Harleysville National Corporation (HNC), which assumed the right to 19.9% ownership in the Company with the same terms as was extended to East Penn.

On April 9, 2010, First Niagara Financial Group ("First Niagara") acquired Harleysville National Corporation ("HNC"), a bank holding company that had, until this time, held a passive investment interest in the Company pursuant to "Crown X" written commitment provided by HNC to the Federal Reserve Bank of Philadelphia. As part of the acquisition, First Niagara assumed HNC ownership percentage of 19.9% with the same terms as was extended to HNC. Pursuant to this commitment, First Niagara may not acquire or retain the Company shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of the Company or any of its subsidiaries.

Stock Offering: On March 22, 2007, the Bank commenced the sale of 300,000 units of its common stock, which was completed in two stages through August 31, 2007. Each unit consisted of one share of common stock and one five-year, non-detachable warrant to purchase one share of common stock, exercisable until December 31, 2012 at various original exercise prices ranging from \$10.00 to \$17.50 from August 31, 2007 through December 31, 2012. The exercise prices were adjusted to reflect the stock split effected as a stock dividend. The adjusted exercise prices ranged from \$8.32 to \$11.20 ratably over the exercise term.

For the year ended December 31, 2009, the Company received proceeds from the exercise of stock warrants in the amount of \$9, at a weighted average exercise price of \$8.32. There were no proceeds from the exercise of stock warrants in 2010.

On October 26, 2009, the Bank commenced the sale of 6,000 shares of its 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C, par value \$1.00 per share, \$1,000 per share. During the year ended December 31, 2009, the Company sold 50 shares for total gross proceeds of \$50. Direct offering expenses of \$65 in 2009 and \$3 in 2010 are netted against the gross proceeds, if any, and charged against additional paid-in capital.

In September of 2010, a private placement of 175,000 shares of common stock at \$2.00 per share was completed by Berkshire Bancorp, Inc.

TARP Capital Purchase Program: One of the provisions resulting from the Emergency Economic Stabilization Act of 2008 (“EESA”) Act was the Treasury Capital Purchase Program (“CPP”) which provides direct equity investment of preferred stock by the U.S. Treasury in qualified financial institutions. The CPP provides for a minimum investment of 1 percent of Risk-Weighted-Assets, with a maximum investment of the lesser of 3 percent of Risk-Weighted Assets or \$25 Billion. The cumulative perpetual preferred stock, Series A has a dividend rate of 5 percent per year until the fifth anniversary of the Treasury investment and a dividend of 9 percent, thereafter. The CPP also requires the Treasury to receive warrants for fixed rate cumulative perpetual preferred stock, Series B with liquidation value equal to 5 percent of the capital invested by the Treasury. The exercise price of the warrants was \$1.00. The Series B preferred stock has a dividend rate of 9 percent per year.

BBI F-56

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 14. Shareholders' Equity (Continued)

TARP Capital Purchase Program (Continued): On June 12, 2009, the Company received an investment in preferred stock of \$2.892 million. On the same date the warrant for 145 shares of cumulative perpetual preferred stock, Series B was exercised. The proceeds for the preferred stock were allocated between the Series A and Series B preferred stock based on their relative fair value, using a discount rate of 12%. The original net discount is being accreted over the expected term of five years using the effective interest method. The Company has recorded dividends in the approximate amount of \$87 and \$81 through December 31, 2009 and May 31, 2010, respectively. In accordance with state law, because the Company is in an accumulated deficit position, the preferred stock dividends are declared from additional paid-in capital. All dividends that have accrued through May 31, 2010 have been paid to the U.S. Treasury. The Company did not declare a dividend on the Series A and Series B preferred stock for the third and fourth quarters of 2010; consequently, an additional amount of \$79 is not reflected in accumulated deficit as of December 31, 2010. However, this amount is considered in computing the net loss and related per share amounts attributable to common shareholders. Since this is an unpaid amount on cumulative preferred stock, it would be payable before any other dividends are declared. The two preferred stock series qualify for and are accounted for as equity securities and included in the Company's Tier I Capital on the date of receipt.

Provisions introduced by the American Recovery and Reinvestment Act of 2009 indicate that once the Company notifies Treasury that it would like to redeem the CPP preferred stock, the Treasury must permit the Company to do so subject to consultation with the Company's federal regulator. The Company will be subject to existing supervisory procedures for approving redemption requests for capital instruments. The federal regulator will weigh the Company's desire to redeem the preferred stock against the contribution of Treasury capital to the Company's overall soundness, capital adequacy and ability to lend, including confirming that the Company has a comprehensive internal capital assessment process.

Stock Warrants: The Company issued stock purchase warrants in 2003 with its initial public offering at a price of \$3.28 per share. Subsequently, in 2007, as part of the stock offering, the Company issued non-detachable warrants exercisable until December 31, 2012 at varying share prices ranging from \$7.36 through December 31, 2008 to \$11.20 through December 31, 2012. These prices and warrants reflect the adjusted amounts for the previous 5-for-4 stock splits.

	2010		2009	
	Number of Warrants	Weighted- average Exercise Price	Number of Warrants	Weighted- average Exercise Price
Outstanding, beginning of period	774,571	\$5.08	775,611	\$5.08
Granted	-	-	-	-
Expired/terminated	-	-	-	-

Edgar Filing: - Form

Exercised	-	-	(1,040)	8.32
Outstanding, December 31	774,571	\$5.08	774,571	\$5.08

The initial offering warrants and the 2008 stock offering warrants have a weighted-average remaining contractual life of 2.75 years and 2 years, respectively and the number of warrants exercisable totaled 433,537 and 341,034, respectively as of December 31, 2010.

Note 15. Employee Benefit Plans

The Company has a 401(k) deferred contribution salary deferral plan (with matching contributions) which covers substantially all full-time employees who meet the required criteria. The amount charged to expense was \$45 and \$42, respectively for the years ended December 31, 2010 and 2009.

BBI F-57

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 15. Employee Benefit Plans (Continued)

The Company has a Nonqualified Supplemental Executive Retirement Plan for its Chief Executive Officer (“CEO”), President and Chief Financial Officer (“CFO”) of the Company which provides a retirement benefit. The Plan is indirectly funded by life insurance. For the years ended December 31, 2010 and 2009, \$122 and \$109 was charged to expense and included in other accrued liabilities in connection with the Plan.

Note 16. Other Related Party Transactions

A member of the Board of Directors is a principal of a property and casualty insurance agency that provides all the insurance coverage for the Company. The cost of the insurance was approximately \$35 and \$32 for the years ended December 31, 2010 and 2009. A member of the Board of Directors operates a general contracting company that constructed the building currently housing the Exeter branch office. The construction costs were \$6 for the year ended December 31, 2009. Effective September 1, 2004, the Bank has been making annual lease payments of approximately \$28 to another Director for its Operations Center in Shillington, Pennsylvania (Note 9).

Note 17. Commitments and Contingencies

During the period in which preferred stock issued under the TARP Capital Purchase Program is issued and outstanding, certain “change in control” agreements with the CEO, President and CFO of the Company, which provide for continued payment of certain employment salaries and benefits in the event of a change in control, as defined, will be prohibited in accordance with EESA provisions.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank’s involvement in these particular classes of financial instruments. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2010 and 2009, commitments to extend credit amounted to approximately \$8,596 and \$12,665, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2010 and 2009, standby letters of credit with customers were \$428 and \$769, respectively.

BBIF-58

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 17. Commitments and Contingencies (Continued)

The Bank does not issue or hold derivative instruments. The Bank does have standby letters of credit and these instruments are issued in the ordinary course of business to meet customer needs. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 18. Fair Value of Financial Instruments

Fair Value Measurements: The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, 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 Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on 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. In accordance with this guidance, the Company groups its assets and liabilities carried at fair value in three levels as follows:

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 for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active.
-

Edgar Filing: - Form

Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (e.g., interest rates, yield curves, credit risks, prepayment speeds or volatilities) or “market corroborated inputs.”

Level 3 Inputs

- Prices or valuation techniques that require inputs that are both unobservable (i.e. supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.
- These assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

BBI F-59

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value Measurements (Continued): The following is a description of the valuation methodologies used for instruments measured at fair value:

Fair Value on a Recurring Basis:

Available for Sale Securities Portfolio: The fair value of available for sale securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

Loans Held for Sale: The fair value of loans held for sale is the market value based upon quoted market prices provided by the investor at the time of sale. The carrying value is the lower of cost or quoted market prices.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

December 31, 2010	Level 1	Level 2	Level 3	Total
Financial Assets:				
Securities available for sale	\$ -	\$ 1,657	\$ -	\$ 1,657
Loans held for sale	574	-	-	574
December 31, 2009				
Financial Assets:				
Securities available for sale	\$ 500	\$ 11,345	\$ -	\$ 11,845
Loans held for sale	985	-	-	985

Fair Value on a Non-Recurring Basis:

Impaired Loans: The carrying value of impaired loans is derived in accordance with FASB ASC Topic 310, "Receivables". Fair value is determined based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Appraised values may be discounted based upon Management's historical knowledge and changes in market conditions from the time of valuation. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheets. The valuation allowance for impaired loans at December 31, 2010 was \$490 resulting in a decrease in fair value of \$488 for the year ended December 31, 2010. The valuation allowance at December 31, 2009 was \$898 resulting in an increase in fair value of \$2,126 for the year ended December 31, 2009.

Edgar Filing: - Form

OREO: The fair value of OREO is determined by the net realizable value of the real estate as of the reporting date. Such fair value is established by current appraised values adjusted for reasonable disposition costs. The appraised value may be discounted based on management's review and changes in market conditions (Level 3) inputs.

BBI F-60

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value on a Non-Recurring Basis (Continued):

The following table presents the assets measured at fair value on a recurring basis.

December 31, 2010	Level 1	Level 2	Level 3	Total
Financial Assets:				
Other real estate owned	\$ -	\$ -	\$ 4,936	\$ 4,936
Impaired loans	-	-	1,439	1,439
December 31, 2009	Level 1	Level 2	Level 3	Total
Financial Assets:				
Other real estate owned	\$ -	\$ -	\$ 1,725	\$ 1,725
Impaired loans	-	-	2,910	2,910

Fair Value of Financial Instruments: FASB ASC Topic 825, Financial Instruments requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and liabilities that are measured on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

For cash and cash equivalents, interest-bearing demand deposits with other banks, and accrued interest receivable, the carrying values approximate their fair values.

The net loan portfolio other than impaired loans is valued using a present value discounted cash flow method where market prices were not available. The discount rate used in these calculations is the estimated current market rate.

The carrying values of accrued interest receivable and FHLB stock approximate their fair values.

The estimated fair values of non interest-bearing demand deposits, interest-bearing checking deposits, savings and certain types of money market accounts are, by their definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying values). The carrying values of variable rate deposit accounts approximate their fair values. For fixed maturity certificates of deposit, fair value is estimated using current market rates for deposits of similar remaining maturities. The carrying value of accrued interest payable approximates its fair value.

The estimated fair values of borrowings are based on the discounted value of estimated cash flows. The discounted rate is estimated using current market rates for similar instruments.

Edgar Filing: - Form

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit and the fair value of letters of credit, are considered immaterial.

BBIF-61

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments (Continued): The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2010 are as follows:

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 1,995	\$ 1,995	\$ 1,787	\$ 1,787
Federal funds sold	7,151	7,151	9,259	9,259
Interest-bearing demand deposits				
with other banks	4,362	4,362	506	506
Investment securities, available for sale	1,657	1,657	11,845	11,845
Loans, net of unearned income	105,781	107,988	108,560	109,860
Loans held for sale	574	574	978	985
FHLB stock	1,053	1,053	1,108	1,108
Accrued interest receivable	426	426	456	456
Financial liabilities:				
Noninterest-bearing demand	6,973	6,973	6,821	6,821
Interest-bearing demand and time deposits	116,280	117,070	121,257	122,077
Borrowings	764	814	4,304	4,352
Accrued interest payable	53	53	77	77

Note 19. Other Real Estate Owned

The table below presents a summary of the activity related to other real estate owned:

	Years Ended December 31,	
	2010	2009
Beginning Balance	\$ 1,765	\$ 1,280
Additions	4,312	1,235
Sales	(1,037)	(670)
Writedowns	(104)	(80)
Ending Balance	\$ 4,936	\$ 1,765

Edgar Filing: - Form

Expenses applicable to other real estate owned include the following:

	Years Ended December 31,	
	2010	2009
Net (loss) gain on sale of real estate	\$ (60)	\$ 103
Operating expenses, net of rental income	(339)	(106)
	\$ (399)	\$ (3)

BBI F-62

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 20. Pending Merger

On August 24, 2010, Berkshire Bancorp, Inc. (“The Company”), the parent company of Berkshire Bank and Customers Bancorp, Inc. (“CBI”), the parent company of Customers Bank entered into a definitive merger agreement whereby the Company would merge with and into CBI (the “Merger Agreement”). The total estimated value of the transaction as of July 31, 2010 is approximately \$11.8 million based on 3,876,063 shares of the Company’s common stock outstanding, 774,571 common stock warrants outstanding, repayment of approximately \$3 million in TARP to the Treasury and conversion of 50 Series C Preferred Stock into common stock, although the actual value of the transaction will depend on several factors including changes to the tangible book value of the Company and CBI and increases to the Company’s loan loss reserve.

Pursuant to the Merger Agreement, each share of the Company’s common stock will be converted into the right to receive the number of shares of CBI voting common stock equal to an exchange ratio to be calculated at the effective time of the merger and cash in lieu of fractional shares. The exchange ratio is the “Berkshire Valuation” divided by three (3) times the “NCB Valuation.”

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

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

The merger is subject to the approval of Customers Bank’s shareholders to reorganize into a bank holding company under CBI, shareholder approvals by the Company and CBI of the merger agreement and customary federal and state regulatory approvals. Further, as part of the Merger Agreement, prior to the effective time, CBI will invest \$3,180,000 net cash in securities qualifying as Tier 1 capital into the Company.

BBI F-63

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 21. Goodwill and Intangible Assets

Goodwill represents the excess of the cost over fair value of net assets of an acquired business. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is tested using a two step process. If the carrying amount exceeds the estimated fair value, an indicator of goodwill impairment exists and a second step test is performed to determine if any goodwill impairment exists. In the second step, the Company calculates the implied value of goodwill by emulating a business combination. This step subtracts the estimated fair value of the net assets from the step one estimated fair value to determine the implied value of goodwill. If the implied value of goodwill is less than the carrying value of the goodwill, goodwill is not impaired, but if the implied value of goodwill is less than the carrying value of the goodwill allocated, an impairment charge is recognized for the difference in the consolidated statements of operations with a corresponding reduction to goodwill on the consolidated balance sheet. The Company has evaluated goodwill and determined that impairment existed as of December 31, 2010. Therefore an impairment charge of \$418 was recorded as of December 31, 2010. The balance in goodwill as of December 31, 2010 and 2009 was \$0 and \$418, respectively.

Note 22. Subsequent Events

The Company has evaluated subsequent events for potential recognition and or disclosure through March 15, 2011 and has determined that no such events have occurred that would warrant inclusion or disclosure in these financial statements.

BBI F-64

Independent Auditor's Report

To the Board of Directors
Berkshire Bancorp, Inc.
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Berkshire Bancorp, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Bancorp, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladry & Pullen, LLP
Blue Bell, Pennsylvania
March 12, 2010

BBI F-65

Berkshire Bancorp, Inc.

Consolidated Balance Sheets
 December 31, 2009 and 2008
 (Amounts in Thousands, Except Share Data)

	2009	2008
Assets		
Cash and Due from Banks	\$ 1,787	\$ 1,897
Interest-Bearing Deposits with other Banks	506	235
Federal Funds Sold	9,259	-
Cash and cash equivalents	11,552	2,132
Investment Securities Available for Sale, at fair value	11,845	14,478
Loans Receivable (net of allowance for loan losses of \$1,655 and \$1,267, as of December 31, 2009 and 2008, respectively)	108,560	103,500
Loans Held for Sale	978	420
Bank Premises and Equipment, net	4,164	4,434
Bank-owned Life Insurance	2,319	2,224
Goodwill	418	418
Accrued Interest Receivable and Other Assets	2,749	2,143
Other Real Estate Owned (OREO)	1,765	1,280
	\$ 144,350	\$ 131,029
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 6,821	\$ 5,761
Interest-bearing	121,257	97,556
Total deposits	128,078	103,317
Federal funds purchased	-	396
Borrowings	4,304	16,798
Accrued interest payable and other accrued liabilities	562	560
Total liabilities	132,944	121,071
Commitments and Contingencies (Note 17)		
Shareholders' Equity		
Cumulative perpetual preferred stock, \$1 par value, 10,000,000 shares authorized; Series A-5% for five years, 9% thereafter, \$1,000 liquidation preference, 2,892 shares issued and outstanding in 2009	2,737	-
Series B-9%, \$1,000 liquidation preference, 145 shares issued		

Edgar Filing: - Form

and outstanding in 2009	168	-
Non-Cumulative perpetual preferred stock, Series C-6%, \$1,000 liquidation preference, 50 shares issued and outstanding in 2009	-	-
Common stock, \$1 par value, 10,000,000 shares authorized 3,876,063 and 3,875,023 shares issued and outstanding at December 31, 2009 and 2008, respectively	3,876	3,875
Additional paid-in-capital	11,084	11,178
Accumulated deficit	(6,339	) (5,076)
Accumulated other comprehensive loss	(120	) (19)
	11,406	9,958
	\$ 144,350	\$ 131,029

See Notes to Consolidated Financial Statements.

BBI F-66

Berkshire Bancorp, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2009 and 2008
(Amounts in Thousands, Except Share Data)

	2009	2008
Interest income		
Interest and fees on loans	\$ 6,398	\$ 6,340
Interest and dividends on securities	558	718
Interest on federal funds sold	2	55
Interest, other	1	8
Total interest and dividend income	6,959	7,121
Interest expense		
Interest on deposits	2,518	3,132
Interest on borrowings	436	539
Total interest expense	2,954	3,671
Net interest income	4,005	3,450
Provision for loan losses	809	395
Net interest income after provision for loan losses	3,196	3,055
Noninterest income		
Gain on the sale of loans	365	202
Gain (loss) on the sale of available for sale securities	(10)	2
Gain on the sale of OREO	103	1
Gain on the disposition of assets, net	2	-
Other income	270	253
Total noninterest income	730	458
Noninterest expenses		
Compensation and benefits, net	2,141	2,263
Occupancy and data processing	1,525	1,364
Marketing and business development	46	77
Professional services	321	248
Other operating expenses	1,143	713
Total noninterest expenses	5,176	4,665
Loss before income taxes	(1,250)	(1,152)
Income taxes	-	-
Net loss	(1,250)	(1,152)
Preferred stock dividends and discount accretion	(100)	-
Net loss attributable to common shareholders	(1,350)	(1,152)
Net loss per common share:		
Basic and diluted	\$ (0.35)	\$ (0.31)
Weighted average shares outstanding:		
Basic and diluted	3,875,605	3,736,877
See Notes to Consolidated Financial Statements.		

Berkshire Bancorp, Inc.
 Consolidated Statements of Shareholders'
 Equity
 Years Ended December 31, 2009 and 2008
 (Amounts in Thousands, Except Share
 Data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2007	\$-	\$3,025	\$11,338	\$ (3,923)	\$ (102)	\$ 10,338
Five-for-four stock split, 757,631 shares	-	758	(758)	-	-	-
Exercise of 89,908 stock warrants at a weighted average price of \$7.45	-	90	580	-	-	670
Issuance of 2,017 shares of common stock in the form of stock grants to executive officers	-	2	18	-	-	20
Cash payments in lieu of fractional shares	-	-	-	(1)	-	(1)
Comprehensive loss: Net loss - 2008	-	-	-	(1,152)	-	(1,152)
Change in net unrealized loss on securities available for sale, net of tax effect	-	-	-	-	83	83
Total comprehensive loss	-	-	-	-	-	(1,069)
Balance, December 31, 2008	\$-	\$3,875	\$11,178	\$ (5,076)	\$ (19)	\$ 9,958
Exercise of 1,040 stock warrants at a weighted average price of \$8.32	-	1	8	-	-	9
Issuance of preferred stock, 2,892 shares	2,892	-	-	-	-	2,892

Edgar Filing: - Form

Series A and 145 shares

Series B

Issuance of preferred stock,
Series C, net

of offering costs of \$65	-		(15)	-	-	(15)
---------------------------	---	--	-------	---	---	-------

Accretion of preferred stock
discount

	13	-	-	(13)	-	-
--	----	---	---	-------	---	---

Dividends on preferred stock,
Series A & B

	-	-	(87)	-	-	(87)
--	---	---	-------	---	---	-------

Comprehensive loss:

Net loss - 2009	-	-	-	(1,250)	-	(1,250)
-----------------	---	---	---	----------	---	----------

Change in net unrealized loss
on securities

available for sale, net of tax effect	-	-	-	-	(101)	(101)
--	---	---	---	---	--------	--------

Total comprehensive loss	-	-	-	-	-	(1,351)
--------------------------	---	---	---	---	---	----------

Balance, December 31, 2009	\$2,905	\$3,876	\$11,084	\$ (6,339)	\$ (120)	\$ 11,406
----------------------------	---------	---------	----------	-------------	-----------	-----------

See Notes to Consolidated Financial
Statements.

BBI F-68

Berkshire Bancorp, Inc.
 Consolidated Statements of Cash Flows
 Years Ended December 31, 2009 and 2008
 (Amounts in Thousands, Except Share Data)

	2009	2008
Cash Flows from Operating Activities		
Net loss	\$(1,250)	\$(1,152)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	328	335
Provision for loan losses	809	395
Impairment charge on OREO	80	-
Net amortization of premiums/discounts on securities	9	20
Gain on the sale of loans	(365)	(202)
Net (gain) loss on the sale of investment securities	10	(2)
Loss on the disposition of repossessed assets	2	-
Loss on the disposition of fixed assets	2	-
Loans originated for sale	(16,482)	(10,108)
Proceeds from sale of loans held for sale	16,289	11,230
Net gain on sale of OREO	(103)	-
Proceeds from sale of OREO	771	-
Earnings on Bank owned life insurance, net	(95)	(95)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(574)	(188)
Increase (decrease) in accrued interest payable and other accrued liabilities	36	(568)
Net cash used in operating activities	(533)	(335)
Cash Flows from Investing Activities		
Purchases of investment securities available for sale	(8,247)	(8,990)
Purchases of FHLB stock	(32)	(1,025)
Proceeds from redemption of FHLB stock	-	827
Proceeds from maturities, calls and principal payments on investment securities available for sale	9,370	8,576
Proceeds from the sale of investment securities available for sale	1,336	500
Net increase in loans	(7,104)	(16,244)
Cash effect of branch acquisitions	-	-
Net purchases of premises and equipment	(60)	(90)
Net cash used in investing activities	(4,737)	(16,446)
Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	-	-
Net proceeds from the exercise of common stock warrants	9	670
Cash payments on common stock in lieu of fractional shares	-	(1)
Dividends paid on preferred stock, Series A & B	(67)	-
Proceeds from the issuance of preferred stock, Series A & B	2,892	-
Proceeds from the issuance of preferred stock, Series C	50	-
Offering costs related to the preferred stock, Series C	(65)	-
Net proceeds from borrowings	1,440	2,596
Net proceeds from federal funds purchased	(396)	396
Repayment of borrowings	(13,934)	-
Increase in interest-bearing deposits	23,701	9,396

Edgar Filing: - Form

Increase in noninterest-bearing deposits	1,060	198
Net cash provided by financing activities	14,690	13,255
Increase (decrease) in cash and cash equivalents	9,420	(3,526)
Cash and Cash Equivalents, January 1	2,132	5,658
Cash and Cash Equivalents, December 31	\$11,552	\$2,132

(Continued)

BBI F-69

Berkshire Bancorp, Inc.
 Consolidated Statements of Cash Flows (Continued)
 Years Ended December 31, 2009 and 2008
 (Amounts in Thousands, Except Share Data)

	2009	2008
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	\$3,055	\$3,716
Non-cash items:		
Issuance of common stock to executive officers in the form of stock grants in accordance with executive contracts in 2009 and 2008, respectively	\$-	\$20
Issuance of common stock to directors as payment for directors fees		
Transfer from loans to OREO	1,235	1,280
Change in unrealized loss on AFS Securities	(155)	(126)
Assets and (Liabilities) Received in Conjunction with Acquisition of Branches		
Cash and due from banks	-	-
Loans, net	-	-
Premises and equipment, net	-	-
Good will	-	-
Other assets	-	-
Deposits	-	-
Other liabilities	-	-
Less cash acquired	-	-
Net cash provided	\$	\$

See Notes to Consolidated Financial Statements.

BBI F-70

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies

Description of Business: Berkshire Bancorp, Inc. (“the Company”) is a bank holding company headquartered in Wyomissing, Pennsylvania. Through its wholly owned subsidiary, Berkshire Bank, the Company provides individuals, corporations and other businesses, commercial and retail banking services, principally loans and deposits. Berkshire Bancorp, Inc. was incorporated on September 1, 2006 under the laws of the State of Pennsylvania for the sole purpose of becoming the holding company of Berkshire Bank (the “Bank”).

Berkshire Bank (the “Bank”) is a commercial bank incorporated on May 14, 2002 under the laws of the Commonwealth of Pennsylvania. The Bank commenced operations on September 23, 2003. The Bank is chartered by the Pennsylvania Department of Banking and insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office at Wyomissing, Pennsylvania but also has branch offices in Muhlenberg Township, West Reading, Route 183 Airport, and Exeter, Pennsylvania. The Bank provides financial services primarily to Berks County and the surrounding Pennsylvania counties.

Zenith Mortgage Company, LLC, a subsidiary of the Bank, was established in 2007 for the purpose of providing mortgage brokerage and related services to the public. Zenith Mortgage is a limited liability company owned by Berkshire Bank (51%) and a third party. Zenith Mortgage Company, LLC was dormant as of December 31, 2009.

Accounting Standards Codification (ASC): On July 1, 2009, the Financial Accounting Standards Board (FASB) officially launched the FASB Accounting Standards Codification™ (Codification), which has become the single official source of authoritative, nongovernmental U.S. GAAP, superseding all prior FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related literature. The Codification is effective for interim and annual periods ending on or after September 15, 2009. Accordingly, the Company’s accounting policies, which are consistent with prior periods and detailed below are now in accordance with ASC and no longer contain references to Statements on Financial Accounting Standards (SFAS), EITF or related literature.

Principles of Consolidation: The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of the consolidated financial position, results of operations and cash flows are summarized below. The consolidated financial statements for 2009 and 2008 include the accounts of Berkshire Bancorp, Inc. and Berkshire Bank. All intercompany balances and transactions have been eliminated.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Edgar Filing: - Form

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, interest bearing deposits with banks and federal funds sold, all of which mature within ninety days.

Investment Securities Available for Sale: Management determines the appropriate classification of investments at the time of purchase. As of December 31, 2009, all securities are classified "available for sale" and carried at fair value. The Company has no trading securities or securities classified "held to maturity."

BBI F-71

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Investment Securities Available for Sale (Continued): The cost of investment securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization or accretion recorded as adjustments to interest and dividends are included in interest income from investments. Realized gains and losses are included in gains (losses) on investment securities in the statements of operations. Gains and losses on the sale of securities are recorded on the trade date and are determined based on the specific-identification method.

Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of the cost basis, which may be maturity. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security or it is not more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Company holds investments in the common stocks of Atlantic Central Bankers Bank (“ACBB”) and Federal Home Loan Bank of Pittsburgh (“FHLB”). These investments in restricted stock are carried at cost and are included in Other Assets. The stock has no quoted market value and is subject to redemption restrictions. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Management considers such criteria as the significance of the decline in all assets, if any, of the FHLB, the length of time the situation has persisted, commitments by the FHLB to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the FHLB and the liquidity position of the FHLB.

Loans: The Company makes commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Berks County. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Loans are stated at the outstanding principal amount, adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is recognized as earned based on contractual interest rates applied to daily principal amounts outstanding.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the

circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

BBI F-72

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Loans Held for Sale: The Company periodically sells mortgage loans. These loans are reported at the lower of cost or fair value. Gains and losses on sales of loans are recognized at settlement dates in non interest income and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made without recourse and servicing is released.

Loans - Nonaccrual: Loans are placed on nonaccrual status and the accrual of interest income ceases, when a default of principal or interest exists for a period of ninety days except when, in management's judgment, the collection of principal and interest is reasonably anticipated (i.e. the loan is well secured and in the process of collection). Interest receivable on nonaccrual loans previously credited to interest income is reversed. Nonaccrual loans are generally not returned to accruing status until principal and interest payments have been brought current and full collectability is reasonably assured.

Concentration of Credit Risk: The Company's loans are generally to diversified customers in Berks, Montgomery and Chester counties, Pennsylvania. Loans to professional real estate management enterprises and lessors, general building contractors and developers, miscellaneous food stores and restaurants constitute approximately 38%, 10% and 8%, respectively, of commercial loans as of December 31, 2009. These concentrations were approximately 42%, 10% and 7%, respectively, of commercial loans as of December 31, 2008. Generally, loans are collateralized by assets of the borrower and are expected to be repaid from the cash flow or proceeds from the sale of selected assets of the borrower.

Loan Fees: Loan fees and direct costs associated with loan originations are netted and deferred. The deferred amount is recognized as an adjustment to loan interest over the term of the related loans on the interest method.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition.

Such periodic assessments may, in management's judgment, require the Company to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

Edgar Filing: - Form

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected losses given the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data.

BBI F-73

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Interest Rate Risk: The Company is principally engaged in the business of attracting deposits from the general public and using these deposits, together with any borrowed funds, to make commercial, commercial mortgage, residential mortgage, and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Company to assume interest rate risk that results from differences in the maturities and repricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Bank Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed and charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

The estimated useful lives for calculating depreciation and amortization on furniture and equipment are between three and seven years. Leasehold improvements are depreciated over the lesser of the economic life or the term of the related lease, generally terms ranging from five to twenty-nine years.

Other Real Estate Owned (OREO): OREO is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses.

Bank Owned Life Insurance: The Company invests in bank owned life insurance (“BOLI”) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Income generated from the increase in cash surrender value of the policies is included in other income on the income statement. BOLI is used to fund the Nonqualified Supplemental Executive Retirement Plan discussed in Note 15.

Goodwill: Goodwill representing the excess of the cost over fair value of net assets of the acquired businesses. The Company acquired two branches that resulted in goodwill which is not amortized, but tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The Company has evaluated goodwill and determined that no impairment existed as of December 31, 2009.

Income Taxes: Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax

Edgar Filing: - Form

assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Berkshire Bancorp, Inc. and its wholly-owned subsidiary, Berkshire Bank, file a consolidated federal income tax return.

BBI F-74

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued): When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense on the income statement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as other comprehensive income (loss), a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive income and related tax effects for are as follows:

	2009	2008
Net unrealized holding losses on available for sale securities	\$(183)	\$(28)
Tax effect	63	9
Net-of-tax amount	\$(120)	\$(19)

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per

Edgar Filing: - Form

common share considers common stock equivalents (when dilutive) outstanding during the period such as options and warrants outstanding. Both basic and diluted earnings (loss) per common share computations give retroactive effect to stock dividends paid as a 5 for 4 stock splits in prior years. In computing diluted earnings (loss) per shares for 2009 and 2008, warrants to purchase approximately 774,571 and 775,611 shares of common stock were excluded from the computation noting the effect of these shares would be antidilutive.

BBIF-75

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies (Continued)

Stock-Based Employee Compensation: The Bank accounts for its stock based compensation plans (more fully described at Note 15) under the provisions of ASC Topic 718, Compensation – Stock Compensation, which requires recognizing expense for options granted equal to the grant-date fair value of the unvested amounts over their remaining vesting period. Excess tax benefits arising from increases in the value of equity instruments issued under stock-based payment arrangements are treated as cash inflows from financing activities.

Note 2. Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes in accordance with ASC Topic 740 became effective for the Bank on January 1, 2009. This standard clarifies the application of accounting for income taxes by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions.

The Bank presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying ASC Topic 450, Accounting for Contingencies. Adoption of this authoritative accounting guidance did not have a material impact on the Bank's financial position and results of operations. The Bank did not recognize or accrue any interest or penalties related to the income tax during the year ended December 31, 2009. The Bank does not have an accrual for uncertain tax positions as of December 31, 2009, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2007 and thereafter are subject to future examination by tax authorities.

Fair value of non-financial assets and liabilities: Effective January 1, 2009, the Bank measures non-recurring nonfinancial assets and liabilities recognized or disclosed at fair value and has included these disclosures at Note 18. Accordingly, the fair value of OREO is included as of December 31, 2009.

Business Combinations: This new authoritative accounting guidance (ASC Topic 805) is a revision of previous business combinations guidance. It requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. It applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and became effective for Berkshire Bank on January 1, 2009. No transactions have occurred through December 31, 2009 warranting application of this guidance.

Edgar Filing: - Form

Subsequent Events: The Bank adopted the requirements of ASC 855-10-05 relating to subsequent events effective December 31, 2009. This accounting establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued (i.e., complete in a form and format that complies with GAAP and approved for issuance). It does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions.

BBI F-76

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 2. Recent Accounting Pronouncements (Continued)

There are two types of subsequent events to be evaluated:

Recognized subsequent events - An entity must recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.

Non-recognized subsequent events - An entity must not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but that arose after the balance sheet date but before financial statements are issued or are available to be issued. Some non-recognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, an entity must disclose the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

The guidance also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date - that is, whether that date represents the date the financial statements were issued or were available to be issued. The requirements of this standard are effective for interim and annual periods ending after June 15, 2009, and should be applied prospectively.

Accordingly, management has evaluated subsequent events through March 12, 2010, the date the financial statements are available to be issued and has determined that no recognized or non-recognized subsequent events warranted inclusion or disclosure in the financial statements as of December 31, 2009.

FASB ASC Topic 320, Investments – Debt and Equity Securities: New authoritative accounting guidance under ASC Topic 320, Investments –Debt and Equity Securities, (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors would be recognized in other comprehensive income. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 320 during 2009. Adoption of the new guidance did not significantly impact the Company’s financial statements.

FASB ASC Topic 860, Transfers and Servicing: New authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires

additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 will be effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

Note 3. Reclassifications

Certain items in the 2008 financial statements have been reclassified to conform to 2009 presentation, with no effect on the statements of operations or statements of changes in shareholders' equity.

BBI F-77

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 4. Cash and Due from Banks

The Company maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy minimum deposit requirements, and to compensate other banks for certain correspondent services. The Federal Deposit Insurance Corporation insures these accounts up to \$250,000 per account through December 31, 2013. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Company as of December 31, 2009 and 2008.

Note 5. Investment Securities

The amortized cost and estimated fair value of securities available for sale at December 31, 2009, summarized by contractual maturities are shown below. Expected maturities may differ from contractual maturities for mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without any penalties; therefore, these securities are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	9,745	1	(230)	9,516
	9,745	1	(230)	9,516
Mortgage-backed securities	2,283	46	-	2,329
	\$12,028	\$47	\$(230)	\$11,845

The amortized cost and estimated fair value of securities available for sale at December 31, 2008, summarized by contractual maturity, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies and corporations				
Due within one year	\$-	\$-	\$-	\$-
Due within one year through five years	-	-	-	-
Due within five years through ten years	1,115	6	-	1,121

Edgar Filing: - Form

Due after ten years	8,085	17	(12	)	8,090
	9,200	23	(12	)	9,211
Mortgage-backed securities	5,306	36	(75	)	5,267
	\$14,506	\$59	\$(87	)	\$14,478

BBI F-78

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 5. Investment Securities (Continued)

Securities with a carrying value of \$7,665 and \$10,912 at December 31, 2009 and 2008, respectively, were pledged as collateral to secure borrowings at the Federal Home Loan Bank of Pittsburgh and public deposits.

For the years ended December 31, 2009 and 2008, proceeds from sales of securities available for sale amounted to \$1,336 and \$500, respectively. Gross realized gains were \$2 and gross realized losses were \$12 in 2009. Gross realized gain of \$2 and no losses were recognized in 2008.

	December 31, 2009			
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$8,516	\$(230)	\$-	\$-
Mortgage-backed securities	-	-	-	-
Total temporarily impaired securities	\$8,516	\$(230)	\$-	\$-

	December 31, 2008			
	Continuous Unrealized Losses Existing for Less Than 12 Months		Continuous Unrealized Losses Existing for More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$995	\$(3)	\$1,490	\$(10)
Mortgage-backed securities	358	(2)	3,608	(72)
Total temporarily impaired securities	\$1,353	\$(5)	\$5,098	\$(82)

Securities available-for-sale are stated at fair value with an adjustment to shareholders' equity for unrealized gains and losses. The fair value of securities with unrealized losses by length of time that the individual securities have been in

a continuous loss position at December 31, 2009 and 2008, consist of 12 and 7 securities respectively. The unrealized loss on these investments was caused by movement in interest rates. Management periodically evaluates securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost (2) the financial condition and near term prospects of the issuer, (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (4) whether it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity. Management does not consider these securities to be other-than-temporarily impaired at December 31, 2009.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

BBI F-79

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 6. Loans

The composition of loans follows:

	December 31,	
	2009	2008
Commercial	\$87,197	\$80,029
Residential real estate	19,170	19,980
Consumer	3,397	4,279
Total loans	109,764	104,288
Less:		
Allowance for loan losses	(1,655)	(1,267)
Net deferred loan costs	451	479
Net loans	\$108,560	\$103,500

Below is a summary of the Bank's impaired loan information:

	December 31,	
	2009	2008
Impaired loans without a valuation allowance	\$555	\$864
Impaired loans with a valuation allowance	3,808	582
Total impaired loans	\$4,363	\$1,446
Valuation allowance related to impaired loans	\$898	\$107
Total nonaccrual loans	5,412	1,612
Total loans past-due ninety days or more and still accruing	87	105
Average investment in impaired loans	2,850	1,375
Interest income recognized on impaired loans	-	-
Interest income recognized on a cash basis on impaired loans	-	-

Note 7. Loans and Deposits to Related Parties

In the normal course of business, the Company has granted loans to executive officers, directors and their affiliates (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectibility.

An analysis of the activity of such related party loans is as follows:

Edgar Filing: - Form

	December 31,	
	2009	2008
Balance, beginning of year	\$2,111	\$2,014
Advances	238	1,858
Less: repayments	(139)	(1,761)
Balance, end of year	\$2,210	\$2,111

At December 31, 2009 and 2008, deposits from related parties totaled approximately \$751 and \$1,305 respectively.

BBI F-80

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 8. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	2009	2008
Balance, January 1	\$1,267	\$1,087
Provision for loan losses	809	395
Charge-offs	(431)	(215)
Recoveries	10	-
Balance, December 31	\$1,655	\$1,267

Note 9. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment is as follows:

	December 31,	
	2009	2008
Leasehold improvements	\$4,297	\$4,270
Furniture and equipment	1,029	1,020
	5,326	5,290
Less: accumulated depreciation and amortization	(1,162)	(856)
Bank premises and equipment	\$4,164	\$4,434

The Company has a fifteen-year operating lease agreement for its main banking office which commenced in September 2002. The Company has the option to extend the lease agreement for two additional five-year periods. In September 2004, the Company entered into a five-year operating lease for its Operations Center located in Shillington. The Company had the option to extend the lease agreement for an additional five-year period and exercised this option in 2009. In December 2005, the Company entered into a fifteen-year operating lease for its second branch office located in Muhlenberg. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period.

In February 2006, the Company entered into a fifteen-year operating land lease for its third branch office in Exeter Township. The Company has the option to extend the lease agreement for two additional five-year periods and one additional 59 month period. In June 2007, as part of two branch acquisitions from Fleetwood Bank, the Company assumed the following leases: Airport office on Route 183: five-year term with the option to extend the lease agreement for an additional five years. West Reading office lease: five-year term with the option to extend the lease agreement for an additional six years and six months.

In each case, in addition to the base rent, the Company is also required to pay a monthly fee for its portion of certain operating expenses.

BBI F-81

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 9. Bank Premises and Equipment (Continued)

At December 31, 2009, the required future rental payments under leases are as follows:

Years Ending December 31,	
2010	\$ 404
2011	415
2012	430
2013	361
2014	301
Thereafter	1,177
	-
Total minimum lease payments	\$ 3,088

Rent expense of approximately \$426 and \$316 is reflected in the statements of operations for the periods ended December 31, 2009 and 2008, respectively.

Note 10. Deposits

Deposits consisted of the following:

	December 31,	
	2009	2008
Demand deposits, noninterest-bearing	\$6,821	\$5,761
Demand deposits, interest-bearing	60,376	32,664
Savings deposits	1,970	983
Time deposits of \$100,000 or more	14,700	14,303
Other time deposits	44,211	49,606
Total deposits	\$128,078	\$103,317

Scheduled maturities of certificates of deposit at December 31, 2009 are as follows:

Years Ending December 31,	
2010	\$ 50,315

Edgar Filing: - Form

2011	6,007
2012	2,339
2013	209
2014 and thereafter	41
	\$ 58,911

BBI F-82

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 11. Borrowings

The Company has maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh of approximately \$64,629, of which \$4,304 and \$16,798 was outstanding at December 31, 2009 and 2008, respectively as follows:

	Amount		Weighted Average Rate			
	2009	2008	2009		2008	
Mid-Term Repurchase Agreement maturing:						
2009	\$-	\$11,819	0.00	%	2.59	%
2010	1,440	4,020	0.44	%	2.73	%
2011	2,000	-	1.61	%	0.00	%
2013	266	266	3.91	%	3.91	%
Amortized fixed rate term note due:						
2015	598	693	4.59	%	4.59	%
	\$4,304	\$16,798				

Advances from the Federal Home Loan Bank are secured by qualifying assets of the Company and include Federal Home Loan Bank stock, certain investment securities and first mortgage loans aggregating approximating \$20,679.

The Company also has available a line of credit agreement to purchase federal funds from the ACBB totaling \$4,000 of which advances up to \$1,000 would be unsecured. Additional advances up to the remaining \$3,000 would be secured by investments held in safekeeping at ACBB. There were \$0 and \$396 of borrowings outstanding at December 31, 2009 and 2008.

Note 12. Income Taxes

The Company has incurred cumulative net losses for several years since its inception through December 31, 2009 which has caused there to be no provision for income taxes, deferred taxes and income taxes payable for the years ended December 31, 2009 and 2008.

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 12. Income Taxes (Continued)

The components of the net deferred tax asset are as follows:

	December 31,	
	2009	2008
Deferred tax assets:		
Allowance for loan losses	\$526	\$401
Deferred Compensation	114	77
Organizational costs	15	16
Goodwill	118	127
Purchase accounting adjustment	48	53
Net unrealized loss on securities - Available for Sale	63	9
Net operating loss carryforwards	1,927	1,748
Other	103	47
	2,914	2,478
Valuation allowance	(2,551)	(2,055)
Total deferred tax assets, net of valuation allowance	363	423
Deferred tax liabilities:		
Depreciation	44	58
Deferred loan costs	174	185
Cash basis conversion	106	156
Other	39	24
	363	423
Net deferred taxes	\$-	\$-

The Company has net operating loss carryforwards available for federal income tax purposes of approximately \$5,667, which expire from 2023 through 2029.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006.

Note 13. Regulatory Matters

Capital Ratios: The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the

Edgar Filing: - Form

Company's financial statements. Under capital adequacy guidelines and the Regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

BBI F-84

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

Capital Ratios (Continued): Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, the Bank met all capital adequacy requirements to which it is subject.

De novo banks (those insured seven years or less), such as Berkshire Bank are required to maintain Tier I capital to average assets (leverage) ratios of at least 8% during this period. This requirement did not apply to the Bank as confirmed by the FDIC. The most recent notification from the Federal Deposit Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. Under these guidelines, the Company and the Bank were considered well capitalized as of December 31, 2009 and 2008.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009:						
Total Risk Based Capital (to Risk Weighted Assets)						
Bank	\$12,680	11.62	% \$8,731	8.0	% \$10,913	10.0
Consolidated	12,472	11.46	% 8,706	8.0	% N/A	N/A
Tier I Capital (to Risk Weighted Assets)						
Bank	11,316	10.37	% 4,365	4.0	% 6,548	6.0
Consolidated	11,108	10.21	% 4,353	4.0	% N/A	N/A
Tier I Capital (to Average Assets)						
Bank	11,316	7.68	% 5,891	4.0	% 7,364	5.0
Consolidated	11,108	7.54	% 5,891	4.0	% N/A	N/A
As of December 31, 2008:						
Total Risk Based Capital (to Risk Weighted Assets)						
Bank	\$10,867	10.86	% \$8,006	8.0	% \$10,007	10.0

Edgar Filing: - Form

Consolidated	10,826	10.82	%	8,006	8.0	%	N/A	N/A	
Tier I Capital									
(to Risk Weighted Assets)									
Bank	9,616	9.61	%	4,003	4.0	%	6,004	6.0	%
Consolidated	9,559	9.55	%	4,003	4.0	%	N/A	N/A	
Tier I Capital									
(to Average Assets)									
Bank	9,616	7.35	%	5,230	4.0	%	6,537	5.0	%
Consolidated	9,559	7.31	%	5,230	4.0	%	N/A	N/A	

BBI F-85

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

Capital Ratios (Continued): Banking regulations limit the amount of dividends that may be paid without prior regulatory agency approval. Since the Bank's deposits are insured by the FDIC, no dividends may be paid if the Bank is in default on any assessment due the FDIC. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 14. Shareholders' Equity

Share Purchase Agreement: In 2003, the Company entered into an agreement with East Penn Financial Corporation ("East Penn") whereby East Penn purchased 19.9% of the Company's stock in the initial public offering. The agreement included the issuance of a stock warrant that allowed East Penn to purchase and own up to 24.9 % of the Company's outstanding shares. East Penn has since been acquired by Harleysville National Corporation ("HNC"), which assumed the right to 19.9% ownership in the Company with the same terms as was extended to East Penn. HNC is presently under an agreement of sale to First Niagara Financial Group, Inc. (FNFG). The transaction is slated to close at the beginning of the second quarter of 2010, at which time FNFG will assume the right to 19.9% ownership in Berkshire Bancorp, Inc. with the same terms as was extended to HNC.

Stock Offering: On March 22, 2007, the Bank commenced the sale of 300,000 units of its common stock, which was completed in two stages through August 31, 2007. Each unit consisted of one share of common stock and one five-year, non-detachable warrant to purchase one share of common stock, exercisable until December 31, 2012 at various original exercise prices ranging from \$10.00 to \$17.50 from August 31, 2007 through December 31, 2012. The exercise prices were adjusted to reflect the stock split effected as a stock dividend. The adjusted exercise prices ranged from \$8.32 to \$11.20 ratably over the exercise term.

During the years ended December 31, 2009 and 2008, the Company received proceeds from the exercise of stock warrants in the amount of \$9 and \$670, respectively, at a weighted average exercise price of \$8.32 and \$7.45, respectively.

On September 1, 2008, the Board of Directors declared a 25% stock split effected as a 5 for 4 stock dividend to shareholders of record on September 15, 2008. The stock dividends were paid on September 30, 2008. All stock warrant information below has been adjusted to reflect the splits.

On October 26, 2009, the Bank commenced the sale of 6,000 shares of its 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C, par value \$1.00 per share, \$1,000 per share. During the year ended December 31, 2009, the Company sold 50 shares for total gross proceeds of \$50. Direct offering expenses of \$65 are netted against the gross proceeds and charged against additional paid-in capital.

TARP Capital Purchase Program: On October 3, 2008 Congress passed the Emergency Economic Stabilization Act of 2008 ("EESA"), which provides the U.S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to the U.S. markets. One of the provisions resulting from the Act was the Treasury

Capital Purchase Program (“CPP”) which provides direct equity investment of preferred stock by the U.S. Treasury in qualified financial institutions. This program is voluntary and requires an institution to comply with several restrictions and provisions, including limits on executive compensation, stock redemptions, and declaration of dividends. The CPP provides for a minimum investment of 1 percent of Risk-Weighted-Assets, with a maximum investment of the lesser of 3 percent of Risk-Weighted Assets or \$25 Billion. The cumulative perpetual preferred stock, Series A has a dividend rate of 5 percent per year until the fifth anniversary of the Treasury investment and a dividend of 9 percent, thereafter. The CPP also requires the Treasury to receive warrants for fixed rate cumulative perpetual preferred stock, Series B with liquidation value equal to 5 percent of the capital invested by the Treasury. The exercise price of the warrants was \$1.00. The Series B preferred stock has a dividend rate of 9 percent per year.

BBIF-86

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 14. Shareholders' Equity (Continued)

TARP Capital Purchase Program (Continued): On June 12, 2009, the Company received an investment in preferred stock of \$2.892 million. On the same date, the warrant for 145 shares of cumulative perpetual preferred stock, Series B was exercised. The proceeds for the preferred stock were allocated between the Series A and Series B preferred stock based on their relative fair value, using a discount rate of 12%. The original net discount is being accreted over the expected term of five years using the effective interest method. The Company has recorded dividends in the approximate amount of \$87 through December 31, 2009. In accordance with state law, because the Company is in an accumulated deficit position, the preferred stock dividends are declared from additional paid-in capital. All dividend amounts billed by the US Treasury through December 31, 2009 have been paid. The two preferred stock series qualify for and are accounted for as equity securities and included in the Company's Tier I Capital on the date of receipt.

Provisions introduced by the American Recovery and Reinvestment Act of 2009 indicate that once the Company notifies Treasury that it would like to redeem the CPP preferred stock, the Treasury must permit the Company to do so subject to consultation with the Company's federal regulator. The Company will be subject to existing supervisory procedures for approving redemption requests for capital instruments. The federal regulator will weigh the Company's desire to redeem the preferred stock against the contribution of Treasury capital to the Company's overall soundness, capital adequacy and ability to lend, including confirming that the Company has a comprehensive internal capital assessment process.

Stock Grants: The Company issues stock grants to its Executive Officers in accordance with the terms of their respective Employment contracts. The contracts provide for 764 shares of common stock each in the form of stock grants to the CEO and to the President and 489 shares of common stock in the form of stock grants to the CFO during the year ended December 31, 2008. No grants were issued in 2009. All shares had vested as of December 31, 2009.

Since 2004, a total of 6,008 stock grants have been authorized and awarded, net of cancellations, through December 31, 2009, at grant prices ranging from \$8.80 to \$10.50. Awards are adjusted for stock dividends and stock splits. The grant price is the price of the Company's stock the day following the approval of the grant and is based upon the price of the last available trade. The grants vest over a period of one year of service, per the employment agreements.

Compensation cost approximating \$0 and \$21 has been charged against income for the years ended December 31, 2009 and 2008, respectively. There was no unrecognized compensation cost at December 31, 2009.

Stock Warrants: The Company issued stock purchase warrants in 2003 with its initial public offering at a price of \$3.28 per share. Subsequently, in 2007, as part of the stock offering, the Company issued non-detachable warrants exercisable until December 31, 2012 at varying share prices ranging from \$7.36 through December 31, 2008 to \$11.20 through December 31, 2012. These prices and warrants reflect the adjusted amounts for the 5-for-4 stock split

affected as stock dividends in 2008.

	2009		2008	
	Number of Warrants	Weighted- average Exercise Price	Number of Warrants	Weighted- average Exercise Price
Outstanding, beginning of period	775,611	\$5.08	865,519	\$5.32
Granted	-	-	-	-
Expired/terminated	-	-	-	-
Exercised	(1,040)	8.32	(89,908)	7.45
Outstanding, December 31	774,571	\$5.08	775,611	\$5.08

BBI F-87

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 14. Shareholders' Equity (Continued)

Stock Warrants (Continued): The initial offering warrants and the 2007 stock offering warrants have a weighted-average remaining contractual life of 3.75 years and three years, respectively and the number of warrants exercisable totaled 433,537 and 341,034, respectively as of December 31, 2009.

Note 15. Employee Benefit Plans

The Company has a 401(k) deferred contribution salary deferral plan (with matching contributions) which covers substantially all full-time employees who meet the required criteria. The amount charged to expense was \$42 and \$43, respectively for the years ended December 31, 2009 and 2008.

The Company has a Nonqualified Supplemental Executive Retirement Plan for its Chief Executive Officer ("CEO"), President and Chief Financial Officer ("CFO") of the Company which provides a retirement benefit. The Plan is funded by life insurance. For the years ended December 31, 2009 and 2008, \$109 and \$99 was charged to expense and included in other accrued liabilities in connection with the plan.

Note 16. Other Related Party Transactions

A member of the Board of Directors is a principal of a property and casualty insurance agency that provides all the insurance coverage for the Company. The cost of the insurance was approximately \$32 and \$38 for the years ended December 31, 2009 and 2008. A member of the Board of Directors operates a general contracting company that constructed the building currently housing the Exeter branch office. The remainder of construction costs was \$6 and \$8 for the years ended December 31, 2009 and 2008. In addition, the general contracting company provides services relating to the leasehold improvements at the branch and main office locations, as well as OREO held by the Bank. These costs were \$6 for the year ended December 31, 2009. Effective September 1, 2004, the Bank has been making annual lease payments of approximately \$28 to another Director for its Operations Center in Shillington, Pennsylvania (Note 9).

Note 17. Commitments and Contingencies

During the period in which preferred stock issued under the TARP Capital Purchase Program is issued and outstanding, certain "change in control" agreements with the CEO, President and CFO of the Company, which provide for continued payment of certain employment salaries and benefits in the event of a change in control, as defined, will be prohibited in accordance with EESA provisions.

Edgar Filing: - Form

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

BBI F-88

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 17. Commitments and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2009 and 2008, commitments to extend credit amounted to approximately \$12,665 and \$14,499, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2009 and 2008, standby letters of credit with customers were \$769 and \$756, respectively.

The Bank does not issue or hold derivative instruments. The Bank does have standby letters of credit and these instruments are issued in the ordinary course of business to meet customer needs. Variable-rate commitments are generally issued for less than one year and carry market rates of interest. Such instruments are not likely to be affected by annual rate caps triggered by rising interest rates. Management believes that off-balance sheet risk is not material to the results of operations or financial condition.

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal action, which are not reflected in the financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

Note 18. Fair Value of Financial Instruments

Fair Value Measurements: The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, 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 Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date

Edgar Filing: - Form

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. In accordance with this guidance, the Company groups its assets and liabilities carried at fair value in three levels as follows:

BBI F-89

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value Measurements (Continued):

Level 1

- Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Generally, this includes debt and equity securities and derivative contracts that are traded in an active exchange market (i.e. New York Stock Exchange), as well as certain US Treasury and US Government and agency mortgage-backed securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active.
- Inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability (e.g., interest rates, yield curves, credit risks, prepayment speeds or volatilities) or “market corroborated inputs.”
- Generally, this includes US Government and agency mortgage-backed securities, corporate debt securities, derivative contracts and loans held for sale.

Level 3 Inputs

- Prices or valuation techniques that require inputs that are both unobservable (i.e. supported by little or no market activity) and that are significant to the fair value of the assets or liabilities.
- These assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Fair Value on a Recurring Basis:

Available for Sale Securities Portfolio: The fair value of available for sale securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3).

Loans Held for Sale: The fair value of loans held for sale is the market value based upon quoted market prices provided by the investor at the time of sale. The carrying value is the lower of cost or quoted market prices.

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value on a Recurring Basis (Continued):

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis.

December 31, 2009	Level 1	Level 2	Level 3	Total
Financial Assets:				
Securities available for sale	\$500	\$11,345	\$-	\$11,845
Loans held for sale	985	-	-	985
December 31, 2008				
December 31, 2008	Level 1	Level 2	Level 3	Total
Financial Assets:				
Securities available for sale	\$-	\$14,478	\$-	\$14,478
Loans held for sale	425	-	-	425

Fair Value on a Non-Recurring Basis:

Impaired Loans: The carrying value of impaired loans is derived in accordance with FASB ASC Topic 310, "Receivables". Fair value is determined based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Appraised values may be discounted based upon Management's historical knowledge and changes in market conditions from the time of valuation. The valuation allowance for impaired loans is included in the allowance for loan losses in the balance sheets. The valuation allowance for impaired loans at December 31, 2009 was \$898 resulting in an increase in fair value of \$2,126 for the year ended December 31, 2009. The valuation allowance at December 31, 2008 was \$107 resulting in an increase in fair value of \$113 for the year ended December 31, 2008.

OREO: The fair value of OREO is determined by the net realizable value of the real estate as of the reporting date. Such fair value is established by current appraised values adjusted for reasonable disposition costs. The appraised value may be discounted based on management's review and changes in market conditions (Level 3) inputs. Disclosures were not required prior to 2009, accordingly, this is not presented at December 31, 2008.

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a recurring basis.

December 31, 2009	Level 1	Level 2	Level 3	Total
Financial Assets:				
Other real estate owned	\$-	\$-	\$1,725	\$1,725
Impaired loans	-	-	3,465	3,465

BBI F-91

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value on a Non-Recurring Basis (Continued):

December 31, 2008	Level 1	Level 2	Level 3	Total
Financial Assets:				
Impaired loans	\$-	\$-	\$1,339	\$1,339

Fair Value of Financial Instruments: FASB ASC Topic 825, "Financial Instruments" requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and liabilities that are measured on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

For cash and cash equivalents and interest-bearing demand deposits with other banks, the carrying values approximate their fair values.

The net loan portfolio other than impaired loans is valued using a present value discounted cash flow method where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk.

The carrying values of accrued interest receivable, accrued interest payable and FHLB stock approximate their fair values.

The estimated fair values of non interest-bearing demand deposits, interest-bearing checking deposits, savings and certain types of money market accounts are, by their definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying values). The carrying values of variable rate deposit accounts approximate their fair values. For fixed maturity certificates of deposit, fair value is estimated using the rates currently offered for deposits of similar remaining maturities. The carrying value of accrued interest payable approximates its fair value.

The estimated fair values of borrowings are based on the discounted value of estimated cash flows. The discounted rate is estimated using the rates currently offered for similar instruments.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit and the fair value of letters of credit, are considered immaterial.

Berkshire Bancorp, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Share Data)

Note 18. Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments (Continued): The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2009 are as follows:

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$1,787	\$1,787	\$1,897	\$1,897
Federal funds sold	9,259	9,259	-	-
Interest-bearing demand deposits with other banks	506	506	235	235
Investment securities, available for sale	11,845	11,845	14,478	14,478
Loans, net of unearned income	108,560	109,860	103,500	105,592
Loans held for sale	978	985	420	425
FHLB stock	1,108	1,108	1,076	1,076
Accrued interest receivable	456	456	552	552
Financial liabilities:				
Noninterest-bearing demand	6,821	6,821	5,761	5,761
Interest-bearing demand and time deposits	121,257	122,077	97,556	99,494
Federal funds purchased	-	-	396	396
Borrowings	4,304	4,352	16,798	17,110
Accrued interest payable	77	77	180	180

BBI F-93

ANNEX A

PLAN OF MERGER AND REORGANIZATION

Date: _____, 2011

CUSTOMERS BANK (the "Bank"), a banking institution organized under the Pennsylvania Banking Code of 1965, as amended (the "Banking Code"), and NEW CENTURY INTERIM BANK (the "Surviving Bank"), an interim bank in organization under the Banking Code, and Customers Bancorp, Inc. (the "Holding Company"), a Pennsylvania business corporation organized under the Pennsylvania Business Corporation Law of 1988, as amended, hereby enter into this Plan of Merger and Reorganization (the "Plan").

In consideration of their mutual promises and covenants, and intending to be legally bound hereby, the parties hereto, deeming it to be advantageous to their respective banking associations, corporation and their shareholders, have duly approved this Plan and its execution, and do hereby adopt this Plan setting forth the method, terms and conditions of the merger, including the rights under the Plan of the shareholders of each of the parties, and the agreements concerning the merger:

1. Merger. The Bank shall merge into the Surviving Bank under the charter of the Surviving Bank, under the title of "Customers Bank," and pursuant to the provisions of the Banking Code, by the method, on the terms and subject to the conditions and requirements hereinafter stated. Upon the merger becoming effective, Bank and Surviving Bank shall be merged into and continued in a single institution, the Surviving Bank, which shall be a Pennsylvania chartered bank and which shall be considered the same business and corporate entity as the constituent institutions. The Surviving Bank shall thenceforth be responsible for all of the liabilities and obligations of the Bank.. The Surviving Bank shall, upon consummation of the merger, engage in the business of a Pennsylvania chartered bank at the principal office and the legally established and approved branch offices of the Bank. Surviving Bank shall maintain the insurance of the Federal Deposit Insurance Corporation in the same way as it is now carried by the Bank.
2. Articles of Incorporation of Surviving Bank. When the merger becomes effective, the initial Articles of Incorporation of the Surviving Bank shall be substantially in the form attached hereto as Exhibit A attached hereto and incorporated herein.
3. Bylaws of Surviving Bank. When the merger becomes effective, the initial Bylaws of the Surviving Bank shall be substantially in the form attached hereto as Exhibit B attached hereto and incorporated herein, and the principal office and established and authorized branch offices of the Bank shall become the principal office and established and authorized branch offices, respectively, of the Surviving Bank.
4. Board of Directors of Surviving Bank. The persons who shall constitute the Board of Directors of the Surviving Bank at the time the merger becomes effective shall be the persons who were then members of the Board of Directors of the Bank. They shall serve until the subsequent annual meeting of shareholders of Surviving Bank or until their successors are duly qualified and elected. Any vacancy in the Board of Directors of the Surviving Bank which may exist upon or after the effective date of the merger may be filled as provided by the Articles of Incorporation and Bylaws of the Surviving Bank. The officers of the Bank at the time the merger becomes effective shall hold the same offices in the Surviving Bank.

5. Conversion of Shares: Exchange of Certificates: Capitalization. Upon the merger becoming effective:

(a) Each three (3) issued and outstanding shares of voting common stock of the Bank shall, ipso facto, and without any action on the part of the holder thereof, become and be converted into one (1) share of voting common stock of the Holding Company, par value \$1.00 per share. Each three (3) issued and outstanding shares of Class B Non-Voting Common Stock of the Bank, if then authorized and issued, shall, ipso facto, and without any action on the part of the holder thereof, become and be converted into one (1) share of Non-Voting Common Stock of the Holding Company, par value \$1.00 per share.

(b) As soon as practicable after the merger becomes effective, holders of shares of Bank common stock shall be furnished a form letter of transmittal for the tender of their share certificates to the Surviving Bank, which shall act as "Exchange Agent" for the Holding Company, to be exchanged for new certificates for the appropriate number of shares of Holding Company common stock. Holding Company shall be required to issue certificates for Holding Company common stock only upon the actual surrender of Bank shares or an acceptable indemnity agreement or bond from any Bank shareholder who is unable to surrender his or her certificate by reason of loss or destruction of the certificate. Upon surrender for cancellation to the Exchange Agent of one or more certificates for shares of Bank common stock, accompanied by a duly executed letter of transmittal in proper form, or an appropriate indemnity agreement or bond, as the case may be, the Exchange Agent shall, promptly after the effective date of the merger, deliver to each holder of such surrendered Bank certificates new certificates representing the appropriate number of shares of Holding Company common stock. Until certificates for Bank common stock have been surrendered and exchanged as herein provided for certificates of Holding Company common stock, each outstanding certificate for Bank common stock shall be deemed, for all corporate purposes, to be the number of full shares of Holding Company common stock into which the number of shares of Bank common stock shown thereon have been converted. In the event that any certificates for Bank common stock are not surrendered for exchange within two (2) years from the effective date of the merger, the shares of Holding Company common stock that would otherwise have been delivered in exchange for the unsurrendered Bank certificates shall be delivered by the Exchange Agent to the Holding Company, in which event the persons entitled thereto shall look only to the Holding Company for delivery of the Holding Company shares upon surrender of their outstanding certificates for Bank common stock. Following the expiration of such two (2) year period, the Holding Company may sell such unclaimed Holding Company common stock, in which event the sole right of the holders of the unsurrendered outstanding Bank certificates shall be the right to collect the net sale proceeds held for their account by the Holding Company. In the event that Holding Company shall, as required or permitted by law, pay to the Commonwealth of Pennsylvania any net sale proceeds relating to unclaimed Holding Company common stock, the holders of unsurrendered outstanding Bank certificates shall thereafter look only to the Commonwealth of Pennsylvania for payment on account thereof.

(c) Prior to the merger becoming effective, the Surviving Bank will have a capital of \$100,000 consisting of 100,000 issued and outstanding shares of common stock, par value \$1.00 per share, and a surplus of \$55,000. Upon the merger becoming effective: (i) the amount and number of issued and outstanding shares of common stock of the Surviving Bank shall be increased to an amount equal to the total, immediately before the merger, of (A) the issued and outstanding shares of common stock of the Bank, now being _____ shares, and (B) the issued and outstanding shares of common stock of the Surviving Bank; (ii) the surplus of the Surviving Bank shall be increased to an amount equal to the total of the surplus of the Bank and the surplus of the Surviving Bank immediately before the merger; and (iii) all of the issued and outstanding shares of the Surviving Bank, as increased by the number of issued and outstanding shares of the Bank, shall be issued to and owned by the Holding Company.

(d) Except as provided below in connection with fractional shares, no cash shall be allocated to shareholders of the Bank or to any other person, firm, or corporation upon and by reason of the merger becoming effective. Cash fees will, however, be paid to attorneys, accountants and other like persons for services rendered in the accomplishment of the merger and reorganization and other phases of the overall transaction; some of these persons may be shareholders of the Bank and of Holding Company. The Holding Company will not issue any fractional shares of its common stock in the reorganization. Holders of Bank voting common stock or Class B Non-Voting Common Stock who would otherwise be entitled to a fractional share of Holding Company common stock or Holding Company Class B Non-Voting Common Stock will instead receive an amount in cash, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of such share to which the holder would otherwise have been entitled and (ii) the book-value of one share of voting common stock of the Bank as of the final day of the quarter ended immediately prior to the consummation of the merger.

(e) Each then outstanding warrant or option to acquire shares of the common stock of the Bank heretofore issued by the Bank shall, ipso facto, and without any action on the part of the holder thereof, become and be converted into a warrant or option, respectively, to acquire one-third the number of shares of the Holding Company on the same terms and conditions and shall remain outstanding. The number of shares of Holding Company stock for which each outstanding option or warrant will be exercisable after the consummation of the merger will be rounded up to the nearest whole number of shares, subject to the holder's agreement to any necessary corresponding upward rounding adjustments of the exercise price to the nearest whole cent. After the merger becomes effective the Holding Company may, but is not obligated to, issue amended warrant or option agreements reflecting the conversion and the assumption of such warrants or options.

6. Dissenting Shareholders. The rights and remedies of a dissenting shareholder under Sections 1607 and 1222 of the Pennsylvania Banking Code, 7 P.S. Sections 1607 and 1222, and, thereby, Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law of 1988, as amended (15 Pa. C.S. Section 1571 et seq.) shall be afforded to any shareholder of the Bank who takes the necessary steps to perfect his or her dissenters rights. The Bank will make whatever payments are to be made to validly dissenting shareholders in the exercise of such rights. Unless otherwise provided by law, shares of the Holding Company not taken by the dissenting shareholders of the Bank shall not be issued.

7. Conditions. The merger provided under this Plan shall take place only if: (i) this Plan is approved (A) by the affirmative vote of holders of at least two-thirds (2/3) of the outstanding shares of common stock of the Bank and (B) by the Holding Company as a shareholder of the Surviving Bank, in accordance with applicable law; (ii) this Plan, the merger and any constituent steps are approved by the Pennsylvania Department of Banking, the Board of Governors of the Federal Reserve System and (if applicable) the Federal Deposit Insurance Corporation, and the Notice or Application, as applicable, of the Holding Company to form a bank holding company is not objected to, or is otherwise approved, by the Board of Governors of the Federal Reserve System and all other requirements prescribed by law are satisfied; (iii) the Bank receives an opinion of its special counsel, Stradley Ronon Stevens & Young, LLP,

Edgar Filing: - Form

to the effect that the transactions contemplated herein constitute a tax-free reorganization under the Internal Revenue Code of 1986, as amended, and that neither gain nor loss will be recognized for federal income tax purposes to the Bank, the Surviving Bank, the Holding Company or the shareholders of the Bank (other than the dissenting shareholders who elect dissenters' rights), the Surviving Bank and the Holding Company, by reason of the transactions contemplated herein, and as to such further matters relating to the tax consequences of the transactions contemplated hereby, as the Bank may deem advisable; and (iv) there shall be no litigation or proceeding pending or threatened for the purpose of enjoining, restraining or preventing the consummation of the merger in accordance with this Plan.

A-3

8. Amendment; Termination. At any time before the merger becomes effective, by vote of a majority of the Board of Directors of each of the Bank, the Holding Company and the Surviving Bank, this Plan (a) may be amended in any manner not inconsistent with its general purpose, provided that no amendment shall change the share exchange ratio following approval of this Plan by the shareholders of the Bank, or (b) may be terminated for any reason, including without limitation for reasons such as because of the number of shares of common stock of the Bank exercising dissenters' rights, or if it shall appear that the consummation of the Plan would be inadvisable for any reason. If this Plan is terminated pursuant to this Section, this Plan shall be void and of no further effect, without any liability on the part of any of the parties hereto, or their respective directors, officers, shareholders or agents.

9. Shares of Holding Company Subscribers. The shares of the Holding Company, subscribed for by the initial subscriber or subscribers for common stock of the Holding Company, shall be purchased by such subscriber or subscribers by the payment of each individual incorporator's own cash to the Holding Company. Upon consummation of the merger, each subscriber for common stock of the Holding Company shall sell, surrender and redeem all of such subscriber's stock subscribed for to the Holding Company for cash.

10. Financing of Initial Capitalization. In order to provide funds with which the Holding Company can purchase shares of common stock of the Surviving Bank for \$155,000 (which Surviving Bank shall allocate as follows: Capital - \$100,000; Surplus - \$50,000; Expense Fund - \$5,000), the Holding Company will make a temporary borrowing from an unaffiliated lender. After consummation of the merger the Surviving Bank will pay a special cash dividend to the Holding Company which will enable the Holding Company to repay the principal amount of said loan in full plus interest.

11. Issuance of Shares. When required by the terms of this Plan, the Holding Company will issue the shares of its common stock which the shareholders of the Bank shall be entitled to receive as hereinabove provided, and will perform all other acts necessary for it to comply with the provisions of this Plan.

12. Assumption and Amendment of Stock Option Plan. Upon the merger becoming effective, without any further action being required:

(a) the Holding Company shall assume all equity compensation, employee retirement and employee benefit plans of the Bank (each, a "Plan");

(b) all then outstanding grants by the Bank under any Plan shall be converted, to the extent required, to grants by the Holding Company under such Plan; and

(c) each Plan shall be deemed amended and restated: (i) to substitute the Holding Company and the common stock of the Holding Company for the Bank and the common stock of the Bank, respectively; and (ii) to provide that eligible participants under the Plan shall include the same category or categories of officers, other employees, and non-employee directors, of the Holding Company and any current or future subsidiary of the Holding Company, including the Bank, as the categories of officers, other employees and non-employee directors of the Bank currently eligible to be participants under the Plan. The maximum number of shares of Holding Company common stock that have been or may be issued or transferred under any Plan immediately after the merger shall be the same as the maximum number of shares of Bank common stock immediately prior to the Merger, and the maximum aggregate number of shares of Holding Company common stock that shall be subject to options or awards under any Plan to any single individual immediately after the merger shall be the same as the maximum number of shares of Bank common stock immediately prior to the merger, subject to any adjustment provisions of the Plan. Approval of this Plan of Merger and Reorganization shall constitute approval of each Plan as so amended by the directors and shareholders of the Bank and Holding Company for all purposes, including, without limitation, for purposes of Sections 162(m) and 422 of Internal Revenue Code of 1986, as amended, and Section 16(b) of the Securities Exchange Act of 1934, as amended, and the exemptive rules promulgated thereunder.

13. Board of Directors of Holding Company. The persons who shall constitute the Board of Directors of the Holding Company at the time the merger becomes effective shall be the persons who were then members of the Board of Directors of the Bank immediately prior to the merger. The Board of Directors of the Holding Company shall, to the extent consistent with the provisions of the Holding Company Articles of Incorporation and Bylaws and applicable law, be divided into three classes, with members of one class serving until the first Holding Company annual meeting and members of each of the other two classes serving until successive annual meetings. The directors in each class shall serve until the annual meeting of shareholders of the Holding Company at which his or her class is to be re-elected or until their successors are duly qualified and elected. The members of each class shall be designated initially by the Board of Directors. Any vacancy in the Board of Directors of the Holding Company which may exist upon or after the effective date of the merger may be filled as provided by the Articles of Incorporation and Bylaws of the Holding Company.

14. Affiliates; Agreements Relating to Resales of Holding Company Securities. The Bank shall prepare and deliver to Holding Company, prior to completion of the merger, a list that identifies all persons whom the Bank believes may be deemed to be "affiliates" of Bank or Holding Company under applicable securities laws. The Bank shall use its commercially reasonable best efforts to cause each person whom it identifies on the list as a potential affiliate to deliver, at or prior to the completion of the transaction, a written agreement that the affiliate will not sell, pledge, transfer or otherwise dispose of any Holding Company shares issued to the affiliate pursuant to the transaction unless the sale, pledge, transfer or other disposition meets one of the following criteria: (1) it is made pursuant to an effective registration statement filed under the Securities Act; (2) it is in compliance with Rule 144; or (3) in the opinion of counsel, it is otherwise exempt from the registration requirements of the Securities Act. Without limiting the foregoing, any shares of Holding Company common stock issued to any persons deemed to be "affiliates" for such persons shall, at the discretion of management, include a legend disclosing applicable restrictions on transfer for such

“control shares.”

A-5

15. Waiver. Any of the terms or conditions of this Plan may be waived in writing at any time by the Bank by action taken by its Board of Directors, whether before or after action by the Bank's shareholders, provided, however, that such action shall be taken only if, in the judgment of the Board of Directors, such waiver will not have a materially adverse effect on the benefits intended to be granted hereunder to the shareholders of the Bank.

16. Governing Law. This Plan shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, except as such may be pre-empted by federal law.

17. Entire Agreement. This Plan contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

18. Counterparts. This Plan may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

[signature page follows]

Edgar Filing: - Form

IN WITNESS WHEREOF, each of the parties hereto has caused this instrument to be executed by its Chief Executive Officer and its seal affixed, attested by its Secretary, all under authority of its Board of Directors.

Attest: [Corporate Seal] CUSTOMERS BANK

Gertrude M. Hackney
Secretary

By: _____
Jay S. Sidhu
Chairman & CEO

Attest: [Corporate Seal] NEW CENTURY INTERIM BANK

Gertrude M. Hackney
Secretary

By: _____
Jay S. Sidhu
Chairman & CEO

Attest: [Corporate Seal] Customers Bancorp, Inc.

Gertrude M. Hackney
Secretary

By: _____
Jay S. Sidhu
Chairman & CEO

Exhibit A to Agreement and Plan of Merger and Reorganization

Draft Articles Of Incorporation of Interim Bank

ARTICLES OF INCORPORATION

TO THE DEPARTMENT OF BANKING OF
THE COMMONWEALTH OF PENNSYLVANIA:

In compliance with the requirements of the Pennsylvania Banking Code of November 30, 1965, P.L. 847, as amended, the undersigned hereby states that:

ARTICLE I

Name and Place of Business

Section 1 The name of the institution is New Century Interim Bank (the “Bank”).

Section 2 The location and post office address of its principal place of business are at 99 Bridge Street, Phoenixville, PA 19460.

ARTICLE II

Purpose and Term

Section 1 The institution is incorporated for the purpose of receiving deposits, making loans and generally transacting all business permitted to a bank, as defined in the Banking Code of 1965, as amended, and under any present or future laws of the Commonwealth of Pennsylvania.

Section 2 The Bank is to have perpetual existence.

Section 3 The institution is incorporated under the provisions of the Banking Code of 1965, as amended.

ARTICLE III

Capitalization

Section 1 The total number of shares of all capital stock which the Bank shall have the authority to issue is 41,500,000 shares of capital stock consisting of:

- (i) 40,000,000 share of voting common stock, par value \$1.00 per share (the “Voting Common Stock”),
- (ii) 500,000 shares of nonvoting common stock, par value \$1.00 per share (the “Nonvoting Common Stock”), and
- (iii) 1,000,000 shares of preferred stock in one or more series, any series having such par value or no par value as may be determined by the Bank’s board of directors from time to time as more fully provided in this Article (the

“Preferred Stock”).

- 1 -

Section 2 The Bank's board of directors is hereby authorized and vested with the exclusive authority to establish one or more additional series of common stock and one or more series of preferred stock, without further approval by the shareholders of the Bank, but nevertheless subject to compliance with provisions of applicable law including without limitation applicable provisions of the Pennsylvania Banking Code.

Section 3 As to any series of common or preferred stock hereafter established by the Bank's board of directors, whether or not the shares in such series have par value and, if so, the par value, whether or not the shares in such series have voting rights and if so whether such voting rights are full, limited, multiple or fractional, and the designations, preferences, qualifications, privileges, limitations, redemption provisions, options, conversion rights and other special rights attributable to the shares in such series, shall be as may be established and changed from time to time by a resolution or resolutions providing for the issue of such shares, in each case adopted by the Bank's board of directors. Without limiting the foregoing, the Board of Directors shall have authority to establish any and all of the following:

- (a) The distinctive serial designation and the number of shares constituting any series;
- (b) The dividend rate or the amount of dividends to be paid on the shares of such series, whether dividends shall be cumulative and, if so from which date(s) the payment date(s) for dividends and the participating or other special rights, if any, with respect to dividends;
- (c) The voting powers, full or limited, if any, or shares of such series;
- (d) Whether the shares of such series shall be redeemable and, if so, the price(s) at which, and the terms and conditions of which, such shares may be redeemed;
- (e) The amount(s) payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution, or winding up of the Bank;
- (f) Whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price(s) at which such shares may be redeemed or purchased through the application of such fund;
- (g) Whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes of stock of the Bank and, if so, the conversion price(s) or the rate(s) of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;

- (h) The price or other consideration for which the shares of such series shall be issued;
- (i) Whether the shares of such series which are redeemed or converted shall have the status of authorized but unissued shares of serial preferred stock and whether such shares may be reissued as shares of the same or any other series of serial preferred stock;
- (j) Preferences as to dividends or assets which are prior or subordinate to or on parity with any other class or series; and
- (k) Designations, qualifications, privileges, limitations, redemption provisions, options, conversion rights and other special rights, including, but not limited to, voting rights, which are greater or lesser than or equal to those of any other class or series, whether or not the other shares are issued or outstanding at the time when the board of directors acts to determine them.

Section 4 Any of the terms of a class or series of preferred shares may be made dependent upon facts ascertainable outside of these articles, or outside of the resolution or resolutions providing for the issue of such shares adopted by the board of directors pursuant to the authority vested in the board of directors by this Article, provided that the manner in which the facts will operate upon the terms of the class or series is set forth in the resolution or resolutions providing for the issue of such shares adopted by the board of directors.

Section 5 No shareholder of any class of capital stock or any series of any class of capital stock shall have a pre-emptive right to purchase, pro rata or otherwise, additional shares of any class or series of capital stock or any other security of the Bank.

Section 6 The Board of Directors, in its sole discretion, has authority to sell any treasury stock and/or authorized but unissued stock or other securities of the Bank, or any options, warrants or other rights to purchase any of the foregoing, upon such terms as the Board of Directors deems advisable.

ARTICLE IV

The name, occupation, place of residence and post office address of each of the incorporators of the Institution, two-thirds of whom are citizens of the United States of America, and the number of shares subscribed by each are as follows:

Name	Occupation	Place of Residence and Post Office Address	Number of Shares of Common Stock Subscribed
Richard A. Ehst	Banker	1309 East Wyomissing Boulevard, Reading, PA 19611	1,000
Gertrude M. Hackney	Banker	1324 Barrowdale Rd., Rydal, PA 19046	1,000
Thomas Brugger	Banker	1142 Lehigh Avenue, Wyomissing, PA 19610	1,000

ARTICLE V
Ownership Limitation

Section 1 Except as provided in Article V, Section 2, no shareholder may have Holdings (as defined in Section 4 of this Article) of shares that exceed twenty-five percent (25%) of the issued and outstanding shares of Common Stock.

Section 2 Upon the resolution of at least two-thirds of the Board of Directors, the restriction imposed by Article V, Section 1 may be waived with respect to the Holdings of any shareholders.

Section 3 If any shareholder acquires Holdings which cause the violation of the restriction contained in Article V, Section 1, the Board of Directors may (i) terminate all voting rights attributable to the shares owned beneficially by such shareholder (the "Substantial Shareholder") during the time that Article V, Section 1 is being violated; (ii) commence litigation to require the divestiture of such amount of the shares so that after such divestiture the shareholder would no longer be in violation of the restriction contained in Article V, Section 1; or (iii) take such other action as is appropriate under the circumstances.

Section 4 A shareholder's Holdings, as such term is used in this Article V are: (i) the Common Stock the shareholder owns of record; (ii) the Common Stock to which the shareholder has direct or indirect beneficial ownership and (iii) the Common Stock owned of record or beneficially (as defined in this Section) by other shareholder(s) acting together with the shareholder as a group for the purpose of acquiring, holding or disposing of Common Stock (such group is hereinafter referred to as a "Shareholder Group"). The Board of Directors may use, but is not necessarily limited to, the following indicia to determine "beneficial ownership": the effect of stock ownership by a person's spouse and minor children; ownership of shares held by a corporation or foundation of which a Substantial Shareholder is an officer or affiliate; the extent of a Substantial Shareholder's ownership of partnership shares; transfers pursuant to divorce; installment purchases; stock warrants, grants and options; control over the voting power of any stock; the status of a Substantial Shareholder as trustee, trust beneficiary or settlor of a trust of which part or all of the corpus is shares of the common stock of the Bank; and stock dividends. The Board of Director's determination of the existence and membership of a Shareholder Group, of a shareholder's Holdings and of the record are conclusive, absent proof of bad faith.

Section 5 This Article V may not be amended unless approved by the affirmative vote of at least two-thirds (2/3) of the outstanding shares of Common Stock of the Bank.

ARTICLE VI
Control Transactions

Section 1 Section 1610 of the Banking Code of 1965 (relating to the right of shareholders to receive payment for shares following a control transaction) shall not apply to the institution.

ARTICLE VII

The name, occupation, place of residence and post office address of each of the first directors, all of whom shall serve until the first annual meeting of shareholders of the Institution and until their respective successors are elected, are:

Name	Occupation	Place of Residence and Post Office Address
Jay S. Sidhu	Banker	5 Chardonnay Circle, Mohnton, PA 19540
Richard A. Ehst	Banker	1309 East Wyomissing Boulevard, Reading, PA 19611
Thomas Brugger	Banker	1142 Lehigh Avenue, Wyomissing, PA 19610
Gertrude M. Hackney	Banker	1324 Barrowdale Rd., Rydal, PA 19046
Warren Taylor	Banker	320 Mill Race Lane, Newtown, PA 18940

ARTICLE VIII
Acquisition Offers

Section 1 The Board of Directors may, if it deems it advisable, oppose a tender, or other offer for the Bank's securities, whether the offer is in cash or in the securities of a corporation or otherwise. When considering whether to oppose an offer, the Board of Directors may, but is not legally obligated to, consider any relevant or pertinent issue; by way of illustration, but not of limitation, the Board of Directors may, but shall not be legally obligated to, consider any or all of the following:

- (a) whether the offer price is acceptable based on the historical and present operating results or financial condition of the Bank;
- (b) whether a more favorable price could be obtained for the Bank's securities in the future;
- (c) the social and economic effects of the offer or transaction on this Bank and any of its subsidiaries, employees, depositors, loan and other customers, creditors, shareholders and other elements of the communities in which this Bank and any of its subsidiaries operate or are located;
- (d) the business and financial conditions and earnings prospects of the offeror, including, but not limited to, debt service and other existing or likely financial obligations of the offeror, and the possible affect of such conditions upon this Bank and any of its subsidiaries and the other elements of the communities in which this Bank and any of its subsidiaries operate or are located;
- (e) the value of the securities (if any) which the offeror is offering in exchange for the Bank's securities, based, on an analysis of the worth of the Bank as compared to the corporation whose securities are being offered;
- (f) any antitrust or other legal and regulatory issues that are raised by the offer.

Section 2 If the Board of Directors determines that an offer should be rejected, it may take any lawful action to accomplish its purpose including, but not limited to, the following: advising shareholders not to accept the offer; litigation against the offeror; filing complaints with all governmental and regulatory authorities; acquiring securities; selling or otherwise issuing authorized but unissued securities or treasury stock or granting options with respect thereto; acquiring a company to create an antitrust or other regulatory problem for the offeror; or obtaining a more favorable offer from another individual or entity.

Section 3 This Article VIII may not be amended unless first approved by the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of common stock of the Bank.

ARTICLE IX

Special Voting and Concurrence Provision

Section 1 The Bylaws may be altered, amended or repealed by the affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Common Stock at regular or special meeting duly convened after notice to the shareholders of that purpose, or by a majority vote of the members of the Board of Directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, (except the directors shall not make or alter any bylaws fixing their qualification, classification or term of office) subject always to the power of the shareholders to change such action of the Board of Directors by the affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Common Stock.

Section 2 No merger, consolidation, liquidation or dissolution of the Bank nor any action that would result in the sale or other disposition of all or substantially all of the assets of the Bank shall be valid unless first approved by the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of common stock of the Bank.

Section 3 This Article IX may not be amended unless first approved by the affirmative vote of the holders of at least two-thirds (2/3) of the outstanding shares of common stock of the Bank.

- 0 – 0 – 0 –

IN WITNESS WHEREOF, the incorporators have signed and sealed these Articles of Incorporation this 17th day of December, 2010

Richard A. Ehst, Incorporator

Gertrude M. Hackney, Incorporator

Thomas Brugger, Incorporator

Exhibit B to Agreement and Plan of Merger and Reorganization

BYLAWS
of
NEW CENTURY INTERIM BANK

Article I.

PURPOSE

Section 1.1 New Century Interim Bank will provide banking services to its community in a manner that stimulates community consciousness and vision, involves its customers in forming that vision and provides funds for the achievement of the vision. The Bank will provide security for its depositors, a sound financial basis for its future and a fair return to its shareholders.

Section 1.2 The Bank shall have and continuously maintain in Pennsylvania a registered office.

Article 2

SHAREHOLDERS MEETINGS

Section 2.1 All meetings of the shareholders shall be held within the Commonwealth of Pennsylvania at such time and place as may be fixed from time to time by the Board of Directors.

Section 2.2 The annual meeting of the shareholders shall be held at such time and place as may be set by the Board of Directors but not later than the thirty-first day of May in each year, when the shareholders shall elect directors to the Board of Directors and transact such other business as may properly be brought before the meeting.

Section 2.3 Special meetings of the shareholders may be called at any time by the Chairperson of the Board, the President, a majority of the Board of Directors or by one or more shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast at the particular meeting. If such request is addressed to the Secretary, it shall be signed by the persons making the same and shall state the purpose or purposes of the proposed meeting. Upon receipt of any such request, the Secretary shall fix the date of such meeting to be held not more than sixty (60) days after the receipt of the request and shall give due notice thereof. In the event of the Secretary's failure within thirty (30) days after the receipt of the request to fix the date or give the notice, the person or persons making the request may issue the call.

Section 2.4 Written notice of all meetings other than adjourned meetings of shareholders, stating the place, date and hour, and, in case of special meetings of shareholders, the purpose thereof, shall be served upon, or mailed, postage prepaid, or telegraphed, charges prepaid, at least ten (10) days before such meeting, unless a greater period of notice is required by statute or by these Bylaws, to each shareholder entitled to vote thereat at such address as appears on the transfer books of the Bank.

Article 3

QUORUM OF SHAREHOLDERS

Section 3.1 The presence, in person or by proxy, of the holders of a majority of the outstanding shares entitled to vote shall constitute a quorum. If a meeting cannot be organized for lack of a quorum, those present may adjourn the meeting to such time and place as they may determine.

In the case of a meeting for the election of directors which is twice adjourned for lack of a quorum, those present at the second of such adjourned meetings shall constitute a quorum for the election of directors without regard to the other quorum requirements of this section, the articles or bylaws.

Article 4

VOTING RIGHTS

Section 4.1 Except as may be otherwise provided by statute or by the Articles of Incorporation, at every shareholders meeting, every shareholder entitled to vote thereat shall have the right to one vote for every share having voting power standing in his or her name on the books of the Bank on the record date fixed for the meeting. No share shall be voted at any meeting if an installment is due and unpaid thereon.

Section 4.2 When a quorum is present at any meeting the voice vote of the holders of a majority of the stock having voting power, present, in person or by proxy, shall decide any question brought before such meeting except as provided differently by statute or by the Articles of Incorporation.

Section 4.3 Upon demand made by a shareholder entitled to vote at any election for directors before the voting begins, the election shall be by ballot.

Article 5

PROXIES

Section 5.1 Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him or her by proxy. Every proxy shall be executed in writing by the shareholder or his or her duly authorized attorney in fact and filed with the Secretary of the Bank. A proxy shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary of the Bank. No unrevoked proxy shall be valid after eleven (11) months from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker, unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Bank.

Article 6

RECORD DATE

Section 6.1 The Board of Directors may fix a time, not more than forty-five (45) days prior to the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares. The Board of Directors may close the books of the Bank against transfers of shares during the whole or any part of such period, and in such case written or printed notice thereof shall be mailed at least ten (10) days before closing thereof to each shareholder of record at the address appearing on the records of the Bank or supplied by him or her to the Bank for the purpose of notice. While the stock transfer books of the Bank are closed, no transfer of shares shall be made thereon. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to receive notice of, and vote at, a shareholders meeting, transferees of shares which are transferred on the books of the Bank within ten (10) days next preceding the date of such meeting shall not be entitled to notice of or to vote at such meeting.

Article 7

VOTING LISTS

Section 7.1 The officer or agent having charge of the transfer books for shares of the Bank shall make, at least five (5) days before each meeting of shareholders, a complete alphabetical list of the shareholders entitled to vote at the meeting, with their addresses and the number of shares held by each, which list shall be kept on file at the registered office or principal place of business of the Bank and shall be subject to inspection by any shareholder during normal business hours and at the time and place of the meeting during the entire meeting. The original transfer books for shares of the Bank, or a duplicate thereof kept in this Commonwealth, shall be prima facie evidence as to who are the shareholders entitled to exercise the rights of a shareholder.

Article 8

JUDGES OF ELECTION

Section 8.1 In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the Chairperson of any such meeting may, and on the request of any shareholder or his or her proxy shall, make such appointment at the meeting. The number of judges shall be one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the majority of shares present and entitled to vote shall determine whether one or three judges are to be appointed. No person who is a candidate for office shall act as a judge. The judges of election shall do all such acts as may be proper to conduct the election or vote, and such other duties as may be prescribed by statute, with fairness to all shareholders, and if requested by the Chairperson of the meeting or any shareholder or his or her proxy, shall make a written report of any matter determined by them and execute a certificate of any fact found by them. If there are three judges of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

Article 9

CONSENT OF SHAREHOLDERS IN LIEU OF MEETING

Section 9.1 Any action required to be taken at a meeting of the shareholders, or of a class of shareholders, may be taken without a meeting, if a consent or consents in writing setting forth the action so taken shall be signed by all of the shareholders who would be entitled to vote at a meeting for such purpose and shall be filed with the Secretary of the Bank.

Article 10

DIRECTORS

Section 10.1 Nominations for the election of directors may be made by the Board of Directors or by any shareholder entitled to vote in the election of directors. All nominations made by any shareholder must be made in writing, delivered or mailed by registered or certified mail, postage prepaid, return receipt requested, to the Secretary of the Bank not less than thirty (30) days nor more than sixty (60) days prior to any meeting of the shareholders called for the election of directors. If less than thirty (30) days' notice of the meeting is given to the shareholders, the nomination shall be delivered or mailed to the Secretary not later than the close of the seventh (7th) day following the day on which notice of the meeting was mailed to shareholders. Every nomination shall include:

- (a) the consent of the person nominated to serve as a director;
- (b) the name, age, business address and residence address of the nominee;
- (c) the principal occupation or employment of the nominee;
- (d) the number of shares of the Bank beneficially owned by the nominee;
- (e) the name and address of the notifying shareholder; and
- (f) the number of shares of the Bank owned by the notifying shareholder.

The chairperson of any meeting called for the election of directors shall reject any nomination made by any shareholder which was not made in accordance with the provisions of this Section, unless the Board of Directors has agreed to waive said provisions as to such nomination. In the event that the same person is nominated by more than one shareholder, if at least one nomination for such person complies with this Section, the nomination shall be honored and all votes cast for such nominee shall be counted. Nominations for the election of directors made by the Board of Directors need not comply with the provisions of this Section.

Section 10.2 Within the requirements of law, the exact number of directors shall be determined from time to time by resolution adopted by an affirmative majority vote of the Board of Directors. However, no increase in the number of directors shall shorten the term of any incumbent director.

Section 10.3 The Board of Directors shall be divided into three classes (Class A, Class B and Class C), as nearly equal in number as the then total number of directors constituting the whole Board permits, with the term of office of one class expiring each year. At the first annual meeting of shareholders, directors in Class A shall be elected to hold office for one (1) year term; directors in Class B shall be elected to hold office for a two (2) year term; and directors in Class C shall be elected to hold office for a three (3) year term. Each class shall be elected in a separate election.

Section 10.4 Within the requirements of law, the term and number of directors in each class shall be fixed, from time to time, by the Board of Directors. The term of office, until otherwise fixed, for all directors elected at each annual meeting held after the first annual meeting shall be three (3) years from the date of their election. At each annual meeting after the first annual meeting, elections shall be held to elect directors to replace those whose terms have expired. All directors shall continue in office after the expiration of their term until their successors are elected or appointed and have qualified, except in the event of earlier resignation, removal or disqualification.

Section 10.5 Each director shall be required to attend a minimum of 75% of meetings of directors properly called under Article 13, each calendar year.

Article 11

VACANCIES ON BOARD OF DIRECTORS

Section 11.1 Any vacancies in the Board of Directors for any reason, including vacancies caused by any increase in the number of directors, may be filled by the Board of Directors, acting by a majority of the directors then in office, although less than a quorum. Any director chosen to fill a vacancy in any class of directors defined in Section 3 of Article 10 shall become a member of the class of directors in which the vacancy occurred. Such director shall hold office for the remainder of the original term of such vacancy.

Article 12

POWERS OF BOARD OF DIRECTORS

Section 12.1 The business and affairs of the Bank shall be managed by its Board of Directors, which may exercise all such powers of the Bank and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws directed or required to be exercised and done by the shareholders.

Section 12.2 The Board of Directors may appoint each year such number of Advisory Directors as the Board may from time to time determine.

Article 13

MEETINGS OF THE BOARD OF DIRECTORS

Section 13.1 An organization meeting may be held immediately following the annual shareholders meeting without the necessity of notice to the directors to constitute a legally convened meeting, or the directors may meet at such time and place as may be fixed by either a notice or waiver of notice or consent signed by all of such directors.

Section 13.2 Regular meetings of the Board of Directors shall be held not less often than semi-annually at a time and place determined by the Board of Directors at the preceding meeting. One or more directors may participate in any meeting of the Board of Directors, or of any committee thereof, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another.

Section 13.3 Special meetings of the Board of Directors may be called by the Chairperson of the Board or the President and shall be called at the request of any three Directors on one day's notice to each director, either personally or by mail, telegram or telephone; special meetings shall be called by the Chairperson of the Board or the President in like manner and on like notice upon the written request of three directors.

Section 13.4 At all meetings of the Board of Directors, a majority of the directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at a meeting in person or by conference telephone or similar communications equipment at which a quorum is present in person or by such communications equipment shall be the acts of the Board of Directors, except as may be otherwise specifically provided by statute or by the Articles of Incorporation or by these Bylaws.

Article 14

INFORMAL ACTION BY THE BOARD OF DIRECTORS

Section 14.1 If all the directors shall severally or collectively consent in writing, including but not limited to telegrams and radiograms, to any action to be taken by the Bank, such action shall be as valid a corporate action as though it had been authorized at a meeting of the Board of Directors.

Article 15

COMPENSATION OF DIRECTORS

Section 15.1 Directors, as such, may receive a stated salary for their services or fixed sum and expenses for attendance at regular and special meetings, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Bank in any other capacity and receiving compensation therefore.

Article 16

COMMITTEES

Section 16.1 The standing committees which shall be appointed from time to time by the Board of Directors shall be the Executive Committee, the Audit Committee and such other committees as may be deemed necessary by the Board or shareholders for efficient operation of the institution.

Section 16.2 The Executive Committee shall consist of not less than three nor more than five outside directors and such officers as shall be appointed by the board. The Executive Committee shall meet at such time as may be fixed by the Board of Directors, or upon call of the Chairperson of the Board or the President. A majority of voting members of the Executive Committee shall constitute a quorum. The Executive committee shall have and exercise the authority of the Board of Directors in the intervals between the meetings of the Board of Directors as far as may be permitted by law.

Section 16.3 The Audit Committee shall consist of not less than two nor more than five Directors, all of whom shall comply with such independence standards as may be required by the laws governing the bank from time to time, subject to such stricter standards of independence, if any, as the Board may establish from time to time. A majority of the members of the Committee shall constitute a quorum. The Committee shall effect its own organization.

For so long as required by the Department of Banking, the Audit Committee or the Board of Directors shall at least once in each year cause to be made by a certified public accountant selected for the purpose, a complete audit of the books and affairs of the bank. Upon completion of the audit the certified public accountant shall make a report thereof and its recommendations in accordance with the Department of Banking's minimum acceptable requirements for directors' audits to the Board of Directors.

Article 17

OFFICERS

Section 17.1 The officers of the Bank shall be elected by the Board of Directors at its organization meeting and shall be a Chairperson, a President, a Secretary and a Treasurer. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary, who shall hold their offices for such terms, have such authority and perform such duties as may from time to time be prescribed by the Board of Directors. Any two or more offices may be held by the same person except both the offices of President and of Treasurer.

Section 17.2 Chairperson. The Chairperson of the Board shall preside at all meetings of the shareholders and directors. He or she shall supervise the carrying out of the policies adopted or approved by the Board of Directors. He or she shall have general executive powers, as well as the specific powers conferred by these Bylaws. He or she shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned to him or her by the Board of Directors.

Section 17.3 President. The President shall have general and active management of the business of the Bank; shall see that all orders and resolutions of the Board of Directors are put into effect, subject, however, to the right of the Board of Directors to delegate any specific powers, except such as may be by statute exclusively conferred on the President, to any other officer or officers of the Bank; and shall execute bonds, mortgages and other contracts requiring a seal under the seal of the Bank, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Bank.

Section 17.4 Chief Executive Officer. The Board of Directors shall designate the Chairperson of the Board or the President as Chief Executive Officer. He or she shall supervise the carrying out of the policies adopted or approved by the Board. He or she shall have general executive powers as well as any specific powers and duties as may be conferred upon him or her by the Board.

Section 17.5 Vice Presidents. The Vice Presidents shall have such duties and powers as may from time to time be assigned to them by the Board of Directors or the President in the absence of any assignment by the Board of Directors. One or more may be designated Executive Vice President.

Section 17.6 Secretary. The Secretary shall keep the minutes of the meetings of the shareholders, of the Board of Directors and of the Executive Committee. He or she shall have charge of the corporate records, papers, and the corporate seal of the bank. He or she shall give notice of all meetings of shareholders, of the Board of Directors and of special meetings of the Executive Committee.

Section 17.7 Treasurer. The Treasurer shall be responsible for all money, funds, securities, fidelity and indemnity bonds and other valuables belonging to the bank; shall cause to be kept proper records of the transactions of the bank; and shall perform such other duties as may be assigned to him or her from time to time by the Board of Director-, or the President.

Section 17.8 The compensation of all officers of the Bank shall be fixed by the Board of Directors.

Section 17.9 The Board of Directors may remove any officer or agent elected or appointed, at any time and within the period, if any, for which such person was elected or employed whenever in the Board of Directors' judgment it is in the best interests of the Bank, and all persons shall be elected and employed subject to the provisions thereof. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

Article 18

INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

Section 18.1 A director of this Bank shall stand in a fiduciary relation to the Bank and shall perform his or her duties as a director, including his or her duties as a member of any committee of the board upon which he or she may serve, in good faith, in a manner he or she reasonably believes to be in the best interests of the Bank, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duty, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

- (a) one or more officers or employees of the Bank whom the director reasonably believes to be reliable and competent in the matters presented.
- (b) Counsel, public accountants or other persons as to matters which the director reasonably believes to be within the professional or expert competence of such person.
- (c) A committee of the board upon which he or she does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence.

A director shall not be considered to be acting in good faith if he or she has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

Section 18.2 In discharging the duties of their respective positions, the board of directors, committees of the board, and individual directors may, in considering the best interests of the Bank, consider the effects of any action upon employees, upon suppliers and customers of the Bank and upon communities in which offices or other establishments of the Bank are located, and all other pertinent factors. The consideration of those factors shall not constitute a violation of Section 18.1.

Section 18.3 Absent a breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the Bank.

Section 18.4 A director of this Bank shall not be personally liable for monetary damages as such for any action taken or for any failure to take any action, unless:

- (a) the director has breached or failed to perform the duties of his or her office under the provisions of Sections 18.1 and 18.2; and
- (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

Section 18.5 The provisions of Section 18.4 shall not apply to:

- (a) the responsibility or liability of a director pursuant to a criminal statute; or
- (b) the liability of a director for the payment of taxes pursuant to local, state or federal law.

Section 18.6 The Bank shall indemnify any director, officer and/or employee, or any former director, officer and/or employee, who was or is a party to, or is threatened to be made a party to, or who is called to be a witness in connection with, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that such person is or was a director, officer and/or employee of the Bank, or is or was serving at the request of the Bank as a director, officer, employee or agent of a corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Bank, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the Bank, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. No indemnification shall be made in respect of any such claim, issue or matter as to which such person shall have been adjudged to be liable for misconduct in the performance of his or her duty to the Bank.

Section 18.7 Except as may be otherwise ordered by a court, there shall be a presumption party director, officer and/or employee is entitled to indemnification as provided in Sections 18.6 of this Article unless either a majority of the directors who are not involved in such proceedings ("disinterested directors") or, if there are less than three disinterested directors, then the holders of one-third of the outstanding shares of the Bank determine that the person is not entitled to such presumption by certifying such determination in writing to the Secretary of the Bank. In such event the disinterested director(s) or, in the event of certification by shareholders, the Secretary of the Bank shall request of independent counsel, who may be the outside general counsel of the Bank, a written opinion as to whether or not the parties involved are entitled to indemnification under Sections 18.6 of this Article.

Section 18.8 Expenses incurred by a director, officer and/or employee in defending a civil or criminal action, suit or proceeding may be paid by the Bank in advance of the final disposition of such action, suit or proceeding as authorized in the manner provided under Section 18.7 of this Article upon receipt of an undertaking by or on behalf of the director, officer and/or employee to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Bank.

Section 18.9 The indemnification provided by this Article shall not be deemed exclusive of any other rights, to which a person seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his or her official capacity while serving as a director, officer and/or employee and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer and/or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 18.10 The Bank may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations arising under this Article.

Section 18.11 The Bank shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer and/or employee of the Bank, or is or was serving at the request of the Bank as a director, officer and/or employee of a corporation, partnership, joint venture trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Bank would have the power to indemnify him or her against such liability under the provisions of this Article.

Section 18.12 Indemnification under this Article shall not be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted negligence, willful misconduct or recklessness.

Article 19

DIVIDENDS

Section 19.1 The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent in writing, declare and pay dividends upon the outstanding shares of capital stock of the Bank in cash, property or shares of the Bank, as long as any dividend shall not be in violation of law or the Articles of Incorporation.

Section 19.2 Before payment of any dividend, there may be set aside out of any funds of the Bank available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Bank, or for such other purposes as the Board of Directors shall believe to be for the best interests of the Bank, and the Board of Directors may reduce or abolish any such reserve in the manner in which it was created.

Article 20

FINANCIAL REPORT TO SHAREHOLDERS

Section 20.1 The President and the Board of Directors shall present at each annual meeting of the shareholders a full and complete statement of the business and affairs of the Bank for the preceding year.

Article 21

INSTRUMENTS

Section 21.1 All checks or demands for money and notes of the Bank shall be signed by such officer or officers or such other persons as the Executive Committee or the Board of Directors may from time to time designate.

Section 21.2 All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies and other instruments and documents may be signed, executed, acknowledged, verified, delivered or accepted, on behalf of the Bank by the Chairperson, President or other persons as may be designated by them.

Article 22

FISCAL YEAR

Section 22.1 The fiscal year of the Bank shall be the calendar year.

Article 23

NOTICES AND WAIVERS THEREOF

Section 23.1 Whenever, under the provisions of applicable law or of the Articles of Incorporation or of these Bylaws, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof through the mail or by telegram, charges prepaid, to his or her address appearing on the books of the Bank or supplied by him or her to the Bank for the purpose of notice. If the notice is sent by mail or telegraph, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office for transmission to such person. Such notice shall specify the place, day and hour of the meeting and, in the case of a special meeting of shareholders, the general nature of the business to be transacted.

Section 23.2 Any written notice required to be given to any person may be waived in writing signed by the person entitled to such notice whether before or after the time stated therein. Attendance of any person entitled to notice whether in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Where written notice is required of any meeting, the waiver thereof must specify the purpose only if it is for a special meeting of shareholders.

Article 24

AMENDMENTS

Section 24.1 These Bylaws may be altered, amended or repealed by the affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Common Stock at regular or special meeting duly convened after notice to the shareholders of that purpose, or by a majority vote of the members of the Board of Directors at any regular or special meeting thereof duly convened after notice to the directors of that purpose, (except the directors shall not make or alter any bylaws fixing their qualification, classification or term of office) subject always to the power of the shareholders to change such action of the Board of Directors by the affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Common Stock.

Article 25

EMERGENCIES

Section 1. In the event of any emergency declared by governmental authorities, the result of a regional or national disaster and of such severity as to prevent the normal conduct and management of the affairs of this bank by its Directors and Officers as contemplated by these bylaws, any three available Directors shall constitute the Executive Committee to exercise the full authority of that Committee until such time as a duly elected Board of Directors can again assume full responsibility and control of the bank.

Exhibit C to Agreement and Plan of Merger and Reorganization

ARTICLES OF INCORPORATION
OF
CUSTOMERS 1ST BANCORP, INC.

FIRST. The name of the Corporation is Customers 1st Bancorp, Inc.

SECOND. The location and post office address of the Corporation's registered office in this Commonwealth is 99 Bridge Street, Phoenixville, PA 19460.

THIRD. The Corporation is being incorporated under the provisions of the Business Corporation Law of 1988, as amended (the "Pennsylvania Business Corporation Law"). The corporation is being organized on a stock share basis. The purpose of the Corporation is and it shall have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under such Law.

FOURTH. The term of the Corporation's existence is perpetual.

FIFTH. A. Authorized Shares. The aggregate number of shares of capital stock which the Corporation shall have authority to issue is 300,000,000 shares, divided into three classes consisting of:

- (a) 100,000,000 shares of common stock without par value ("Common Stock");
- (b) 100,000,000 shares of Class B Non-Voting Common Stock with the rights, designations, preferences and limitations provided more fully in Sub-Article B of this Article below ("Class B Non-Voting Common Stock"); and
- (c) 100,000,000 shares of preferred stock, having such par value, or no par value, as the board of directors shall fix and determine as provided in Article SIXTH below or as may be permitted by applicable law ("Preferred Stock").

B. Statement of Designations Applicable to Class B Non-Voting Common Stock.

Section 1. General. The Class B Non-Voting Common Stock shall have the rights, designations, preferences and limitations set forth in this Sub-Article.

Section 2. Ranking. In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up of the Corporation, holders of Common Stock and Class B Non-Voting Common Stock shall be entitled to receive an equal amount per share of all the assets of the Corporation of whatever kind available for distribution to holders of Common Stock, after the rights of the holders of preferred stock have been satisfied.

Section 3. Definitions. As used herein with respect to the Class B Non-Voting Common Stock:

"Articles of Incorporation" shall mean these articles of incorporation of the Corporation, as they have been or may hereafter be amended from time to time.

"Board of Directors" means the board of directors of the Corporation or any committee thereof duly authorized to act on behalf of such board of directors.

"Bylaws" means the Bylaws of the Corporation, as they have been or may hereafter be amended from time to time.

"Common Stock" means the voting common stock, par value \$1.00 per share, of the Corporation.

Edgar Filing: - Form

“Depository” means DTC or its nominee or any successor depository appointed by the Corporation.

“DTC” means The Depository Trust Company and its successors or assigns.

“Securities Act” means the Securities Act of 1933, as amended.

-1-

“Holder” means the Person in whose name the shares of the Class B Non-Voting Common Stock are registered, which may be treated by the Corporation, Transfer Agent, Registrar and paying agent as the absolute owner of the shares of Class B Non-Voting Common Stock for the purpose of making payment and for all other purposes.

“Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.

“Registrar” shall mean the Transfer Agent acting in its capacity as registrar for the Class B Non-Voting Common Stock, and its successors and assigns or any other registrar duly appointed by the Corporation.

“Transfer Agent” means the Corporation, acting as Transfer Agent, Registrar and paying agent for the Class B Non-Voting Common Stock, and its successors and assigns, including any successor transfer agent appointed by the Corporation. The Corporation may act as its own transfer agent.

Section 4. Dividends and Other Distributions. The holders of the Common Stock and Class B Non-Voting Common Stock shall be entitled to receive an equal amount of dividends per share if, as and when declared from time to time by the Board of Directors. In no event shall any stock dividends or stock splits or combinations of stock be declared or made on Common Stock or Class B Non-Voting Common Stock unless the shares of Common Stock and Class B Non-Voting Common Stock at the time outstanding are treated equally and identically, provided that, in the event of a dividend of Common Stock, shares of Class B Non-Voting Common Stock shall only be entitled to receive shares of Class B Non-Voting Common Stock and shares of Common Stock shall only be entitled to receive shares of Common Stock.

Section 5. Voting Rights. Except as otherwise required by law, herein or as otherwise provided in any statement of designation for any series of preferred stock, the holders of Common Stock shall exclusively possess all voting power and each share of Common Stock shall be entitled to one vote, and the holders of the Class B Non-Voting Common Stock shall have no voting power, and shall not have the right to participate in any meeting of stockholders or to have notice thereof, except as required by applicable law and except that any action that would significantly and adversely affect the rights of the Class B Non-Voting Common Stock with respect to the modification of the terms of the securities or dissolution, shall require the approval of the Class B Non-Voting Common Stock voting separately as a class.

Section 6. Other Rights, Preferences and Privileges. Except as expressly provided in this Article FIFTH(B), the rights, preferences and privileges of the Common Stock and Class B Non-Voting Common Stock shall be in all respects and for all purposes and in all circumstances absolutely and completely identical.

Section 7. Redemptions. The Class B Non-Voting Common Stock shall not be redeemable either at the Corporation’s option or at the option of Holders at any time. The Class B Non-Voting Common Stock shall not be subject to any sinking fund or other obligation to redeem, repurchase or retire the Class B Non-Voting Common Stock.

Section 8. Listing; Registration. In the event the Corporation lists the Common Stock on any national securities exchange or quotation system or registers the Common Stock under the Securities Act, it shall also list the shares of Class B Non-Voting Common Stock at the same time, to the extent such listing or registration is permitted by applicable laws, rules and regulations, and reasonably feasible.

Section 9. Transfer Agent, Registrar and Paying Agent. The duly appointed Transfer Agent, Registrar and paying agent for the Class B Non-Voting Common Stock shall initially be the Corporation. The Corporation may, in its sole discretion, remove itself or any appointed successor as Transfer Agent; provided that the Corporation shall appoint a successor transfer agent who shall accept such appointment prior to the effectiveness of such removal.

Section 10. Miscellaneous.

(i) The Corporation will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the conversion of shares of Class B Non-Voting Common Stock into shares of Common Stock; provided, however, that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or other securities or property in a name other than that of the Holder of Class B Non-Voting Common Stock to be converted and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or established, to the reasonable satisfaction of the Corporation, that such tax has been paid.

(ii) Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

(iii) The headings of the various subdivisions of this Article FIFTH are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(iv) If any of the voting powers, preferences and relative participating, optional and other special rights of Class B Non-Voting Common Stock and qualifications, limitations and restrictions thereof set forth herein is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative participating, optional and other special rights of Class B Non-Voting Common Stock and qualifications, limitations and restrictions thereof set forth herein that can be given effect without the invalid, unlawful or unenforceable voting powers, preferences and relative participating, optional and other special rights of Class B Non-Voting Common Stock and qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect, and no voting powers, preferences and relative participating, optional or other special rights of Class B Non-Voting Common Stock and qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences and relative participating, optional or other special rights of Class B Non-Voting Common Stock and qualifications limitations and restrictions thereof unless so expressed herein.

SIXTH. There is hereby expressly granted to and vested in the board of directors of the Corporation authority to, pursuant to and in accordance with the Section 1522(b) of the Business Corporation Law and any amendment to or restatement of such section, divide the authorized and unissued shares of the Corporation into classes or series, or both, and to fix and determine (except as fixed and determined herein), by resolution, the par value, voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations or restrictions thereof, if any, including specifically, but not limited to, the dividend rights, conversion rights, redemption rights and liquidation preferences, if any, of any wholly unissued series of Common Stock, Class B Non-Voting Common Stock or Preferred Stock (or any entire class if none of the shares in such class have been issued), the number of shares constituting any such series or class, and the terms and conditions of the issue thereof.

SEVENTH. Each holder of record of Common Stock, to the extent such Common Stock has voting rights, shall have the right to one vote for each share of Common Stock standing in such holder's name on the books of the Corporation. No shareholder shall be entitled to cumulate any votes for the election of directors.

EIGHTH. The management, control and government of the Corporation shall be vested in a board of directors consisting of not less than six (6) nor more than twenty-five (25) members in number, as fixed by the board of directors of the Corporation from time to time. The directors of the Corporation shall be divided into three classes: Class I, Class II and Class III. Each Class shall be as nearly equal in number as possible; subject to the foregoing, the number of Class I, Class II or Class III directors may be changed from time to time by a majority vote of the board of directors. The term of office of each Class shall be three (3) years, so that the term of office of one class of directors shall expire each year when their respective successors have been duly elected by the shareholders and qualified. At each annual election by the shareholders of the Corporation, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If, for any reason, a vacancy occurs on the board of directors of the Corporation, a majority of the remaining directors shall have the exclusive power to

Edgar Filing: - Form

fill the vacancy by electing a director to hold office for the unexpired term in respect of which the vacancy occurred. No director of the Corporation shall be removed from office by the vote of shareholders, unless the votes of shareholders cast in favor of the resolution for the removal of such director constitute at least a majority of the votes which all shareholders would be entitled to cast at an annual election of directors.

-3-

NINTH. Any or all classes of shares of the Corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board of Directors, except that shares represented by a certificate that is issued and outstanding shall be represented thereby until the certificate is surrendered to the Corporation.

TENTH. No holder of any class of capital stock of the Corporation shall have preemptive rights, and the Corporation shall have the right to issue and to sell to any person or persons any shares of its capital stock or any option, warrant or right to acquire capital stock, or any securities having conversion or option rights without first offering such shares, rights or securities to any holder of any class of capital stock of the Corporation.

ELEVENTH. Except as set forth below, the affirmative vote of shareholders entitled to cast at least 80 percent (80%) of the votes which all shareholders of the Corporation are entitled to cast, and if any class of shares is entitled to vote as a separate class, the affirmative vote of shareholders entitled to cast at least a majority of the votes entitled to be cast by the outstanding shares of such class (or such greater amount as required by the provisions of these Articles of Incorporation establishing such class) shall be required to approve any of the following ---

- (a) any merger or consolidation of the Corporation with or into any other organization;
- (b) any share exchange in which an organization, person or entity acquires the issued or outstanding shares of capital stock of the Corporation pursuant to a vote of shareholders;
- (c) any sale, lease, exchange or other transfer of all, or substantially all, of the assets of the Corporation to any other organization, person or entity; or
- (d) any transaction similar to, or having similar effect as, any of the foregoing transactions;

--- if, in any of the foregoing cases, as of the record date for the determination of shareholders entitled to notice thereof and to vote thereon, such other organization, person or entity is the beneficial owner, directly or indirectly, of shares of capital stock of the Corporation issued, outstanding and entitled to cast five percent (5%) or more of the votes which all shareholders of the Corporation are then entitled to cast.

If any of the transactions identified above in this Article ELEVENTH is with an organization, person or entity that is not the beneficial owner, directly or indirectly, of shares of capital stock of the Corporation issued, outstanding and entitled to cast five percent (5%) or more of the votes which all shareholders of the Corporation are then entitled to cast, then the affirmative vote of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast shall be required to approve any such transaction. An affirmative vote as provided in the foregoing provisions shall, to the extent permitted by law, be in lieu of the vote of the shareholders otherwise required by law.

The board of directors of the Corporation shall have the power and duty to determine, for purposes of this Article ELEVENTH, on the basis of information known to the board, if and when such other corporation, person or entity is the beneficial owner, directly or indirectly, of shares of capital stock of the Corporation issued, outstanding and entitled to cast five percent (5%) or more of the votes which all shareholders of the Corporation are then entitled to cast, and/or if any transaction is similar to, or has an effect similar to, any of the transactions identified above in this Article ELEVENTH. Any such determination shall be conclusive and binding for all purposes of this Article ELEVENTH. The Corporation may voluntarily completely liquidate and/or dissolve only in accordance with all applicable laws and only if the proposed liquidation and/or dissolution is approved by the affirmative vote of shareholders entitled to cast at least 80 percent (80%) of the votes which all shareholders are entitled to cast. The provisions of this Article ELEVENTH shall not apply to any transaction which is approved in advance by 66-2/3 percent (66-2/3%) of the members of the board of directors of the Corporation, at a meeting duly called and held.

Notwithstanding any provision of this Article or any other provision of these Articles of Incorporation or the Corporation's bylaws, a plan of merger or consolidation may be approved and adopted without the approval of the Corporation's shareholders in those circumstances where the applicable law, rules and regulations permit the plan to be approved by the board of directors without the approval of the shareholders.

TWELFTH. No action required to be taken or which may be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting, and the power of the shareholders of the Corporation to consent in writing to action without a meeting is specifically denied. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast shall constitute a quorum of shareholders at any annual or special meeting of shareholders of the Corporation.

THIRTEENTH. The authority to make, amend, alter, change or repeal the Corporation's bylaws is hereby expressly and solely granted to and vested in the board of directors of the Corporation, subject always to the power of the shareholders to change such action by the affirmative vote of shareholders of the Corporation entitled to cast at least 66-2/3 percent (66-2/3%) of the votes which all shareholders are entitled to cast, except that Article Eight of the Corporation's bylaws relating to limitations on directors' liabilities and indemnification of directors, officers and others may not be amended to increase the exposure to liability for directors or to decrease the indemnification of directors, officers and others except by the affirmative vote of 66-2/3 percent (66-2/3%) of the entire board of directors or by the affirmative vote of shareholders of the Corporation entitled to cast at least 80 percent (80%) of the votes which all shareholders are entitled to cast.

FOURTEENTH. The board of directors of the Corporation, when evaluating any offer of another party to (a) make a tender or exchange offer for any equity security of the Corporation, (b) merge or consolidate the Corporation with another corporation, (c) purchase or otherwise acquire all or substantially all of the properties and assets of the Corporation, or (d) engage in any transaction similar to, or having similar effects as, any of the foregoing transactions, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including without limitation the social and economic effects of the proposed transaction on the depositors, employees, suppliers, customers and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located, the business reputation of the other party, and the board of directors' evaluation of the then value of the Corporation in a freely negotiated sale and of the future prospects of the Corporation as an independent entity.

FIFTEENTH. If any corporation, person, entity, or group becomes the beneficial owner, directly or indirectly, of shares of capital stock of the Corporation having the right to cast in the aggregate 25 percent (25%) or more of all votes entitled to be cast by all issued and outstanding shares of capital stock of the Corporation entitled to vote, such corporation, person, entity or group shall within thirty (30) days thereafter offer to purchase all shares of capital stock of the Corporation issued, outstanding and entitled to vote. Such offer to purchase shall be at a price per share equal to the highest price paid for shares of the respective class or series of capital stock of the Corporation purchased by such corporation, person, entity or group within the preceding twelve months. If such corporation, person, entity or group did not purchase any shares of a particular class or series of capital stock of the Corporation within the preceding twelve months, such offer to purchase shall be at a price per share equal to the fair market value of such class or series of capital stock on the date on which such corporation, person, entity or group becomes the beneficial owner, directly or indirectly, of shares of capital stock of the Corporation having the right to cast in the aggregate 25 percent (25%) or more of all votes entitled to be cast by all issued and outstanding capital stock of the Corporation. Such offer shall provide that the purchase price for such shares shall be payable in cash. The provisions of this Article FIFTEENTH shall not apply if 80 percent (80%) or more of the members of the board of directors of the Corporation approve in advance the acquisition of beneficial ownership by such corporation, person, entity or group, of shares of capital stock of the Corporation having the right to cast in the aggregate 25 percent (25%) or more of all votes entitled to be cast by all issued and outstanding shares of capital stock of the Corporation.

SIXTEENTH. The Corporation's board of directors may amend, alter, change or repeal any provision contained in its Articles of Incorporation in the manner now or hereafter prescribed by statute and all rights conferred upon shareholders and directors herein are hereby granted subject to this reservation; provided, however, that the provisions

Edgar Filing: - Form

set forth in Articles SEVENTH, EIGHTH, ELEVENTH and TWELFTH through FOURTEENTH, inclusive, of these Articles of Incorporation may not be repealed, altered or amended, in any respect whatsoever, unless such repeal, alteration or amendment is approved by either (a) the affirmative vote of shareholders of the Corporation entitled to cast at least 80 percent (80%) of the votes which all shareholders of the Corporation are then entitled to cast or (b) the affirmative vote of 80 percent (80%) of the members of the board of directors of the Corporation and the affirmative vote of shareholders of the Corporation entitled to cast at least a majority of the votes which all shareholders of the Corporation are then entitled to cast.

Edgar Filing: - Form

SEVENTEENTH. The Control Transactions provisions of Section 2541 of the Business Corporation Law and any amendment to or restatement of such section, shall not be applicable to the Corporation. The Disgorgement By Certain Controlling Shareholders Following Attempt to Acquire Control provisions of Section 2571 of the Business Corporation Law and any amendment to or restatement of such section , shall not be applicable to the Corporation.

NINETEENTH. The name and address, including number and street, if any, of each incorporator is as follows:

Name	Address
Jay S. Sidhu	5 Chardonnay Circle, Mohnton, PA 19540
Richard A. Ehst	1309 East Wyomissing Boulevard, Reading, PA 19611
Thomas Brugger	1142 Lehigh Avenue, Wyomissing, PA 19610

IN TESTIMONY WHEREOF, the Incorporators have signed these Articles of Incorporation this 6th day of April, 2010.

/s/Jay S. Sidhu

/s/ Richard A. Ehst

Jay S. Sidhu, Incorporator

Richard A. Ehst, Incorporator

/s/ Thomas Brugger

Thomas Brugger, Incorporator

Entity #: 3947063
Date Filed: 12/28/2010
Basil L Merenda
Secretary of the
Commonwealth

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Articles of Amendment-Domestic Corporation
(15 Pa.C.S.)

Business Corporation (§ 1915)
 Nonprofit Corporation (§ 5915)

Name

Document will be returned to the
name and address you enter to
the left.

Address

<

City

State

Zip Code

Fee: \$70

In compliance with the requirements of the applicable provisions (relating to articles of amendment), the undersigned, desiring to amend its articles, hereby states that:

1. The name of the corporation is: Customers 1st Bancorp, Inc.

2. The (a) address of this corporation's current registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is (the Department is hereby authorized to correct the following information to conform to the records of the Department)

(a) Number and Street	City	State
Zip	County	
99 Bridge Street		

Phoenixville	PA	19460	Chester
--------------	----	-------	---------

(b) Name of Commercial Registered Office Provider	County
---	--------

Edgar Filing: - Form

c/o

3. The statute by or under which it was incorporated: Pennsylvania Business Corporation Law of 1988

4. The date of its incorporation: April 7, 2010

5. Check, and if appropriate complete, one of the following:

The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

The amendment shall be effective on: _____ at _____
Date Hour

PA009 - 10/09/2006 C T System Online

DSCB:15-1915/5915-2

6. Check one of the following:

The amendment was adopted by the shareholders or members pursuant to 15 Pa.C.S. § 1914(a) and (b) or § 5914(a).

The amendment was adopted by the board of directors pursuant to 15 Pa. C.S. § 1914(c) or § 5914(b).

7. Check, and if appropriate, complete one of the following:

The amendment adopted by the corporation, set forth in full, is as follows

The amendment adopted by the corporation is set forth in full in Exhibit A attached hereto and made a part hereof.

8. Check if the amendment restates the Articles:

The restated Articles of Incorporation supersede the original articles and all amendments thereto.

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this

20th day of December,

2010.

Customers Bancorp, Inc.
Name of Corporation

Signature

President and Chief Operating Officer

EXHIBIT A
TO
ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
CUSTOMERS 1st BANCORP, INC.

The Articles of Incorporation of Customers 1st Bancorp, Inc. are hereby amended as follows:

Article FIRST is amended and restated in its entirety to read:

“FIRST. The name of the Corporation is Customers Bancorp, Inc.”

Article SECOND is amended and restated in its entirety to read:

“SECOND. The location and address of the Corporation’s registered office in this Commonwealth is 1015 Penn Avenue, Suite 103, Wyomissing, Pennsylvania 19610.”

pennsylvania
DEPARTMENT OF BANKING

MARKET SQUARE PLAZA | 17 N SECOND STREET, SUITE 1300 | HARRISBURG, PA 17101
Ph 717.787.2665 Fx 717.787.8773 w www.banking.state.pa.us

December 21, 2010

717-783-2253

Christopher S. Connell, Esquire
Stradley Ronon Stevens & Young, LLP
2005 Market Street, Suite 2600
Philadelphia, PA 19103-7018

Dear Mr. Connell:

This will advise you that the Pennsylvania Department of Banking (the "Department") does not object to use of the names "Customers Bank" and "Customers Bancorp, Inc."

It is understood that the name "Customers Bank" is intended to be used by New Century Bank (the "Bank"), Phoenixville, Pennsylvania for a proposed change in corporate name. Similarly, the name "Customers Bancorp, Inc." will be utilized in a proposed bank holding company reorganization planned by the Bank. New Century Bank is chartered and supervised by this Department.

Very truly yours,

Joseph A. Moretz
Manager
Corporate Applications Division

JAM:jsb

cc: William L. Gaunt, Assistant Vice President, Federal Reserve Bank of Philadelphia

Exhibit D to Agreement and Plan of Merger and Reorganization

BYLAWS
OF
CUSTOMERS 1ST BANCORP, INC.

ARTICLE ONE
OFFICES

1.01. Registered Office. The registered office of Customers 1st Bancorp, Inc. (the “Corporation”) shall be located in such place as the Board of Directors may from time to time designate.

1.02. Other Offices. The Corporation may also have offices at such other places within or without the Commonwealth of Pennsylvania as the Board of Directors may from time to time designate or the business of the Corporation may require.

ARTICLE TWO
SEAL

2.01. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its incorporation and the words “Corporate Seal, Pennsylvania.”

ARTICLE THREE
SHAREHOLDERS’ MEETINGS

3.01. Place of Meeting. Meetings of shareholders shall be held at any geographic location within or without the Commonwealth of Pennsylvania as shall be fixed from time to time by the Board of Directors. In the absence of such designation, shareholders’ meetings shall be held at the executive office of the Corporation. Shareholders shall not be permitted to participate in any meeting of shareholders by means of conference telephone or the Internet or other electronic communications technology, unless the Board of Directors, by resolution so directs with respect to such meeting. Meetings held by means of the Internet conference or telephone or other electronic communications technology shall not be required to be held at a particular geographic location and shall provide shareholders with the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders and pose questions to the Directors.

3.02. Annual Meeting. The annual meeting of shareholders shall be held on such day each year as may be fixed from time to time by the Board of Directors. At such meetings, Directors shall be elected, reports of the affairs of the Corporation shall be considered, and any other business may be transacted which is within the powers of the shareholders.

3.03. (a) Notice of Meetings. Notice of all meetings of shareholders shall be delivered, personally, by courier service, charges prepaid, by first class, express or bulk mail, postage prepaid, facsimile transmission, e-mail or other electronic communication addressed to the shareholder at his or her postal address, facsimile number, e-mail address or other electronic communication location as it appears on the books of the Corporation or as supplied by such shareholder to the Corporation for the purpose of notice, by or at the direction of the Chief Executive Officer, the Secretary or the officer or persons calling the meeting.

Edgar Filing: - Form

(b) Time of Notice. Notice of any meeting of shareholders shall be delivered not less than ten (10) days, or in the case of bulk mail not less than twenty (20) days, before the date of the meeting, and in accordance with any laws, rules or regulations applicable to the Corporation (collectively referred to herein as “applicable law”). If the notice is sent by mail or courier, such notice shall be deemed to be delivered when deposited in the United States mail or with a courier service for delivery to the shareholder. If the notice is sent by facsimile, e-mail or other electronic communication, such notice shall be deemed to be delivered when sent to the shareholder.

(c) Contents of Notice. Notice of any meeting of shareholders shall state the day, hour and geographic location, if any, of the meeting. The notice shall also state the general nature of the business to be transacted if it is a special meeting.

-1 -

(d) Notice of Adjourned Meeting. When a shareholders' meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which the adjournment is taken, unless the Board of Directors fixes a new record date for the new meeting.

3.04. (a) Calling of Special Meetings. Upon request in writing to the Chief Executive Officer, Vice President or Secretary, sent by registered mail or delivered to the officer in person, by any persons entitled to call a special meeting of shareholders, the Secretary of the Corporation shall fix as the date of the meeting a date not less than sixty (60) days after the receipt of the request, and cause notice to be delivered to the shareholders entitled to vote thereat in accordance with Section 3.03 of these Bylaws. Nothing contained in this section shall be construed as limiting, fixing, or affecting the time or date when a meeting of shareholders called by action of the Board of Directors may be held.

(b) Persons Entitled to Call Special Meetings. Special meetings of the shareholders may be called at any time by any of the following: (1) the Board of Directors at a duly called and held meeting of the Board of Directors or upon the unanimous written consent of the members of the Board of Directors; or (2) the Chairman of the Board or the Chief Executive Officer, but only upon receiving written direction of at least a majority of Directors then in office.

(c) Business of Special Meeting. Business transacted at all special meetings shall be confined to the subjects stated in the notice and matters germane thereto, unless all shareholders entitled to vote are present and shall have otherwise consented.

3.05. (a) Quorum of and Action by Shareholders. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all of shareholders are entitled to cast on a particular matter to be acted upon at a meeting (after giving effect to Article FIFTEENTH or any successor "excess shares" provision, in the Articles of Incorporation of the Corporation), shall constitute a quorum for the purpose of consideration and action on the matter. If a proxy casts a vote on behalf of a shareholder on any issue other than a procedural motion considered at a meeting of shareholders, the shareholder shall be deemed to be present during the entire meeting for purposes of determining whether a quorum is present for consideration of any other issue. If a quorum is present, except in the election of Directors, the affirmative vote of a majority of all votes cast at the meeting shall be the act of the shareholders, unless the vote of a greater or lesser number or the voting by classes is required by these Bylaws, the Articles of Incorporation of the Corporation, the Pennsylvania Business Corporation Law of 1988, as amended ("BCL") or other applicable law.

(b) Adjournment for Lack or Loss of Quorum. In the absence of a quorum, any meeting of shareholders may be adjourned from time to time by the affirmative vote of a majority of all votes cast at the meeting, but no other business may be transacted. Meetings at which Directors are to be elected shall be adjourned only from day to day or for such longer periods not exceeding fifteen (15) days each and those shareholders who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors. The minimum attendance required for purposes of determining a quorum at an adjourned meeting shall be as provided by applicable law.

3.06. (a) Closing Transfer Books. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may provide, or may authorize any officer to provide, that the share transfer books shall be closed for a stated period not to exceed fifty (50) days, in which case written or printed notice thereof shall be mailed at least ten (10) days before the beginning of such period to each shareholder of record at the address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice.

Edgar Filing: - Form

(b) Record Date. In lieu of closing the share transfer books, the Board of Directors may fix in advance, or may authorize any officer to fix, a date as the record date for any such determination of shareholders, such date in any case to be not more than ninety (90) days prior to the date on which the particular action requiring such determination of shareholders is to be taken.

-2 -

(c) Other Determination of Shareholders. If the share transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, absent subsequent action by the Board of Directors establishing a different record date, the date fifteen (15) days after the date on which the resolution of the Board of Directors declaring such dividend is adopted, or the date on which the resolutions of the Board of Directors on any other matter is adopted, shall be the record date for such determination of shareholders of record.

(d) Adjourned Meetings. When any determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Article, such determination shall apply to any adjournment thereof unless the Board of Directors fixes a new record date for the adjourned meeting.

3.07. Inspection of Corporate Records. Every shareholder, upon written demand under oath stating the purpose thereof, shall have the right to examine, in person or by agent or attorney, during the usual hours for business for any proper purpose, the share register, books or records of account, and records of the proceedings of the incorporators, shareholders and Directors, and make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a shareholder. In every instance where an attorney or other agent is the person who seeks the right of inspection, the demand under oath shall be accompanied by a power of attorney or other writing which authorizes the attorney or other agent to so act on behalf of the shareholder. In all cases, the demand under oath shall be directed to the Corporation at its registered office in the Commonwealth of Pennsylvania, at its principal place of business or in care of the person in charge of the actual business office of the Corporation. For purposes of this Section, the Corporation's principal place of business and its sole actual business office shall be deemed to be the location where the Chief Executive Officer maintains his or her principal office and the person in charge of that office shall be deemed to be the Chief Executive Officer.

3.08. Voting List. The officer or agent having charge of the transfer book for shares of the Corporation shall make, at least ten (10) days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such a meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open, or otherwise made available in accordance with applicable law, at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share or transfer book or to vote at any meeting of shareholders.

3.09. Voting of Shares. Except as otherwise provided in the Articles of Incorporation of the Corporation or any statement or other instrument establishing the voting rights of any class or series of shares, or any amendment to any of the foregoing, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders.

3.10. Nominations for Directors. Nominations for the election of Directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of Directors. Nominations made by the shareholders entitled to vote for the election of Directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than ninety (90) days nor more than one hundred and twenty (120) days prior to any meeting of shareholders called for election of Directors; provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed, as prescribed, to the Secretary of the Corporation not later than the close of the seventh day following the day on which notice was mailed to shareholders. Notice of nominations, which are proposed by the Board of Directors,

Edgar Filing: - Form

shall be given by the Chairman of the Board or any other appropriate officer. Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each nominee, and (iii) the number of shares of capital stock of the Corporation which are beneficially owned by each such nominee and the earliest date of acquisition of any of such stock. The Chairman of a meeting of shareholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

3.11. Voting by Ballot. Voting by shareholders in elections for Directors shall be by ballot. No shares shall be voted at any meeting upon which shares an installment is due and unpaid.

3.12. Agenda and Inclusion of Materials in Proxy for Annual Meeting.

(a) Matters to be placed on the agenda for consideration at annual meetings of shareholders may be proposed by the Board of Directors or by any shareholder in accordance with applicable law. Matters proposed for the agenda by shareholders shall be made in accordance with applicable law, by notice in writing, mailed by first class United States mail, postage prepaid, and received by the Secretary of the Corporation not less than forty-five (45) days nor more than one hundred and twenty (120) days prior to the one year anniversary of the date materials were mailed to shareholders for the prior year's annual meeting of shareholders. Notice of matters, which are proposed by the Board of Directors, shall be given by the Chairman of the Board or any other appropriate officer. Each notice given by a shareholder shall set forth a brief description of the business desired to be brought before the annual meeting in accordance with applicable law. The Chairman of the meeting of shareholders may determine and declare to the meeting that a matter proposed for the agenda was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the matter shall be disregarded.

(b) Any shareholder request to include matters in the Corporation's proxy material for an annual meeting shall be made in accordance with applicable law, and shall be in writing, mailed by first class United States mail, postage prepaid, and received by the Secretary of the Corporation not less than one hundred and twenty (120) days nor more than one hundred and eighty (180) days prior to the one year anniversary of the date materials were mailed to shareholders for the prior year's annual meeting of shareholders, unless the annual meeting of shareholders is to be held more than thirty days before or after such anniversary date, in which case, such notice must be received by the Secretary of the Corporation within a reasonable time for inclusion in the Corporation's proxy materials for the annual meeting.

3.13. Proxies and Revocation of Proxies. Every shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for him by proxy. Every proxy shall be executed or authenticated by the shareholder, or by his duly authorized attorney in fact, and filed or transmitted to with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any agreement or any provision to the contrary, but the revocation of a proxy shall not be effective until an executed or authenticated notice thereof shall have been given to the Secretary of the Corporation or its designated agent in writing or by electronic transmission. A telegram, telex, cablegram, datagram, e-mail, Internet communication or other means of electronic transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact:

(1) may, at the discretion of the Secretary, be treated as properly executed or authenticated for purposes of this subsection; and

(2) shall be so treated if it sets forth or utilizes a confidential and unique identification number or other mark furnished by the Corporation to the shareholder for the purposes of a particular meeting or transaction.

No unrevoked proxy shall be valid after eleven (11) months from the date of its execution, authentication or transmission, unless a longer time is expressly provided therein, but in no event shall a proxy unless coupled with an interest, be voted on after three years from the date of its execution. A proxy shall not be revoked by the death or incapacity of the maker unless before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation or its designated agent. A shareholder shall not sell his vote or execute a proxy to any person for any sum of money or any other thing of value. A proxy coupled with an interest shall include an unrevoked proxy in favor of a creditor of a shareholder and such proxy shall be valid so long as the

debt owed by the shareholder to the creditor remains unpaid.

3.14. Waiver of Notice. Whenever any notice whatever is required to be given to a shareholder under the provisions of the BCL or under the provisions of the Articles of Incorporation or Bylaws of the Corporation, a waiver thereof in writing signed by the shareholder entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice; however, in the case of special meetings, the business to be transacted and the purpose of the meeting shall be stated in the waiver of notice. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

3.15. (a) Appointment of Judges of Election. In advance of any meeting of shareholders, the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election not be so appointed, the chairman of any such meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of judges shall be one (1) or three (3) in number. If appointed at a meeting on the request of one (1) or more shareholders or proxies, the majority of all votes entitled to be cast shall determine whether one (1) or three (3) judges are to be appointed. No person who is a candidate for Director shall act as a judge. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting, or at the meeting by the person acting as chairman.

(b) Duties of Judges. The judges of election shall determine the number of shares outstanding and the voting power and rights of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity, and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical. If there are three (3) judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(c) Report of Judges. On request of the chairman of the meeting, or of any shareholder or his proxy, the judges shall be made a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them.

3.16. Conduct of Meetings. Unless the Board of Directors shall designate another officer or Director of the Corporation to preside and act as the chairman at any regular or special meeting of shareholders, the Chairman of the Board, or in his absence, the Chief Executive Officer shall preside and act as the chairman at any regular or special meeting of shareholders. The chairman of the meeting, consistent with any authority, direction, restriction or limitation given to him by the Board of Directors, shall have any and all powers and authority necessary to conduct an orderly meeting, preserve order and determine any and all procedural matters, including the proper means of obtaining the floor, who shall have the right to address the meeting, the manner in which shareholders will be recognized to speak, imposing reasonable limits on the amount of time at the meeting taken up in remarks by any one shareholder or group of shareholders, the number of times a shareholder may address the meeting, and the person to whom questions should be addressed. Any actions by the Chairman of the Board or any person acting in his place in adopting rules for, or in conducting, a meeting shall be fair to the shareholders. Rules adopted for use at a meeting which are approved in advance by the Board of Directors, and actions taken by the chairman in conducting the meeting pursuant to such rules shall be deemed to be fair to shareholders. The chairman shall announce at the meeting when the polls close for each matter voted upon. If no announcement is made, the ability to cast a vote will be deemed to have closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies, or votes, nor any revocations or changes thereto, may be accepted. In addition, until the business to be completed at a meeting of shareholders is completed, the chairman of a meeting of the shareholders is expressly authorized to temporarily adjourn and postpone the meeting from time to time. The Secretary of the Corporation or in his absence, an Assistant Secretary, shall act as Secretary of all meetings of the shareholders. In the absence at such meeting of the Secretary and Assistant Secretary, the chairman of the meeting may appoint another person to act as Secretary of the meeting.

3.17. Action Without Meeting. No action required to be taken or which may be taken at any annual or special meeting of the shareholders of the Corporation may be taken without a meeting, and the power of the shareholders of the Corporation to consent in writing to action without a meeting is specifically denied.

ARTICLE FOUR
DIRECTORS

4.01. Directors Defined. "Director" means a director of the Corporation, and "Directors," when used in relation to any power or duty requiring collective action, means "Board of Directors."

4.02. Powers. The business and affairs of the Corporation and all corporate powers shall be exercised by or under authority of the Board of Directors, subject to any limitation imposed by the BCL, the Articles of Incorporation of the Corporation, or these Bylaws as to action which requires authorization or approval by the shareholders.

4.03. (a) Number and Classes of Directors. The number of Directors of the Corporation shall be not less than six (6) nor more than twenty-five (25), and the Directors shall be divided into classes and be elected for such terms of office, as provided in the Articles of Incorporation of the Corporation.

(b) Qualifications. Directors need not be residents of the Commonwealth of Pennsylvania. Unless waived by a majority of the Directors in accordance with applicable law, a majority of the Directors shall be persons who are not directors, officers, employees, agents or record or beneficial holders of more than 5% of the voting securities of the Corporation or any corporation or other entity which is a record or beneficial holder of 66-2/3% or more of the issued and outstanding shares of any class of capital stock of the Corporation.

4.04. (a) Vacancies. Vacancies in the Board of Directors shall exist in the case of the happening of any of the following events: (i) the death or resignation of any Director; (ii) if at any annual, regular or special meeting of shareholders at which any Director is elected, the shareholders fail to elect the full authorized number of Directors to be voted for at that meeting; (iii) an increase in the number of Directors (up to a maximum of twenty-five (25)) by resolution of the Board of Directors; (iv) the removal of a Director by the affirmative vote of shareholders of the Corporation in accordance with the Articles of Incorporation of the Corporation; or (v) if the Board of Directors declares vacant the office of any Director for such just cause as the Directors may determine or because such Director has not accepted the office of Director within seventy-five (75) days of being notified of his election by either responding in writing or attending any meeting of the Board of Directors.

(b) Filling of Vacancies. Except as provided in the Articles of Incorporation of the Corporation, any vacancy occurring in the Board of Directors shall be filled by a majority of the remaining Directors (even if less than a quorum of the Board) and each person so elected shall be a Director of the same class as his predecessor until his successor is elected by the shareholders.

4.05. Place of Meetings. All meetings of the Board of Directors shall be held at the principal office of the Corporation or at such place within or without the Commonwealth of Pennsylvania as may be designated from time to time by a majority of the Directors, or may be designated in the notice calling the meeting.

4.06. Regular Meetings. Regular meetings of the Board of Directors shall be held, without call or notice, immediately following each annual meeting of the shareholders of the Corporation, and at such other times as the Directors may determine.

4.07. (a) Call of Special Meetings. Special meetings of the Board of Directors of the Corporation may be called by the Chief Executive Officer, Chairman of the Board, President or by one-third of the Directors.

(b) Notice of Special Meetings. Notice of the day, hour, geographic location and purpose of special meetings of the Board of Directors shall be delivered at least five (5) days before the meeting, personally, by courier service, charges prepaid, first class or express mail, postage prepaid, facsimile transmission, e-mail or other electronic communication,

Edgar Filing: - Form

to the postal address, facsimile number, e-mail address or other electronic communication location supplied by the Secretary of the Corporation for the purpose of notice. Notice sent by United States mail shall be deemed to have been delivered when deposited in the United States mail or with a courier service. Notice sent by facsimile transmission, e-mail or other electronic communication shall be deemed to have been given when sent.

4.08. Validation of Meetings Defectively Called or Noticed. The transactions of any meeting of the Board of Directors, however called and noticed and wherever held, are as valid as though taken at a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a waiver of notice. All such waivers shall be filed with corporate records or made a part of the minutes of the meeting. Attendance of a Director at any meeting shall constitute a waiver of notice of such a meeting except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

4.09. Quorum. A majority of the number of Directors in office constitutes a quorum of the Board for the transaction of business.

4.10. Majority Action. Every action or decision done or made by a majority of the Directors present at any meeting duly held at which a quorum is present is the act of the Board of Directors. Each Director who is present at a meeting will be conclusively presumed to have assented to the action taken at such meeting unless his dissent to the action is entered in the minutes of the meeting, or, where he is absent from the meeting, his written objection to such action is promptly filed with the Secretary of the Corporation upon learning of the action. Such right to dissent shall not apply to a Director who voted in favor of such action.

4.11. Action by Consent of Board Without Meeting. Any action required by the BCL to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors or the executive or other committee thereof, may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the Directors entitled to vote with respect to the subject matter thereof, or by all the members of such committee, as the case may be, and filed with the Secretary of the Corporation.

4.12. (a) Adjournment. In the absence of a quorum a majority of the Directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board.

(b) Notice of Adjourned Meeting. Notice of the time and place of holding an adjourned meeting, whether the meeting is a regular meeting or special meeting, need not be given to absent Directors if the time and place are fixed at the meeting adjourned.

4.13. Conduct of Meetings. At every meeting of the Board of Directors, the Chairman of the Board, the Chief Executive Officer, or in their absence, an officer of the Corporation designated by one of them, or in the absence of such designation, a chairman chosen by a majority of the Directors present, shall preside. The Secretary of the Corporation shall act as Secretary of the Board of Directors. In case the Secretary shall be absent from any meeting, the chairman of the meeting may appoint any person to act as secretary of the meeting.

4.14. Participation at Meeting. One or more Directors may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

4.15. Compensation. The Board of Directors, by the affirmative vote of a majority of the Directors then in office, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all Directors for services to the Corporation as Directors, officers, or otherwise.

ARTICLE FIVE COMMITTEES

5.01. Authorization. The Board of Directors, by resolution adopted by a majority of the whole Board, may create an Executive Committee, an Audit Committee, a Nominating Committee, a Compensation Committee, and such other permanent or temporary committees as the Board deems necessary for the proper conduct of the business of the Corporation. Each committee shall have and may exercise such powers as shall be conferred or authorized by resolution of the Board and which are not inconsistent with these Bylaws nor applicable law. The creation of any committee and the delegation thereto of authority shall not operate to relieve the Board of Directors of any responsibility imposed on it by law.

5.02. Appointment of Committees. The Chief Executive Officer shall submit to the Board of Directors, at its first meeting after the annual meeting of the shareholders, his or her recommendations for the members of and chairman of each committee. The Board shall then appoint, in accordance with such recommendations or otherwise, the members and a chairman for each committee. If the appointees accept their appointment, they shall serve for one (1) year or until their successors are appointed. The Board of Directors shall have the power to fill any vacancies occurring on any committee and to remove and replace a member of any committee. Unless otherwise provided, a Director may be a member of more than one (1) committee. If the Chief Executive Officer of the Corporation is a member of the Board of Directors, the Chief Executive Officer of the Corporation shall be appointed as a full member of the Executive Committee and, to the extent permitted by applicable law, as an ex-officio, non-voting member of each committee of which he or she is not a full member.

5.03. Conduct of Committees. A majority of the membership of each committee shall constitute a quorum for the transaction of business. Each committee shall meet at such times as the committee may decide or as the Board of Directors may require. Special meetings of committees may be called at any time by its chairman, or by the Chairman of the Board or by the Chief Executive Officer. Except, for its chairman, each committee may appoint a secretary and such other officers as the committee members deem necessary. Each committee shall have the power and authority to obtain from the appropriate officers of the Corporation all information necessary for the conduct of the proper business of the committee. If required by the Board of Directors, minutes of the proceedings shall be submitted to the Board of Directors upon its request.

5.04. Executive Committee. If created by resolution adopted by a majority of the whole Board, the Executive Committee shall meet upon five (5) days' notice. The Executive Committee shall have and may exercise all the powers of the Board of Directors in the management of the Corporation, except as the Board of Directors may specifically limit by resolution, or except where action by the entire Board of Directors is specifically required by law.

5.05. Audit Committee. If created by resolution adopted by a majority of the whole Board, the Audit Committee shall consist entirely of outside Directors whose emphasis and background shall preferably be in the areas of accounting, finance, or law or who have significant experience with the Corporation or any of its subsidiaries. The object of the Audit Committee shall be to give additional assurance of the integrity of the financial information distributed to the shareholders and the public at large. The Audit Committee shall review the internal audit controls of the Corporation and shall have the authority to cause and supervise such examinations and audits to be made by public accountants of the books and affairs of the Corporation and subsidiary companies as it, in its discretion, deems advisable. The Audit Committee shall also review audit policies, oversee internal audits, review external audits and review any federal or state examination reports. Members of management of the Corporation, whether or not Directors of the Corporation, may be invited by the Audit Committee to attend meetings thereof.

5.06. Nominating Committee. If created by resolution adopted by a majority of the whole Board, the Nominating Committee shall meet at least annually to propose, for consideration by the whole Board, nominees for election as Directors of the Corporation.

ARTICLE SIX OFFICERS

6.01. Number and Titles. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a Chief Financial Officer, a President, a Secretary, and a Treasurer. The Corporation may also have, at the discretion of the Board of Directors, one (1) or more Vice Chairman, one (1) or more Executive Vice Chairman, one (1) or more Executive Vice Presidents or Vice Presidents, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and such other officers and assistant officers as may be appointed in accordance with the provisions of Section 6.03 of this Article. One person may hold two (2) or more offices. No person shall, however, simultaneously hold the offices of President and Secretary.

6.02. Election. The Board of Directors shall choose, annually, either the President or Chairman of the Board to be the Chief Executive Officer of the Corporation. The other officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 6.03 or Section 6.05 of this Article, shall be chosen annually by the Board of Directors. Each officer of the Corporation shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

6.03. Subordinate Officers. The Chief Executive Officer may appoint, subject to the power of the Board of Directors to approve or disapprove such appointment, such other officers or agents as he may deem necessary, each of whom shall hold office for such period, have such authority and perform such duties in the management of the property and affairs of the Corporation as may be determined by the Chairman or the President not inconsistent with these Bylaws. The Board of Directors may delegate to any officer or committee the power to appoint any subordinate officers, committees or agents to specify their duty and authority, and to determine their compensation.

6.04. Removal and Resignation. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, provided, however, that such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer may resign at any time giving written notice to the Board of Directors, to the President or to the Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

6.05. Vacancies. If the office of the Chairman of the Board or the Chief Executive Officer becomes vacant by reason of death, resignation, removal, or otherwise, the Board of Directors shall elect a successor who shall hold office for the unexpired term and until his successor is elected. If any other office becomes vacant by reason of death, resignation, removal or otherwise, the Chief Executive Officer shall appoint a successor who shall hold office for the unexpired term and until his successor is elected or appointed.

6.06. Chairman of the Board. The Chairman of the Board shall perform the duties of the Chief Executive Officer either when he has (i) been chosen as Chief Executive Officer by the Board of Directors or (ii) when the appointed Chief Executive Officer is legally incapable or physically unable to perform the duties of Chief Executive Officer, and shall perform such duties until the Board of Directors appoints a temporary or permanent successor. The Chairman shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the Bylaws.

6.07. Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, the Chief Executive Officer shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Corporation, and shall have the general powers and duties of management usually vested in the office of Chief Executive of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws. Within this authority and in the course of his duties he shall:

- (a) Conduct Meeting. In the absence of the Chairman of the Board, preside at all meetings of the Board of Directors.
- (b) Execute Instruments. When authorized by the Board of Directors or required by law, execute in the name of the Corporation, deeds, conveyances, notices, leases, checks, drafts, bills of exchange, warrants, promissory notes, debentures, contracts, and other papers and instruments in writing, and unless the Board of Directors shall order otherwise by resolution, make such contracts as the ordinary conduct of the Corporation's business may require.
- (c) Hire and Fire Employees. Appoint and remove, employ and discharge, and prescribe the duties and fix the compensation of all agents, employees, and clerks of the Corporation other than the duly appointed officers, subject to the approval of the Board of Directors, and control, subject to the direction of the Board of Directors, all of the officers, agents, and employees of the Corporation.
- (d) Meetings of Other Corporations. Unless otherwise directed by the Board of Directors, attend in person, or by substitute appointed by him, or by proxy executed by him, and vote on behalf of the Corporation at all meetings of the

shareholders of any corporation in which the Corporation holds stock.

6.08. President. The President shall perform the duties of Chief Executive Officer either when he has been chosen as Chief Executive Officer or when the Chairman of the Board is absent or unable to perform the duties of the Chief Executive Officer. The President shall have such other powers and perform such other duties from time to time as may be prescribed for him by the Board of Directors, the Chief Executive Officer or the Bylaws.

6.09. Vice Chairman. The Vice Chairman shall have such powers and perform such duties from time to time as may be prescribed for him by the Board of Directors, the Chief Executive Officer or the Bylaws.

6.10. Chief Financial Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chief Executive Officer, and subject to the control of the Board of Directors, the Chief Financial Officer shall have general supervision, direction and control of the financial affairs of the Corporation, and shall have the general powers and duties of management usually vested in the office of Chief Financial Officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors, the Chief Executive Officer or the Bylaws.

6.11. Executive Vice President or Vice President. Except as otherwise provided in these Bylaws with respect to the performance of the duties of Chief Executive Officer, in the absence or disability of the President, the Executive Vice Presidents and Vice Presidents, in order of their rank as fixed by the Board of Directors, or if not ranked, the Executive Vice President or Vice President designated by the Board of Directors, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions on, the President. The Executive Vice Presidents and Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them, respectively, by the Board of Directors, the Chief Executive Officer or the Bylaws.

6.12. Secretary. The Secretary shall:

(a) Certify Bylaws. Certify and keep at the registered office or principal place of business of the Corporation the original or a copy of its Bylaws, including all amendments or alterations to date.

(b) Minutes of Meetings. Keep the place where the certified Bylaws or a copy thereof are kept, a record of the proceedings of meetings of its Directors, shareholders, Executive Committee, and other committees, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at Directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

(c) Sign or Attest Documents. Sign, certify, or attest such documents as may be required by law for the business of the Corporation.

(d) Notices. See that all notices are duly given in accordance with the provisions of these Bylaws and as required by applicable law. In case of the absence or disability of the Secretary or his or her refusal or neglect to act, notice may given and served by an Assistant Secretary, Treasurer, or by the Chief Executive Officer or Board of Directors.

(e) Custodian of Records and Seals. Be custodian of the records and of the seal of the Corporation and see that it is engraved, lithographed, printed, stamped, impressed upon or affixed to all certificated shares prior to their issuance, and to all documents or instruments the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws, or which otherwise attested to or certified to by the Secretary.

(f) Share Register. Keep at the place where the certified Bylaws or a copy thereof are kept, or at the office of the transfer agent or registrar, a share register or duplicate share register giving the names of shareholders, their respective addresses, and the number of classes of shares held by each. The secretary shall also keep appropriate, complete, and accurate books or records of account at the Corporation's registered office or its principal place of business.

Edgar Filing: - Form

(g) Reports and Statements. See that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed.

-10 -

(h) Exhibit Records. Exhibit at all reasonable times to proper persons on such terms as are provided by applicable law on proper application, the Bylaws, the share register, and minutes of proceedings of the shareholders and Directors of the Corporation.

(i) Other Duties. In general, perform all duties incident to the office of Secretary, and such other duties as from time to time may be assigned to him or her by the Board of Directors.

(j) Absence of Secretary. In case of the absence or disability of the Secretary or his or her refusal or neglect to act, the Assistant Secretary, or if there be none, the Treasurer, acting as Assistant Secretary may perform all of the functions of the Secretary. In the absence or inability to act or refusal or neglect to act of the Secretary, the Assistant Secretary and Treasurer, any person thereunto authorized by the Chief Executive Officer or by the Board of Directors may perform the functions of the Secretary.

6.13. Assistant Secretary. At the request of the Secretary or in his or her absence or disability, any Assistant Secretary, shall perform all the duties of the Secretary, and when so acting, he or she shall have all the powers of, and be subject to all restrictions on, the Secretary. The Assistant Secretary shall perform such other duties as from time to time may be assigned to him or her by the Board of Directors or the Secretary.

6.14. Treasurer.

(a) Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chief Financial Officer, the Treasurer shall, subject to the control of the Board of Directors, have the general powers and duties of management usually vested in the office of Treasurer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors, the Chief Executive Officer, the Chief Financial Officer or the Bylaws.

(b) The Treasurer and such other Officers as may be designated by the Board of Directors shall receive, take care of, and be responsible for all moneys, securities, and evidences of indebtedness belonging to the Corporation, deposit the same in the name of the Corporation in such depositories as the Board of Directors shall direct and shall keep a complete record of all receipts and disbursements of the Corporation.

(c) The Treasurer shall sign drafts and such other instruments as may, under these Bylaws or by direction of the Board of Directors, require his official signature, and shall keep a record thereof.

(d) The Treasurer shall perform such other duties as may be required by these Bylaws or by the Chief Executive Officer, Chief Executive Officer or the Board of Directors.

6.15. Assistant Treasurer. At the request of the Treasurer or in his or her absence or disability, the Assistant Treasurer shall perform all the duties of the Treasurer, and when so acting, shall have all the powers of, and be subject to, all the restrictions on the Treasurer. The Assistant Treasurer shall perform such duties as from time to time may be assigned to him or her by the Board of Directors, the Chief Financial Officer, the Chief Executive Officer or the Treasurer.

6.16. Salaries. The salaries of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

ARTICLE SEVEN ISSUANCE AND TRANSFER OF SHARES

7.01. Classes and Series of Shares. The Corporation may issue such shares of stock as are authorized by the Articles of Incorporation of the Corporation. Except as provided in the Articles of Incorporation, if a class is divided into series,

Edgar Filing: - Form

all the shares of any one series shall have the same conversion, redemption and other rights, preferences, qualifications, limitations and restrictions.

7.02. Fully Paid Shares. No shares may be issued by the Corporation until the full amount of the consideration for such shares has been paid. When such consideration has been paid to the Corporation, the shares shall be issued to the shareholder in uncertificated form or in certificated form if the shareholder requests physical certificates representing such shares.

7.03. **Certificated and Uncertificated Shares Authorized.** As authorized in the Corporation's Articles of Incorporation, any or all classes and series of shares of the Corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board of Directors, except that shares represented by a certificate that is issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the Corporation. Shares shall be issued in certificated form if a shareholder requests physical certificates representing such shareholder's shares. Except as otherwise expressly provided by applicable law, the rights and obligations of the holders of uncertificated and certificated shares of the same class and series shall be identical.

7.04. **Consideration for Shares.** The consideration for the issuance of shares may be paid, in whole or in part, in money, in other property actually received, tangible or intangible, or in labor done for the Corporation. Future services shall not constitute payment, or part-payment, for shares of the Corporation.

7.05. **Information Regarding Shares.**

(a) **Form of Certificates.** Certificated shares shall be of such form and style, printed or otherwise, as the Board of Directors may designate, and each certificate shall state all of the following facts:

(i) That the Corporation is organized under the laws of the Commonwealth of Pennsylvania.

(ii) The name of the registered holder of the shares represented by the certificate.

(iii) The number and class of shares and the designation of the series, if any, which such certificate represents.

(b) **Shares in Classes or Series.** If the Corporation is authorized to issue shares of more than one class or series, each certificated share shall set forth, either on the face or back of the certificate, a full or summary statement of all of the designations, voting rights, preferences, limitations, and relative rights of the shares of each class or series authorized to be issued and, if the Corporation is authorized to issue any preferred or special class in series, the variations in the relative rights and preferences between the shares of each such series, so far as the same have been fixed and determined, and authority of the Board of Directors to fix and determine the designations, voting rights, preferences, limitations, and relative rights of the classes and series of shares of the Corporation. The full or summary statement required by this paragraph (b) to be on the face or back of the certificated share or in the written notice required by paragraph (d) of this Section with respect to uncertificated shares, may be omitted from the certificate or written notice, as the case may be, if it is written on the face or back of such certificate or written notice that such statement, in full, will be furnished by the Corporation to any shareholder upon request and without charge.

(c) **Restriction on Transfer.** Any restrictions imposed by the Corporation on the sale or other disposition of its shares and on the transfer thereof must be noted conspicuously on each certificated share, or on a written notice given as required by paragraph (d) of this Section in the case of each uncertificated share, to which the restriction applies.

(d) **Notice of Rights for Uncertificated Shares.** Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered holder of such shares, a written notice containing the information required to be set forth on certificated shares as set forth in paragraphs (a), (b) and (c) of this Section.

7.06. **Signing Certificates — Facsimile Signatures.** All certificated shares shall be signed by such officers as the Board of Directors may determine from time to time, or, in the absence of such any determination, by the Chief Executive Officer or a Vice President and by either the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer, and shall be sealed with the corporate seal, or a facsimile of the seal of the Corporation. If a certificated share is countersigned by a transfer agent or registrar, any other signatures or countersignatures on the certificate may be facsimiles. In case

Edgar Filing: - Form

any officer of the Corporation or any officer or employee of the transfer agent or registrar who has signed or whose facsimile signature has been placed upon such certificated share ceases to be an officer of the Corporation, or an officer or employee of the transfer agent or registrar before such certificate is issued, the certificate may be issued by the Corporation with the same effect as if the officer of the Corporation, or the officer or employee of the transfer agent or registrar, had not ceased to be such at the date of its issue.

-12 -

7.07. (a) Transfer of Shares. Transfer of certificated or uncertificated shares shall be made on the books of the Corporation upon surrender of the shares therefor, and, in the case of certificated shares, endorsed by the person named in the certificate or by his attorney, lawfully constituted in writing. No transfer shall be made which is inconsistent with applicable law.

(b) Transfer of Lost or Destroyed Shares. Where a certificated shares has been lost, apparently destroyed, or wrongfully taken and the owner fails to notify the Corporation of that fact within a reasonable time after he has notice of it, and the Corporation registers a transfer of the share(s) represented by the certificate before receiving such notification, the owner is precluded from asserting against the Corporation any claim for registering the transfer or any claim to new certificated or uncertificated shares representing such lost, destroyed or wrongfully taken shares.

(c) Replacement of Lost or Destroyed Certificates. Where the holder of certificated shares claims that the certificate has been lost, destroyed, or wrongfully taken, the Corporation shall issue new shares in uncertificated form, unless the holder requests certificated shares, in place of the original certificate if the owner: (i) so requests before the Corporation has notice that the shares have been acquired by a bona fide purchaser; (ii) files with the Corporation a sufficient indemnity bond; and (iii) satisfies any other reasonable requirements imposed by the Board of Directors.

(d) Transfer After Replacement. If, after the issue of new certificated or uncertificated shares as a replacement for a lost, destroyed, or wrongfully taken certificated shares, a bona fide purchaser of the original certificate presents it for registration of transfer, the Corporation must register the transfer unless registration would result in over-issue. In addition to any rights on the indemnity bond, the Corporation may recover the new certificated or uncertificated shares from the person to whom such shares were issued or any person taking under him except a bona fide purchaser.

7.08. Transfer Agents and Registrars. The Board of Directors may appoint one (1) or more transfer agents and one (1) or more registrars, each of which shall be an incorporated bank or trust company, either domestic or foreign, either independent or a subsidiary of the Corporation, which shall be appointed at such times and places as the requirements of the Corporation may necessitate and the Board of Directors may designate.

7.09. Conditions of Transfer. A person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof as regards the Corporation, provided that whenever any transfer of shares shall be made for collateral security, and written notice thereof shall be given to the Secretary of the Corporation or its transfer agent, if any, such fact shall be stated in the entry of the transfer. When a transfer of shares is requested and there is reasonable doubt as to the right of the person seeking the transfer, the Corporation or its transfer agent, before recording the transfer of the shares on its books or issuing any certificated or uncertificated shares therefor, may require from the person seeking the transfer reasonable proof of his right to the transfer. If there remains a reasonable doubt of the right to the transfer, the Corporation may refuse a transfer unless the person gives adequate security or a bond of indemnity executed by a corporate surety or by two (2) individual sureties satisfactory to the Corporation as to form, amount and responsibility of sureties. The bond shall be conditioned to protect the Corporation, its officers, transfer agents, and registrars, and any of them against any loss, damage, expense, or other liability (including attorneys' fees) to the owner of the shares by reason of the recordation of the transfer or the issuance of new shares.

ARTICLE EIGHT LIMITATION OF DIRECTORS' LIABILITY; INDEMNIFICATION

8.01. Limitation of Liability. To the fullest extent permitted by the provisions of Subchapter B of Chapter 17 of the BCL (15 Pa. C.S. 1711 et seq.) and any amendment to or restatement of such provisions, other applicable provisions of the BCL and any other applicable law, a Director (including a member of any advisory board) of the Corporation shall not be personally liable to the Corporation, its shareholders or others for monetary damages for any action taken

Edgar Filing: - Form

or any failure to take any action unless the Director has breached or failed to perform the duties of his or her office, as set forth in the applicable law, and such breach or failure constitutes self-dealing, willful misconduct or recklessness. The provisions of this Article Eight shall not apply with respect to the responsibility or liability of a Director (including a member of any advisory board) under any criminal statute or the liability of a Director (including a member of any advisory board) for the payment of taxes pursuant to local, state or federal law.

-13 -

8.02. (a) Indemnification. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a Director (including a member of any advisory board), officer, employee or agent of the Corporation, any one or more bank subsidiaries of the Corporation (individually and collectively, the "Bank"), or any other direct or indirect subsidiary of the Corporation or the Bank designated by the Board of Directors or is or was serving at the request of the Corporation as a Director (including a member of any advisory board), officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the fullest extent authorized or permitted by the laws of the Commonwealth of Pennsylvania.

(b) Advance of Expenses. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit, or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding upon receipt of (i) an undertaking by or on behalf of the Director (including a member of any advisory board), officer, employee, or agent to repay such amount if it shall be ultimately determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article Eight and (ii) if requested at the discretion of the Board of Directors, adequate security or a bond to cover any such amounts for which it is ultimately determined that he or she is not entitled to such indemnity.

(c) Indemnification not Exclusive. The indemnification and advancement of expenses provided by this Article Eight shall not be deemed exclusive of any other right to which persons seeking indemnification and advancement of expenses may be entitled under any agreement, vote of shareholders or disinterested Directors, or otherwise, both as to actions in such persons' official capacity and as to their actions in another capacity while holding office, and shall continue as to a person who has ceased to be a Director (including a member of any advisory board), officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

(d) Insurance, Contracts, Security. The Corporation may purchase and maintain insurance on behalf of any person, may enter into contracts of indemnification with any person, and may create a fund of any nature (which may, but need not, be under the control of a trustee) for the benefit of any person and may otherwise secure in any manner its obligations with respect to indemnification and advancement of expenses, whether arising under this Article Eight or otherwise, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article Eight.

8.03. Effective Date. The limitation of liability provided in Section 8.01 of this Article Eight and the right to indemnification provided in Section 8.02 of this Article Eight shall apply to any action or failure to take any action occurring on or after the formation of the Corporation.

8.04. Amendment, Etc. Notwithstanding anything herein contained to the contrary, this Article Eight may not be amended or repealed, and a provision inconsistent herewith may not be adopted, except by the affirmative vote of 66-2/3% of the members of the entire Board of Directors or by the affirmative vote of shareholders of the Corporation entitled to cast at least 80% of the votes which all shareholders of the Corporation are then entitled to cast, except that, if the BCL is amended or any other statute is enacted or amended so as to decrease the exposure of Directors (including a member of any advisory board) to liability or increase the indemnification rights available to Directors (including a member of any advisory board), officers, employees, agents or others, then this Article Eight and any other provisions of these Bylaws inconsistent with such decreased exposure or increased indemnification rights shall be amended, automatically and without any further action on the part of the shareholders or Directors, to reflect such reduced exposure or increased indemnification rights, unless such legislation expressly requires otherwise. Any repeal or modification of this Article Eight by the shareholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a Director (including a member of any advisory board) of

the Corporation or any right to indemnification from the Corporation with respect to any action or failure to take any action occurring prior to the time of such repeal or modification.

ARTICLE NINE
SEVERABILITY

9.01. If a final judicial determination is made or an order is issued by a court or government regulatory agency having jurisdiction that any provision of these Bylaws is unreasonable or otherwise unenforceable, such provisions shall not be rendered void, but shall be deemed amended to apply to the maximum extent as such court or government regulatory agency may determine or indicate to be reasonable. If, for any reason, any provision of these Bylaws shall be held invalid, such invalidity shall not affect any other provision of these Bylaws not held so invalid, and each such other provision shall, to the full extent permitted by law, continue in full force and effect. If any provision of these Bylaws shall be held invalid in part, such invalidity shall in no way affect the remainder of such provisions, and the remainder of such provisions, together with all other provisions of these Bylaws shall, to the full extent permitted by law, continue in full force and effect.

ARTICLE TEN
AMENDMENTS

10.01. Except and only to the extent otherwise expressly provided in these Bylaws, the Articles of Incorporation of the Corporation, the BCL or other applicable law, the authority to make, amend, alter, change, or repeal these Bylaws is hereby expressly and solely granted to and vested in the Board of Directors of the Corporation, subject always to the power of shareholders to change such action by the affirmative vote of shareholders of the Corporation entitled to cast at least 66-2/3% of the votes that all shareholders are entitled to cast thereon.

ANNEX B

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER is dated as of August 24, 2010 (this “Agreement”), by and among Berkshire Bancorp, Inc., a Pennsylvania corporation (“Berkshire Bancorp”), its direct wholly-owned subsidiary, Berkshire Bank, a Pennsylvania commercial bank (“Berkshire Bank”), Customers 1ST Bancorp, Inc., a Pennsylvania business corporation, intending to be renamed Customers Bancorp, Inc. (“Holdco”) and New Century Bank, a Pennsylvania commercial bank (“NCB”).

WITNESSETH:

WHEREAS, the boards of directors of Berkshire Bancorp, Berkshire Bank and NCB have determined that it is in the best interests of their respective companies and their shareholders, customers, employees and communities, to consummate the strategic business combination transaction provided for in this Agreement in which (i) Berkshire Bancorp will merge with and into Holdco (the “Merger”), and, immediately thereafter, (ii) Berkshire Bank will, on the terms and subject to the conditions set forth in this Agreement, merge with and into NCB (the “Bank Merger”), so that NCB is the resulting institution in the Bank Merger (sometimes referred to in such capacity as the “Resulting Institution”) and Holdco will continue as the holding company and sole shareholder of the Resulting Institution;

WHEREAS, NCB and Holdco have proposed a holding company reorganization pursuant to which Holdco, which is presently a wholly owned subsidiary of NCB, will become the holding company for NCB (the “Holding Company Reorganization”). As presently proposed, the Holding Company Reorganization is more fully described in a certain registration statement on form S-1 filed with the SEC on April 22, 2010 (File No. 333-166225), and further amended to and including the amended registration statement filed on July 2, 2010 (collectively, as so amended, the “Pending NCB Registration Statement”). In connection with the Holding Company Reorganization, which is not expected to be consummated until immediately prior to the Merger and Bank Merger, Holdco proposes to issue shares of “Holdco Common Stock” and “Holdco Nonvoting Stock” (as those terms are hereinafter defined) to holders of NCB Common Stock and NCB Nonvoting Stock, respectively, in exchange for the NCB Shares they hold.

WHEREAS, for federal income Tax purposes, it is intended that the Merger and Bank Merger qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”), and this Agreement is intended to be and is adopted as a “plan of reorganization” within the meaning of Treasury Regulation Section 1.368-2(g);

WHEREAS, concurrently with the execution of this Agreement, each individual included on Schedule A attached hereto, constituting each of the directors and executive officers of Berkshire Bancorp and Berkshire Bank, has executed an agreement in the form of Exhibit A attached hereto (collectively, the “Support Agreements”) between such individual and Holdco and NCB governing the voting of all shares of Berkshire Bancorp Common Stock (as defined herein) owned by such individual and the support of the Merger and Bank Merger and this Agreement by such individual as director and/or officer of Berkshire Bancorp and Berkshire Bank, in connection with the Berkshire Shareholders Meeting (as defined herein); and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and Bank Merger and also to prescribe certain conditions to the Merger and Bank Merger.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1
Definitions

Section 1.1. Defined Terms. As used in this Agreement, the following terms have the following meanings.

“BCL” means the Pennsylvania Business Corporation Law of 1988, as amended.

“Berkshire Bank Common Stock” means the class of common stock, \$1.00 par value per share, of Berkshire Bank.

“Berkshire Bancorp Common Stock” means the class of common stock, \$1.00 par value per share, of Berkshire Bancorp.

“Berkshire Bancorp Shares” means and includes shares of the Berkshire Bank Common Stock.

“Berkshire Series C Preferred Stock” means the 6% non-cumulative, non-voting, convertible perpetual preferred stock, Series C.

“Berkshire Valuation” means (A) (i) Berkshire's tangible common book value (as determined according to GAAP) as of the most recent calendar month-end prior to the Effective Time, minus (ii) the Book Value Adjustment, if any, minus the costs (whether capitalized or expensed) that, as of the Effective Time, shall be or have been accrued or otherwise incurred by either or both of Berkshire Bancorp and Berkshire Bank related to this Agreement and the Merger or Bank Merger, divided by (B) the number of shares of Berkshire Common Stock outstanding at the Effective Time; provided, however, that, in the event the Berkshire Valuation would be less than \$1.95, then the Berkshire Valuation shall be deemed equal to \$1.95.

“BHC Act” means the Bank Holding Company Act of 1956, as amended.

“Book Value Adjustment” means the dollar amount necessary, as of the most recent calendar month end prior to the Effective Time, to bring Berkshire Bank's total loan loss reserves up to an amount equal to 40% of its Nonperforming Loans.

“Certificate” means each certificate evidencing Berkshire Bancorp Shares.

“Dissenting Holder” means a holder of Dissenting Shares.

“Dissenting Shares” means Berkshire Bancorp Shares owned of record by persons who do not vote any such Berkshire Bancorp Shares in favor of the adoption of this Agreement and the Merger and who comply with the provisions of the BCL concerning the rights of holders of Berkshire Bancorp Shares to dissent from the Merger and require appraisal of their Common Shares.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exchange Agent” means such bank or trust company or other agent designated by Holdco, and reasonably acceptable to Berkshire Bancorp, which shall act as agent for Holdco in connection with the exchange procedures for converting Berkshire Bancorp Shares into the Merger Consideration.

“Exchange Ratio” means, subject to the provisions of Section 3.1.5, the quotient, rounded to the nearest one ten thousandth, of (i) the Berkshire Valuation, divided by (ii) the product of the NCB Valuation multiplied by exchange ratio that is used with respect to the Holding Company Reorganization.

“Holdco Common Stock” means the class of voting common stock, \$1.00 par value per share, of Holdco.

“Holdco Nonvoting Stock” means the Class B Non-Voting Common Stock, \$1.00 par value per share, of Holdco.

“Holdco Shares” means the Holdco Common Stock and the Holdco Nonvoting Stock.

“Lien” means any lien, pledge, charge, security interest or similar encumbrance.

“Material Adverse Effect” means, with respect to Berkshire Bancorp, Berkshire Bank, Holdco, NCB or the Resulting Institution, as the case may be, a material adverse effect on (i) the business, results of operations or financial condition of such party and its Subsidiaries taken as a whole (provided, however, a Material Adverse Effect shall not be deemed to include effects to the extent resulting from (A) changes, after the date hereof, in generally accepted accounting principles or regulatory accounting requirements applicable to banks or savings associations and their holding companies, generally, (B) changes, after the date hereof, in laws, rules or regulations of general applicability to banks or savings associations and their holding companies, generally, or interpretations thereof by courts or Governmental Entities, (C) changes, after the date hereof, in global or national political conditions (including national emergencies, the outbreak of war or acts of terrorism) or in general economic or market conditions affecting banks, savings associations or their holding companies generally, (D) consummation or public disclosure of this Agreement or the transactions contemplated hereby or compliance with the terms hereof, including reasonable expenses incurred by the parties hereto in consummating the transactions contemplated by this Agreement, or (E) actions or omissions of Berkshire Bancorp, Berkshire Bank on the one hand, or NCB on the other hand, taken with the prior written consent of the other party or parties in contemplation of the transactions contemplated hereby or required hereunder. Without limiting the foregoing in any respect, at “Material Adverse Effect” shall be deemed to have occurred if at any time heretofore or hereafter Berkshire Bank’s combined Nonperforming Loans and Nonperforming Assets exceed \$9,685,907.80, calculated in the same

manner (subject, nevertheless, to the definitions of the respective terms set forth in this Agreement) as in Schedule B attached hereto.

“NCB Common Stock” means the class of voting common stock, \$1.00 par value per share, of NCB.

“NCB Nonvoting Stock” means the Class B Non-Voting Common Stock, \$1.00 par value per share, of NCB.

“NCB Shares” means the NCB Common Stock and the NCB Nonvoting Stock.

“NCB Valuation” means (i) NCB's tangible common book value (as determined according to GAAP) as of the most recent calendar month-end prior to the Effective Time, divided by (ii) the then current number of NCB Shares outstanding at the Effective Time.

“Nonperforming Asset” with respect to Berkshire Bank means an asset (other than property originally acquired for future expansion but no longer intended to be used for that purpose) required to be reported, as of any date of reference, in Item 3 of Schedule RC-M to FFIEC Form 041 (Consolidated Report of Condition and Income), as in force on the date of this Agreement, whether or not Berkshire Bank is required to report such items or is required to report as required in the instructions to such form, and “Nonperforming Assets” shall mean them collectively.

“Nonperforming Loan” with respect to Berkshire Bank means an asset required to be reported, as of any date of reference, in Column B or Column C of Items 1 through 9 of Schedule RC-N to FFIEC Form 041 (Consolidated Report of Condition and Income), as in force on the date of this Agreement, whether or not Berkshire Bank is required to report such items or is required to report as required in the instructions to such form, and “Nonperforming Loans” shall mean them collectively.

“Relevant Group” means any affiliated, combined, consolidated, unitary or similar group.

“Sarbanes-Oxley Act” means the Sarbanes-Oxley Act of 2002, as amended.

“Tax Return” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Tax” or “Taxes” means all federal, state, local, or foreign net or gross income, gross receipts, net proceeds, sales, use, ad valorem, value added, franchise, bank shares, withholding, payroll, employment, excise, property, deed, stamp, alternative or add-on minimum, environmental, profits, windfall profits, transaction, license, lease, service, use, occupation, severance, energy, unemployment, social security, worker’s compensation, capital, premium, or other taxes, assessments, customs, duties, fees, levies, or other governmental charges of any nature whatever, whether disputed or not, together with any interest, penalties, additions to tax, or additional amounts with respect thereto.

“Troubled Debt Restructuring” when applied to Berkshire Bank means and includes each asset that is included in the term “Troubled Debt Restructurings” for regulatory reporting purposes,

as of any date of reference, as defined in the FFIEC Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041) as in force on the date of this Agreement, whether or not Berkshire Bank is required to report such items or is required to report as required in such instructions.

Section 1.2. Other Defined Terms. Other capitalized terms used herein are defined elsewhere in this Agreement.

Term	Section
Agreement	Introduction
Alternative Proposal	Section 7.9.1
Alternative Transaction	Section 7.9.1
Articles of Merger	Section 2.2
Banking Code	Section 2.1
Bank Merger	Preamble
Berkshire Bank	Introduction
Berkshire Bank Articles	Section 5.1.3
Berkshire Bank Bylaws	Section 5.1.3
Berkshire Bancorp	Introduction
Berkshire Bancorp Articles	Section 5.1.2
Berkshire Bancorp Bylaws	Section 5.1.2
Berkshire Bancorp Disclosure Schedule	Article 5
Berkshire Bancorp Ratio	Section 9.1.7
Berkshire Bancorp Regulatory Agreement	Section 5.5.2
Berkshire Bancorp Requisite Regulatory Approvals	Section 8.2.3
Berkshire Bancorp Stock Plans	Section 5.2.1
Berkshire Bancorp Subsidiary	Section 5.1.3
Berkshire Bancorp Warrants	Section 3.1.6
Berkshire Contract	Section 5.13.1
Berkshire Director Designee	Section 7.11
Berkshire Tarp Shares	Section 5.2.1

Edgar Filing: - Form

Berkshire Tarp Shares Section	
Series A	5.2.1
Berkshire Tarp Shares Section	
Series B	5.2.1
Claim	Section
	7.6.1
Closing	Section 10.1
Closing Date	Section 10.1
Code	Preamble
Confidentiality	Section
Agreement	7.3.3
Covered Employees	Section
	7.5.1
Departing Berkshire	Section 7.11
Directors	
Derivative	Section
Transactions	4.14.1
DPC Common Shares	Section 3.12
Effective Time	Section 2.2
Election	Section
	3.2.1(a)
Election Deadline	Section
	3.2.1(d)

Term	Section
Environmental Laws	Section 4.18
ERISA	Section 4.11.1
ERISA Affiliate	Section 4.11.3(d)
Exchange Agent Agreement	Section 3.2.1(d)
Exchange Fund	Section 3.2.2
Expense Reimbursement	Section 9.3.2(c)
FDIC	Section 4.1.4
Federal Reserve Board	Section 4.4
Form of Election	Section 3.2.1(b)
GAAP	Section 5.1.3
Governmental Entity	Section 4.4
Holdco	Introduction
Holder	Section 3.2.1
Holding Company Reorganization	Preamble
HSR Act	Section 4.4
Indemnified Parties	Section 7.6.1
Index Price	Section 9.1.7
Index Ration	Section 9.1.7
Injunction	Section 8.1.3
Insurance Amount	Section 7.6.2
Intellectual Property	Section 4.17
Letter of Transmittal	Section 3.2.3(a)
Loan(s)	Section 4.25.1
Materially Burdensome Regulatory Condition	Section 7.2
Merger	Preamble

Edgar Filing: - Form

Merger Consideration	Section 3.1.3
NCB	Introduction
NCB Articles	Section 4.1.2
NCB Board	Section 4.3.1
NCB Bylaws	Section 4.1.2
NCB Contract	Section 4.13.1
NCB Directors	Section 7.11
NCB Disclosure	Article 4
Schedule	
NCB Regulatory Agreement	Section 4.5.2
NCB Requisite Regulatory Approvals	Section 8.3.3
NCB Shareholder Meeting	Section 7.4.1
Other Regulatory Approvals	Section 4.4
Pending NCB Registration Statement	Preamble
Permitted Encumbrances	Section 4.16
Personal Property Lease	Section 4.19
Plans	Section 4.11.1
Policies, Practices and Procedures	Section 4.15.2
Proxy Statement-Prospectus	Section 7.1.1
Public Proposal	Section 9.3.2(b)
Real Property	Section 4.16

Term	Section
Regulatory Agencies	Section 4.5.1
Resulting Institution	Preamble
SEC	Section 4.4
Securities Act	Section 4.2.1
Shortfall Number	Section 3.1.6(b)(ii)
Stock Consideration	Section 3.1.3
Subsidiary	Section 5.1.3
Support Agreements	Preamble
Termination Fee	Section 9.3.2
Trust Account	Section
Common Shares	3.12
Voting Debt	Section 4.2.1

ARTICLE 2
The Merger

Section 2.1. The Merger. Subject to the terms and conditions of this Agreement, in accordance with the BCL, at the Effective Time Berkshire Bancorp shall merge with and into Holdco in the Merger. NCB shall be the resulting institution in the Merger and Holdco shall continue its existence under the laws of the Commonwealth of Pennsylvania, continuing as the holding company and sole shareholder of the Resulting Institution.

Section 2.2. Effective Time. The Merger shall become effective as set forth in the articles of merger (the “Articles of Merger”) that shall be filed with the Secretary of State of the Commonwealth of Pennsylvania. The “Effective Time” shall be the date and time when the Merger becomes effective as set forth in the Articles of Merger. The Bank Merger is intended to become effective immediately after the Merger, as more fully provided in the Bank Plan of Merger.

Section 2.3. Effects of the Bank Merger. At and after the Effective Time, the Bank Merger shall have the effects set forth in Section 1606 of the Banking Code.

Section 2.4. Tax Consequences. It is intended that the Merger and Bank Merger shall constitute a “reorganization” within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute a “plan of reorganization” within the meaning of Treasury Regulation Section 1.368-2(g).

Section 2.5. Board of Directors; Officers. At and after the Effective Time, the directors of Holdco and the Resulting Institution, respectively, shall be comprised of the directors of Holdco and NCB, respectively, immediately prior to the Effective Time, and immediately after the Effective Time, one individual who is presently a member of the board of directors of Berkshire Bancorp on the date of this Agreement shall be appointed to the board

Edgar Filing: - Form

of directors of Holdco and the board of directors of the Resulting Institution in accordance with Section 7.13. The executive officers of the Holdco and Resulting Institution at and immediately after the Effective Time shall consist of the officers of Holdco and NCB, respectively, immediately prior to the Effective Time.

B-7

Section 2.6. Articles of Incorporation. At the Effective Time, (a) the Articles of Incorporation of Holdco shall be and remain the Articles of Incorporation of Holdco as the survivor of the Merger (subject to such amendments as Holdco may hereafter elect to make to establish such name as Holdco deems appropriate), provided, however, after the Berkshire Shareholder Meeting, Holdco shall not make changes that affect the rights or consideration to the Berkshire Bancorp shareholders, and (b) the Articles of Incorporation of NCB shall be the Articles of Incorporation of the Resulting Institution until thereafter amended in accordance with applicable law.

Section 2.7. Bylaws. At the Effective Time, (a) the Bylaws of Holdco shall be and remain the Bylaws of Holdco as the survivor of the Merger (subject to such amendments as Holdco may hereafter elect to make to establish such name as Holdco deems appropriate), and (b) the Bylaws of NCB shall be the Bylaws of the Resulting Institution, in each case until thereafter amended in accordance with applicable law.

ARTICLE 3

Conversion of Shares; Delivery of Merger Consideration

Section 3.1. Conversion of Common Stock; Merger Consideration. At the Effective Time, by virtue of the Merger and without any action on the part of Berkshire Bancorp, Berkshire Bank, Holdco, NCB or the holder of any of the following securities:

3.1.1. The share(s) of Berkshire Bancorp Common Stock issued and outstanding immediately prior to the Effective Time and owned by Holdco or NCB shall be cancelled and shall cease to exist and no stock of Holdco or other consideration shall be delivered in exchange therefor.

3.1.2. All Berkshire Bancorp Shares issued and outstanding immediately prior to the Effective Time that are owned by Holdco, NCB, Berkshire Bank or Berkshire Bancorp (other than Berkshire Bancorp Shares held in trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties (any such shares, "Trust Account Common Shares") and other than Berkshire Bancorp Shares held, directly or indirectly, by Holdco, NCB, Berkshire Bancorp or Berkshire Bank in respect of a debt previously contracted (any such shares, "DPC Common Shares")) shall be cancelled and shall cease to exist and no stock of Holdco or other consideration shall be delivered in exchange therefor. Prior to closing, Berkshire Bancorp shall have received from the holders of all Berkshire Series C Preferred Stock all requisite approvals to redeem or exchange such shares for shares of Holdco Common Stock, as NCB or Holdco may elect.

3.1.3. Subject to Sections 3.1.4, 3.1.5, 3.1.6 and 3.1.7, each share of Berkshire Bancorp Common Stock, except for shares of Berkshire Bancorp Common Stock owned by Holdco, NCB, Berkshire Bank or Berkshire Bancorp (other than Trust Account Common Shares and DPC Common Shares), shall be converted into the right to receive such number of shares of Holdco Common Stock as is equal to the Exchange Ratio.

The Berkshire Bancorp Shares to be exchanged pursuant to this subsection 3.1.3 are sometimes referred to herein as the “Stock Consideration.” The aggregate Stock Consideration, together with any cash to be paid for fractional shares, is sometimes referred to herein as the “Merger Consideration.”

3.1.4. All of the Berkshire Bancorp Shares converted into the right to receive the Merger Consideration pursuant to this Article 3 shall no longer be outstanding and shall automatically be cancelled and shall cease to exist as of the Effective Time, and each Certificate shall thereafter represent only the right to receive the Merger Consideration into which the Berkshire Bancorp Shares represented by such Certificate have been converted pursuant to this Section 3.1 and Section 3.2.3(f), as well as any dividends to which holders of Berkshire Bancorp Common Stock become entitled in accordance with Section 3.2.3(c).

3.1.5. If, between the date of this Agreement and the Effective Time, the outstanding Berkshire Bancorp Shares, the Holdco Shares or the NCB Shares shall have been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar change in capitalization, an appropriate and proportionate adjustment shall be made to the Exchange Ratio. In addition, in the event that, NCB enters into or is a party to an agreement pursuant to which shares of NCB Common Stock would be converted into shares or other securities or obligations of another corporation, proper provision shall be made in such agreement so that each Berkshire Bancorp shareholder entitled to receive shares of Holdco Common Stock in the Merger shall be entitled to receive such number of shares or other securities or amount of obligations of such other corporation as such shareholder would be entitled to receive if the Effective Time had occurred immediately prior to the happening of such event. Without limiting any of the foregoing, Berkshire Bancorp shareholders shall be entitled to receive shares of Holdco Common Stock in the merger in the event NCB Common Stock has been exchanged for Holdco Common Stock and the appropriate and proportional adjustment shall be made to the Exchange Ratio.

3.1.6. Berkshire Warrants Treatment of Berkshire Bancorp Warrants. Section 3.1.6 of the Berkshire Bancorp Disclosure sets forth all of the outstanding Berkshire Bancorp warrants as of the date hereof (“Berkshire Bancorp Warrants”), which schedule includes, for each warrant, the name of the individual holder of the warrant, the exercise price, the vesting schedule and the expiration date. At the Effective Time, all Berkshire Bancorp Warrants that are outstanding and unexercised immediately prior thereto shall be converted, in their entirety, automatically into the right to receive warrants to purchase shares of Holdco Common Stock upon the same terms and conditions as the Berkshire Bancorp Warrants, except that the expiration date shall be extended five (5) years and the number of shares and exercise price of the warrants shall be adjusted as follows:

(a) The number of shares of Holdco Common Stock to be subject to the converted Berkshire Bancorp Warrants shall be equal to the product of the number of shares of Berkshire Bancorp Common Stock subject to the Berkshire Bancorp Warrants and the Exchange Ratio, provided that any fractional shares of Holdco Common Stock resulting from such multiplication shall be rounded down to the nearest whole share; and

(b) The exercise price per share of Holdco Common Stock under the converted Berkshire Bancorp Warrants shall be equal to the exercise price per share of Berkshire Bancorp Common Stock under the Berkshire Bancorp Warrants divided by the Exchange Ratio, provided that such exercise price shall be rounded up to the nearest cent.

At all times after the Effective Time, Holdco shall reserve for issuance such number of shares of Holdco Common Stock as necessary so as to permit the exercise of converted Berkshire Bancorp Warrants in the manner contemplated by this Agreement and in the instruments pursuant to which such Berkshire Bancorp Warrants were granted.

3.1.7. Dissenting Shares. Any Dissenting Shares which, as of the Effective Time of the Merger, the holder thereof has not withdrawn or otherwise lost any right to such appraisal, shall not be entitled to receive the consideration set forth in Section 3.1.3, as applicable, but instead shall be converted into the right to receive such amount as may be determined to be due with respect to such Dissenting Shares pursuant to applicable provisions of the BCL. Berkshire Bancorp shall give Holdco (i) prompt notice of any written notice or demands for appraisal of Berkshire Bancorp Shares, written withdrawals or modifications of such demands, and any other instruments served pursuant to the applicable provisions of the BCL and received by Berkshire Bancorp which relate to any such demand for appraisal, and (ii) the opportunity to participate in all negotiations and proceedings which take place prior to the Closing. Berkshire Bancorp agrees that, except with the prior written consent of Holdco, it will not make any payment with respect to or settle any claim, demand or other obligation it may have with respect to any Dissenting Shares. Each Dissenting Holder who, pursuant to the applicable provisions of the BCL, becomes entitled to payment of the fair value for any Dissenting Shares, shall receive payment therefor (but only after the value therefor shall have been agreed upon or finally determined pursuant to the applicable provisions of the BCL) and thereupon such Dissenting Shares shall be canceled and retired, and shall cease to exist. If, after the Effective Time of the Merger, any Dissenting Shares shall lose their status as Dissenting Shares for any reason, including because the Dissenting Holder withdraws, fails to perfect or otherwise loses the right to appraisal, then Holdco shall pay the consideration, without interest, which such Dissenting Holder would have been entitled to receive pursuant to Section 3.1.3, assuming such shares were not Dissenting Shares at the Effective Time of the Merger.

3.1.8. Bank Merger; Bank Plan of Merger. The Bank Merger shall be consummated in accordance with the Bank Plan of Merger in the form of Exhibit B attached hereto, which NCB and Berkshire Bank shall mutually execute promptly hereafter.

Section 3.2. Procedures for Exchange of Berkshire Bancorp Common Stock.

3.2.1. Deposit of Merger Consideration. At or prior to the Effective Time, Holdco shall deposit, or shall cause to be deposited, with the Exchange Agent (i) certificates representing the number of shares of Holdco Common Stock sufficient to deliver, and Holdco shall instruct the Exchange Agent to timely deliver, the aggregate Stock Consideration, and (ii) immediately available funds equal to, to the extent then determinable, any cash payable in lieu of fractional shares pursuant to Section 3.2.2(f) (collectively, the "Exchange

Fund”) and Holdco shall instruct the Exchange Agent to timely pay the Stock Consideration, and such cash in lieu of fractional shares, in accordance with this Agreement.

3.2.2. Delivery of Merger Consideration.

(a) As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of Certificate(s) which immediately prior to the Effective Time represented outstanding Berkshire Bancorp Shares whose shares were converted into the right to receive the Merger Consideration pursuant to Section 3.1 and any cash in lieu of fractional Holdco Shares to be issued or paid in consideration therefor (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to Certificate(s) shall pass, only upon delivery of Certificate(s) (or affidavits of loss in lieu of such Certificates) to the Exchange Agent and shall be substantially in such form and have such other provisions as shall be prescribed by the Exchange Agent Agreement) (the “Letter of Transmittal”) and (ii) instructions for use in surrendering Certificate(s) in exchange for the Merger Consideration to be issued or paid in consideration therefor in accordance with Section 3.2.3(f) upon surrender of such Certificate and any dividends or distributions to which such holder is entitled pursuant to Section 3.2.3(c).

(b) Upon surrender to the Exchange Agent of its Certificate or Certificates, accompanied by a properly completed Letter of Transmittal, a holder of Berkshire Bancorp Common Stock will be entitled to receive promptly after the Effective Time the Merger Consideration and any cash in lieu of fractional Holdco Shares to be issued or paid in consideration therefor in respect of the Berkshire Bancorp Shares represented by its Certificate or Certificates. Until so surrendered, each such Certificate shall represent after the Effective Time, for all purposes, only the right to receive the Merger Consideration to be issued or paid in consideration therefor upon surrender of such Certificate in accordance with, and any dividends or distributions to which such holder is entitled pursuant to, this Section 3.2.

(c) No dividends or other distributions with respect to Holdco Shares shall be paid to the holder of any unsurrendered Certificate with respect to the Holdco Shares represented thereby, in each case until the surrender of such Certificate in accordance with this Section 3.2. Subject to the effect of applicable abandoned property, escheat or similar laws, following surrender of any such Certificate in accordance with this Section 3.2, the record holder thereof shall be entitled to receive, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to the whole Holdco Shares represented by such Certificate and not paid and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to Holdco Shares represented by such Certificate with a record date after the Effective Time (but before such surrender date) and with a payment date subsequent to the issuance of the Holdco Common Stock issuable with respect to such Certificate.

(d) In the event of a transfer of ownership of a Certificate representing Berkshire Bancorp Shares that is not registered in the stock transfer records of Berkshire Bancorp, the proper amount of cash and/or Holdco Shares shall be paid or issued in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if the Certificate formerly representing such Berkshire Bancorp Common Stock

shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment or issuance shall pay any transfer or other similar Taxes required by reason of the payment or issuance to a person other than the registered holder of the Certificate or establish to the satisfaction of Holdco that the Tax has been paid or is not applicable.

(e) After the Effective Time, there shall be no transfers on the stock transfer books of Berkshire Bancorp of the Berkshire Bancorp Shares that were issued and outstanding immediately prior to the Effective Time other than to settle transfers of Berkshire Bancorp Common Stock that occurred prior to the Effective Time. If, after the Effective Time, Certificates representing such shares are presented for transfer to the Exchange Agent, they shall be cancelled and exchanged for the Merger Consideration to be issued or paid in consideration therefor in accordance with the procedures set forth in this Section 3.2.

(f) Notwithstanding anything to the contrary contained in this Agreement, no certificates or scrip representing fractional Holdco Shares shall be issued upon the surrender of Certificates for exchange, no dividend or distribution with respect to Holdco Common Stock shall be payable on or with respect to any fractional share, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a shareholder of Holdco. In lieu of the issuance of any such fractional share, Holdco shall pay to each former shareholder of Berkshire Bancorp who otherwise would be entitled to receive such fractional share an amount in cash (rounded to the nearest cent) determined by multiplying (i) the NCB Valuation by (ii) the fraction of a share (after taking into account all Berkshire Bancorp Shares held by such holder at the Effective Time and rounded to the nearest thousandth when expressed in decimal form) of Holdco Common Stock to which such holder would otherwise be entitled to receive pursuant to Section 3.1.

(g) Any portion of the Exchange Fund that remains unclaimed by the shareholders of Berkshire Bancorp as of the first anniversary of the Effective Time may, to the extent permitted by applicable law, be paid to Holdco. In such event, any former shareholders of Berkshire Bancorp who have not theretofore complied with this Section 3.2 shall thereafter look only to Holdco with respect to the Merger Consideration, any cash in lieu of any fractional shares and any unpaid dividends and distributions on the Holdco Common Stock deliverable in respect of each share of Berkshire Bancorp Common Stock such shareholder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Notwithstanding the foregoing, none of Holdco, Berkshire Bank, Berkshire Bancorp, the Exchange Agent or any other person shall be liable to any former holder of Berkshire Bancorp Shares for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

(h) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by Holdco or the Exchange Agent, the posting by such person of a bond in such amount as Holdco may determine is reasonably necessary as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration deliverable in respect thereof pursuant to this Agreement.

3.2.3. Withholding Rights. The Exchange Agent (or, subsequent to the first anniversary of the Effective Time, Holdco) shall be entitled to deduct and withhold from the Merger Consideration otherwise payable pursuant to this Agreement to any holder of Berkshire Bancorp Common Stock such amounts as the Exchange Agent or Holdco, as the case may be, is required to deduct and withhold under federal, state, local or foreign law, with respect to the making of such payment. To the extent the amounts are so withheld by the Exchange Agent or Holdco, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of Berkshire Bancorp Shares in respect of whom such deduction and withholding was made by the Exchange Agent or Holdco, as the case may be.

Section 3.3. Reservation of Shares. Holdco shall reserve for issuance a sufficient number of shares of Holdco Common Stock for the purpose of issuing shares of Holdco Common Stock in accordance with this Article 3.

ARTICLE 4 Representations and Warranties of Holdco and NCB

Holdco and NCB have delivered a disclosure schedule (the “NCB Disclosure Schedule”), to Berkshire Bancorp and Berkshire Bank in connection with the execution of this Agreement setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this Article 4 or to one or more of Holdco or NCB’s covenants contained herein. The Pending NCB Registration Statement is publicly available and has been available for inspection by Berkshire Bancorp and Berkshire Bank prior to the date of this Agreement. Holdco’s and NCB’s representations and warranties set forth herein, and the NCB Disclosure Schedules and each Section thereof, shall be deemed supplemented in their entirety by the disclosures set forth in the Pending NCB Registration Statement, which Holdco and NCB hereby represent and warrant to Berkshire Bancorp and Berkshire Bank is accurate and complete in all material respects, and all references in this Agreement to the NCB Disclosure Schedule or any Section thereof shall also be deemed to refer to the Pending NCB Registration Statement to the extent any disclosure therein is applicable. For purposes of the NCB Disclosure Schedule, any item disclosed on any schedule therein is deemed to be fully disclosed with respect to all schedules under which such item may be relevant as and to the extent that it is reasonably clear on the face of such schedule that such item applies to such other schedule. Except as set forth in the NCB Disclosure Schedules or the Pending NCB Registration Statement, Holdco and NCB hereby represent and warrant to Berkshire Bancorp and Berkshire Bank as follows:

Section 4.1. Corporate Organization.

4.1.1. NCB is a commercial bank duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. NCB has the power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, other than in such

jurisdictions where to failure to be so licensed or qualified, individually or in the aggregate, would not have a Material Adverse Effect. Except as set forth on Section 4.1.1 of the NCB Disclosure Schedule, NCB has no Subsidiaries (as defined below).

4.1.2. True, complete and correct copies of the Articles of Incorporation of NCB, as amended (the “NCB Articles”), and the Bylaws of NCB (the “NCB Bylaws”), as in effect as of the date of this Agreement, have previously been made available to Berkshire Bancorp.

4.1.3. NCB is a member of the Federal Reserve System and the deposit accounts of NCB are insured by the Federal Deposit Insurance Corporation (the “FDIC”) through the Deposit Insurance Fund to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid when due.

4.1.4. Holdco is a Pennsylvania business corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Holdco has the power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, other than in such jurisdictions where to failure to be so licensed or qualified, individually or in the aggregate, would not have a Material Adverse Effect. Holdco has no Subsidiaries (as defined below).

4.1.5. True, complete and correct copies of the Articles of Incorporation of Holdco, as amended (the “Holdco Articles”), and the Bylaws of Holdco (the “Holdco Bylaws”), as in effect as of the date of this Agreement, have previously been made available to Berkshire Bancorp.

Section 4.2. Capitalization.

4.2.1. The authorized capital stock of NCB consists of: (i) 30,000,000 shares of NCB Common Stock, par value \$1.00 per share, of which, as of the date of this Agreement, 17,010,728 shares were issued and outstanding; (ii) 500,000 shares of nonvoting common stock, par value \$1.00 per share, of which, as of the date of this Agreement, no shares were issued and outstanding; (iii) 10,000,000 shares of Class B Non-Voting Common Stock, par value \$1.00 per share, of which, as of the date of this Agreement, 5,013,513 shares were issued and outstanding; and (iv) 1,000,000 shares of preferred stock, any series having such par value or no par value as may be determined by the Bank’s board of directors from time to time, of which, as of the date of this Agreement, no shares were issued and outstanding. As of the date of this Agreement, 1,975,450 shares of NCB Common Stock were reserved for issuance under one or more plans or agreements, or otherwise. All of the issued and outstanding NCB Shares have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights.

4.2.2. The authorized capital stock of Holdco consists of: (i) 100,000,000 shares of common stock, without par value (“Common Stock”), of which [____] share(s) is/are

issued and outstanding; 100,000,000 shares of Class B Non-Voting Common Stock, without designated par value (“Class B Non-Voting Common Stock”), of which no shares are issued and outstanding; and (iii) 100,000,000 shares of preferred stock, having such par value, or no par value, as the board of directors shall fix and determine (“Preferred Stock”), of which no shares are issued or outstanding.

4.2.3. As of the date of this Agreement, no shares of Holdco Common Stock were reserved for issuance under one or more plans or agreements, or otherwise. All of the issued and outstanding Holdco Shares have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights.

4.2.4. As of the date of this Agreement, except as set forth in Section 4.2.2 of the NCB Disclosure Schedule: (X) no bonds, debentures, notes or other indebtedness of NCB having the right to vote on the Merger, the Bank Merger, this Agreement or the actions to be taken by NCB pursuant to this Agreement (“Voting Debt”) are issued or outstanding; (Y) NCB does not have and is not bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase or issuance of, or the payment of any amount based on, any NCB Shares, Voting Debt or any other equity securities of NCB or any securities representing the right to purchase or otherwise receive any NCB Shares, Voting Debt or other equity securities of NCB; and (Z) there are no contractual obligations of NCB (i) to repurchase, redeem or otherwise acquire any shares of capital stock of NCB or any equity security of NCB or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of NCB or (ii) pursuant to which NCB is or could be required to register shares of NCB capital stock or other securities under the Securities Act of 1933, as amended (the “Securities Act”); and (iv) no equity-based awards are outstanding as of the date of this Agreement.

4.2.5. Neither Holdco or NCB does not own any capital stock, equity interest or other direct or indirect ownership interest in any person, where such ownership interest is equal to or greater than five percent of the total ownership interest of such person.

Section 4.3. Authority; No Violation.

4.3.1. Holdco and NCB each has requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly approved by the boards of directors of NCB (the “NCB Board”) and Holdco (the “Holdco Board”). The NCB Board and Holdco Board have determined that the Bank Merger and the Merger, respectively, on substantially the terms and conditions set forth in this Agreement, is advisable and in the best interests of Holdco and of NCB and its shareholders, customers, employees and communities, have resolved to recommend that their respective shareholders vote in favor of the Merger and Bank Merger, on substantially the terms and conditions set forth in this Agreement, and has directed that the Merger and Bank Merger, on substantially the terms and conditions set forth in this Agreement, be submitted to their respective shareholders for consideration at a duly held meeting of such shareholders. Except for the approval of this Agreement by the affirmative vote of the holders of two thirds of the outstanding shares of NCB Common Stock entitled to vote at such meeting, and the approval

of the Merger by NCB as sole shareholder of Holdco, no other proceedings on the part of NCB are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by NCB and (assuming due authorization, execution and delivery by Berkshire Bancorp and Berkshire Bank) constitutes the valid and binding obligation of NCB, enforceable against NCB in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and subject to general principles of equity).

4.3.2. Neither the execution and delivery of this Agreement by NCB or Holdco, nor the consummation by NCB or Holdco of the transactions contemplated hereby, nor compliance by NCB or Holdco with any of the terms or provisions of this Agreement, will (i) violate any provision of the Holdco Articles or the Holdco Bylaws, NCB Articles or the NCB Bylaws or (ii) assuming that the consents, approvals and filings referred to in Section 4.4 are duly obtained and/or made, (A) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or Injunction applicable to Holdco or NCB or any of their respective properties or assets or (B) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event that, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of Holdco or NCB under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Holdco or NCB is a party or by which any of them or any of their respective properties or assets is bound.

Section 4.4. Consents and Approvals. Except for (a) the filing of applications and notices, as applicable, with the FDIC, the Pennsylvania Department of Banking and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and approval or waiver of such applications and notices, (b) the filing of any required applications, filings or notices with any other federal or state banking, insurance or other regulatory or self-regulatory authorities or any courts, administrative agencies or commissions or other governmental authorities or instrumentalities (each a "Governmental Entity") and approval of such applications, filings and notices (the "Other Regulatory Approvals"), (c) the filing with the Securities and Exchange Commission (the "SEC") of the Proxy Statement-Prospectus in definitive form relating to the meeting of NCB's shareholders to be held in connection with this Agreement and the transactions contemplated by this Agreement and the Pending NCB Registration Statement, in which the Proxy Statement-Prospectus will be included as a prospectus, and declaration of effectiveness of Pending NCB Registration Statement, (d) the filing of the respective Articles of Merger for the Merger and the Bank Merger with the Secretary of State of the Commonwealth of Pennsylvania after approval by the Pennsylvania Department of Banking pursuant to the Banking Code, (e) notices or filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), if any, and (f) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of the Holdco Shares pursuant to this Agreement, NCB is not aware of any consents or approvals of or filings or registrations with any Governmental Entity that are necessary in connection with the consummation by

Holdco and NCB of the Merger and Bank Merger and the other transactions contemplated by this Agreement. No consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with the execution and delivery by Holdco and NCB of this Agreement.

Section 4.5. Reports; Regulatory Matters.

4.5.1. Except as set forth on Section 4.5.1 of the NCB Disclosure Schedule, NCB has timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since January 1, 2007 with (i) the Federal Reserve Board, (ii) the FDIC, (iii) the Pennsylvania Department of Banking or any state regulatory authority, (iv) any foreign regulatory authority, (v) any applicable industry self-regulatory organization, and (vi) the SEC (collectively, "Regulatory Agencies") and with each other applicable Governmental Entity, and all other reports and statements required to be filed by them since January 1, 2007, including any report or statement required to be filed pursuant to the laws, rules or regulations of the United States, any state, any foreign entity or any Regulatory Agency or Governmental Entity, and have paid all fees and assessments due and payable in connection therewith. Except for normal examinations conducted by a Regulatory Agency or Governmental Entity in the ordinary course of the business of NCB, no Regulatory Agency or Governmental Entity has initiated since January 1, 2007 or has pending any proceeding, enforcement action or, to the knowledge of NCB, investigation into the business, disclosures or operations of NCB. Except as set forth on Section 4.5.1 of the NCB Disclosure Schedule, since January 1, 2007, there has been no formal or informal inquiries by, or disagreements or disputes with, any Regulatory Agency or Governmental Entity with respect to the business, operations, policies or procedures of NCB (other than normal examinations conducted by a Regulatory Agency or Governmental Entity in NCB's ordinary course of business).

4.5.2. Except as set forth on Section 4.5.2 of the NCB Disclosure Schedule, NCB is not subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil money penalty by, or has been since January 1, 2007 a recipient of any supervisory letter from, or since January 1, 2007 has adopted any policies, procedures or board resolutions at the request or suggestion of, any Regulatory Agency or other Governmental Entity (each item in this sentence, a "NCB Regulatory Agreement"), nor has NCB been advised since January 1, 2007 by any Regulatory Agency or other Governmental Entity that it is considering issuing, initiating, ordering or requesting any such NCB Regulatory Agreement. Except as set forth on Section 4.5.2 of the NCB Disclosure Schedules, to the knowledge of NCB, there has not been any event or occurrence since January 1, 2007 that would result in a determination that NCB is not "well capitalized" and "well managed" as a matter of U.S. federal banking law, and there has been no notification or communication from any Governmental Entity (i) threatening to revoke any permit, license, franchise, certificate of authority or other governmental authorization, or (ii) threatening or contemplating revocation or limitation of, or which would have the effect of revoking or limiting, FDIC deposit insurance.

Section 4.6. Financial Statements.

4.6.1. The financial statements of NCB at and for the years ended December 31, 2009 and 2008 (including the related notes, where applicable), as well as the financial statements of NCB at and for the seven-month period ended July 31, 2010 that have been provided to Berkshire Bancorp (including any notes thereto), (i) have been prepared from, and are in accordance with, the books and records of NCB, (ii) fairly present in all material respects the consolidated results of operations, cash flows, changes in shareholders' equity and consolidated financial position of NCB for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of unaudited statements to recurring year-end audit adjustments normal in nature and amount), and (iii) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of NCB have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements and reflect only actual transactions.

4.6.2. NCB does not have any material liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), except for those liabilities that are reflected or reserved against on the consolidated balance sheet of NCB included in the financial statements of NCB at and for the seven-month period ended July 31, 2010 (including any notes thereto) that have been provided to Berkshire Bancorp and for liabilities incurred in the ordinary course of business consistent with past practice since July 31, 2010 or in connection with this Agreement and the transactions contemplated hereby.

4.6.3. Except as set forth on Section 4.6.3 of the NCB Disclosure Schedules, since December 31, 2009, (i) through the date hereof, neither NCB nor any of its Subsidiaries nor, to the knowledge of NCB, any director, officer, employee, auditor, accountant or representative of NCB has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of NCB or its respective internal accounting controls, including any material complaint, allegation, assertion or claim that NCB has engaged in questionable accounting or auditing practices, and (ii) no attorney representing NCB, whether or not employed by NCB, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by NCB or any of its officers, directors, employees or agents to the NCB Board or any committee thereof or to any director or officer of NCB.

Section 4.7. Broker's Fees. Neither NCB nor any of its officers, directors, employees, agents and representatives, has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with the Merger or related transactions contemplated by this Agreement, other than to _____ pursuant to agreement dated September __, 2009, a true, complete and correct copy of which has been previously delivered to Berkshire Bancorp.

Section 4.8. Absence of Certain Changes or Events.

4.8.1. Except as set forth in the financial statements of NCB at and for the seven-month period ended July 31, 2010 that have been provided to Berkshire Bancorp, since December 31, 2009, no event has occurred that has had or is reasonably likely to have, either individually or in the aggregate with all other events, a Material Adverse Effect on NCB.

4.8.2. Since December 31, 2009 through and including the date of this Agreement, NCB has carried on its respective business in all material respects in the ordinary course of business consistent with their past practice.

Section 4.9. Legal Proceedings.

4.9.1. Except as disclosed on Section 4.9 of the NCB Disclosure Schedule, NCB is not a party to any, and there are no pending or, to the knowledge of NCB, threatened, legal, administrative, arbitration, mediation or other material proceedings, claims, actions or governmental or regulatory investigations of any nature against NCB, or otherwise challenging the validity or propriety of the transactions contemplated by this Agreement. None of the proceedings, claims, actions or governmental or regulatory investigations set forth on Section 4.9 of the NCB Disclosure Schedule would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on NCB.

4.9.2. There is no Injunction, judgment or regulatory restriction (other than those of general application that apply to similarly situated Pennsylvania commercial banks or their Subsidiaries) imposed upon NCB or the assets of NCB.

Section 4.10. Compliance with Applicable Law. NCB holds all material licenses, franchises, permits and authorizations necessary for the lawful conduct of its business and has complied in all respects with and is not in default in any material respect under any, applicable law, statute, order, rule, regulation, policy or guideline of any Governmental Entity relating to NCB. NCB does not act as a fiduciary for any person, or administer any account for which it acts as a fiduciary, including as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor.

Section 4.11. Certain Contracts.

4.11.1. Except as disclosed on Section 4.11.1 of the NCB Disclosure Schedule, NCB is not a party to or bound by any contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers, employees or consultants, other than in the ordinary course of business consistent with past practice, (ii) that, upon execution of this Agreement or consummation or shareholder approval of the transactions contemplated by this Agreement, will (either alone or upon the occurrence of any additional acts or events) result in any payment or benefits (whether of severance pay or otherwise) becoming due from Holdco, NCB, the Resulting Institution, or any of their respective Subsidiaries to any officer or employee of NCB thereof, (iii) that materially restricts the conduct of any line of business by NCB or, to the knowledge of NCB, upon consummation of the Merger or Bank Merger will materially restrict the ability of the Resulting Institution to engage in any line of business in which a bank holding company may lawfully

engage, (iv) with or to a labor union or guild (including any collective bargaining agreement), (v) including any stock option plan, stock appreciation rights plan, restricted stock plan, stock purchase plan or benefits plan in which any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the execution of this Agreement, the occurrence of any shareholder approval or the consummation of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of or affected by any of the transactions contemplated by this Agreement, or (vi) which is otherwise material. Each contract, arrangement, commitment or understanding of the type described in this Section 4.11.1, whether or not set forth in the NCB Disclosure Schedule, is referred to as an “NCB Contract,” and NCB does not know of, and has not received notice of, any material violation of any NCB Contract by any of the other parties thereto.

Section 4.12. Reorganization; Approvals. NCB (a) is not aware of any fact or circumstance, and has not taken or agreed to take any action, that could reasonably be expected to prevent the Merger or Bank Merger from qualifying as a “reorganization” within the meaning of Section 368(a) of the Code and (b) knows of no reason why all regulatory approvals from any Governmental Entity required for the consummation of the transactions contemplated by this Agreement should not be obtained on a timely basis.

Section 4.13. NCB Information. The information relating to NCB that is provided by NCB or its representatives for inclusion in the Proxy Statement-Prospectus and Pending NCB Registration Statement, or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Entity in connection with the transactions contemplated by this Agreement, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The portions of the Proxy Statement-Prospectus relating to NCB and other portions within the reasonable control of NCB will comply in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

Section 4.14. Taxes.

4.14.1. All Tax Returns required to have been filed by or with respect to NCB or Holdco have been duly and timely filed, and each such Tax Return correctly and completely reflects liability for Taxes and all other information required to be reported thereon. All Taxes owed by NCB or Holdco (whether or not shown on any Tax Return) have been timely paid. NCB and Holdco have adequately provided for, in its books of account and related records, liability for all unpaid Taxes, being current Taxes not yet due and payable.

4.14.2. There is no action, audit, dispute or claim now proposed, threatened or pending against, or with respect to, NCB or Holdco in respect of any Taxes. Neither NCB nor Holdco is the beneficiary of any extension of time within which to file any Tax Return, nor has it requested such an extension. No claim has ever been made by an authority in a jurisdiction where NCB or Holdco does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no liens on any of the stock or assets of NCB or Holdco with respect to Taxes.

4.14.3. NCB and Holdco have withheld and timely paid all Taxes required to have been withheld and paid and has complied with all information reporting and backup withholding requirements

4.14.4. Section 4.14.4 of the NCB Disclosure Schedule lists all federal, state, local, and foreign income Tax Returns filed with respect to NCB and Holdco for taxable periods ended on or after January 1, 2007, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. NCB and Holdco have delivered to Berkshire Bancorp correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by NCB or Holdco since January 1, 2007. Neither NCB nor Holdco has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

4.14.5. Neither NCB nor Holdco has ever been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code. Except as set forth on Section 4.14.5 of the NCB Disclosure Schedule, neither NCB nor Holdco has made any payments, is obligated to make any payments, or is a party to any agreement that under certain circumstances could obligate it to make payments that would result in a nondeductible expense under Section 280G of the Code. NCB and Holdco have never been a member of a Relevant Group.

4.14.6. Neither NCB nor Holdco has agreed to and is not required to make by reason of a change in accounting method and could not be required to make by reason of a proposed or threatened change in accounting method, any adjustment under Section 481(a) of the Code. Neither NCB nor Holdco has been the “distributing corporation” or the “controlled corporation” with respect to a transaction described in Section 355 of the Code within the 5-year period ending as of the date of this Agreement. Neither NCB nor Holdco is subject to any ruling from or agreement with any taxing authority. NCB and Holdco have each disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code. Neither NCB nor Holdco has participated in any “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4.

4.14.7. Except as set forth on Section 4.14.7 of the NCB Disclosure Schedule, neither NCB nor Holdco is a party to any Tax allocation or sharing agreement. Neither NCB nor Holdco has any liability for the Taxes of any Person under Section 1.1502-6 of the Treasury regulations (or any similar provision of state, local, or foreign law) as a transferee or successor, by contract or otherwise. Neither NCB nor Holdco is a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income Tax purposes.

ARTICLE 5

Representations and Warranties of Berkshire Bancorp and Berkshire Bank

Berkshire Bancorp and Berkshire Bank have delivered a disclosure schedule (the “Berkshire Bancorp Disclosure Schedule”) to NCB in connection with the execution of this Agreement setting forth, among other things, items the disclosure of which is necessary or

appropriate either in response to a disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this Article 5 or to one or more of Berkshire Bancorp's covenants contained herein. For purposes of the Berkshire Bancorp Disclosure Schedule, any item disclosed on any schedule therein is deemed to be fully disclosed with respect to all schedules under which such item may be relevant as and to the extent that it is reasonably clear on the face of such schedule that such item applies to such other schedule. Except as set forth on the Berkshire Bancorp Disclosure Schedule, Berkshire Bancorp hereby represents and warrants to NCB as follows:

Section 5.1. Corporate Organization.

5.1.1. Berkshire Bancorp is a corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. Berkshire Bancorp has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, other than in such jurisdictions where to failure to be so licensed or qualified, individually or in the aggregate, would not have a Material Adverse Effect.

5.1.2. Berkshire Bancorp is duly registered as a bank holding company under the BHC Act. True, complete and correct copies of the Articles of Incorporation of Berkshire Bancorp, as amended (the "Berkshire Bancorp Articles") and Bylaws of Berkshire Bancorp (the "Berkshire Bancorp Bylaws"), as in effect as of the date of this Agreement, have previously been made available to NCB.

5.1.3. Each Berkshire Bancorp Subsidiary, including Berkshire Bank, (i) is duly incorporated or duly formed, as applicable to each such Subsidiary, and validly existing under the laws of its jurisdiction of organization, (ii) is duly qualified to do business and in good standing in all jurisdictions (whether federal, state, local or foreign) where its ownership or leasing of property or the conduct of its business requires it to be so qualified and (iii) has all requisite corporate power or other power and authority to own or lease its properties and assets and to carry on its business as now conducted. True, complete and correct copies of the Articles of Incorporation of Berkshire Bank, as amended (the "Berkshire Bank Articles") and Bylaws of Berkshire Bank (the "Berkshire Bank Bylaws"), as in effect as of the date of this Agreement, have previously been made available to NCB. As used in this Agreement, the word "Subsidiary," when used with respect to either party, means any bank, corporation, partnership, limited liability company or other organization, whether incorporated or unincorporated, that is consolidated with such party for financial reporting purposes under U.S. generally accepted accounting principles ("GAAP"), and the terms "Berkshire Bancorp Subsidiary" shall mean any direct or indirect Subsidiary of Berkshire Bancorp.

5.1.4. The deposit accounts of Berkshire Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") through the Deposit Insurance Fund to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid when due.

Section 5.2. Capitalization.

5.2.1. The authorized capital stock of Berkshire Bancorp consists of: (i) 10,000,000 shares of Common Stock, par value \$1.00 per share, of which 3,876,063 shares were issued and outstanding; (ii) 10,000,000 shares of preferred stock consisting of (A) its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, liquidation preference \$1,000 per share (the “Berkshire TARP Shares Series A”), of which 2,892 shares are issued and outstanding; (B) Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation preference \$1,000 per share (the “Berkshire TARP Shares Series B”), of which 145 shares are issued and outstanding; and (C) Series C Preferred Stock of which 50 shares are issued and outstanding. The Berkshire TARP Shares Series A and Berkshire TARP Shares Series B are sometimes collectively referred to herein as the “Berkshire TARP Shares.” No Berkshire Bancorp Shares are reserved for issuance. All of the issued and outstanding Berkshire Bancorp Shares have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. As of the date of this Agreement, no Voting Debt of Berkshire Bancorp is issued or outstanding. Section 5.2.1 of the Berkshire Bancorp Disclosure Schedule sets forth any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase or issuance of any Berkshire Bancorp Shares, Voting Debt of Berkshire Bancorp or any other equity securities of Berkshire Bancorp or any securities representing the right to purchase or otherwise receive any Berkshire Bancorp Shares, Voting Debt of Berkshire Bancorp or other equity securities of Berkshire Bancorp.

5.2.2. The authorized capital stock of Berkshire Bank consists of 10,000,000 shares of Berkshire Bank Common Stock, of which, as of the date of this Agreement, 1,706,998 shares were issued and outstanding. As of the date of this Agreement, no shares of Berkshire Bank Common Stock were reserved for issuance. All of the issued and outstanding shares of Berkshire Bank Common Stock have been duly authorized and validly issued and are fully paid, and free of preemptive rights, with no personal liability attaching to the ownership thereof. As of the date of this Agreement, Berkshire Bank does not have and is not bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase or issuance of any shares of Berkshire Bank Common Stock or any other equity securities of Berkshire Bank or any securities representing the right to purchase or otherwise receive any shares of Berkshire Bank Common Stock or other equity securities of Berkshire Bank.

5.2.3. All of the issued and outstanding shares of capital stock or other equity ownership interests of each Subsidiary of Berkshire Bancorp are owned by Berkshire Bancorp, directly or indirectly, free and clear of any Liens, and all of such shares or equity ownership interests are duly authorized and validly issued and are fully paid, nonassessable (subject to 12 U.S.C. § 55) and free of preemptive rights.

5.2.4. Section 5.2.4 of the Berkshire Bancorp Disclosure Schedule sets forth Berkshire Bancorp’s capital stock, equity interest or other direct or indirect ownership interest in any person, where such ownership interest is equal to or greater than five percent of the total ownership interest of such person.

Section 5.3. Authority; No Violation.

5.3.1. Each of Berkshire Bancorp and Berkshire Bank has requisite power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly approved by the board of directors of Berkshire Bancorp and Berkshire Bank, and by Berkshire Bancorp as the sole shareholder of Berkshire Bank, and no other corporate proceedings on the part of Berkshire Bancorp or Berkshire Bank are necessary to approve this Agreement or to consummate the transactions contemplated hereby. The Berkshire Bancorp Board and Berkshire Bank Board have each determined that the Merger and Bank Merger, respectively, on substantially the terms and conditions set forth in this Agreement, is advisable and in the best interests of it and its shareholders. This Agreement has been duly and validly executed and delivered by each of Berkshire Bancorp and Berkshire Bank and (assuming due authorization, execution and delivery by NCB) constitutes the valid and binding obligations of each of Berkshire Bancorp and Berkshire Bank, enforceable against each of them in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and subject to general principles of equity).

5.3.2. Except as provided on Section 5.3.2 of the Berkshire Bancorp Disclosure Schedules, neither the execution and delivery of this Agreement by Berkshire Bancorp or Berkshire Bank, nor the consummation by Berkshire Bancorp or Berkshire Bank of the transactions contemplated hereby, nor compliance by Berkshire Bancorp or Berkshire Bank with any of the terms or provisions of this Agreement, will (i) violate any provision of the Berkshire Bancorp Articles, Berkshire Bancorp Bylaws, Berkshire Bank Articles or Berkshire Bank Bylaws, or (ii) assuming that the consents, approvals and filings referred to in Section 5.4 are duly obtained and/or made, (A) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or Injunction applicable to Berkshire Bancorp, any of its Subsidiaries or any of their respective properties or assets or (B) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event that, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of Berkshire Bancorp or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Berkshire Bancorp or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets is bound.

Section 5.4. Consents and Approvals. Except for (a) the filing of applications and notices, as applicable, with the FDIC, the Pennsylvania Department of Banking and the Federal Reserve Board and approval of such applications and notices, (b) the Other Regulatory Approvals, (c) the filing with the SEC of the Proxy Statement-Prospectus and the filing and declaration of effectiveness of Pending NCB Registration Statement, (d) the filing of the Articles of Merger with the Secretary of State of the Commonwealth of Pennsylvania after approval by the Pennsylvania Department of Banking pursuant to the Banking Code, (e) any consents, authorizations, approvals, filings or exemptions in connection with compliance with consumer finance, mortgage banking and

other similar laws, (f) notices or filings under the HSR Act, if any, (g) such filings and approvals as are required to be made or obtained under the securities or “Blue Sky” laws of various states in connection with the issuance of the Holdco

Shares pursuant to this Agreement, and (h) approval of the U.S. Treasury to repay the Berkshire Tarp Shares, no consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with the consummation by Berkshire Bancorp or Berkshire Bank of the Merger and the other transactions contemplated by this Agreement. No consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with the execution and delivery by Berkshire Bancorp or Berkshire Bank of this Agreement.

Section 5.5. Reports; Regulatory Matters.

5.5.1. Except as set forth on Section 5.5.1 of the Berkshire Bancorp Disclosure Schedule, Berkshire Bancorp and each of its Subsidiaries have timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since January 1, 2007 with the Regulatory Agencies and each other applicable Governmental Entity, and all other reports and statements required to be filed by them since January 1, 2007, including any report or statement required to be filed pursuant to the laws, rules or regulations of the United States, any state, any foreign entity or any Regulatory Agency, and have paid all fees and assessments due and payable in connection therewith. Except for normal examinations conducted by a Regulatory Agency or Governmental Entity in the ordinary course of the business of Berkshire Bancorp and its Subsidiaries, no Regulatory Agency or Governmental Entity has initiated since January 1, 2007 or has pending any proceeding, enforcement action or, to the knowledge of Berkshire Bancorp, investigation into the business, disclosures or operations of Berkshire Bancorp or any of its Subsidiaries. Since January 1, 2007, no Regulatory Agency or Governmental Entity has resolved any proceeding, enforcement action or, to the knowledge of Berkshire Bancorp, investigation into the business, disclosures or operations of Berkshire Bancorp or any of its Subsidiaries. Since January 1, 2007, there has been no formal or informal inquiries by, or disagreements or disputes with, any Regulatory Agency or Governmental Entity with respect to the business, operations, policies or procedures of Berkshire Bancorp or any of its Subsidiaries (other than normal examinations conducted by a Regulatory Agency or Governmental Entity in Berkshire Bancorp’s ordinary course of business).

5.5.2. Except as set forth on Section 5.5.2 of the Berkshire Bancorp Disclosure Schedule, neither Berkshire Bancorp nor any of its Subsidiaries is subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been since January 1, 2007 a recipient of any supervisory letter from, or has been ordered to pay any civil money penalty by, or since January 1, 2007 has adopted any policies, procedures or board resolutions at the request or suggestion of, any Regulatory Agency or other Governmental Entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its ability to pay dividends, its credit, risk management or compliance policies, its internal controls, its management or its business, other than those of general application that apply to bank holding companies or their Subsidiaries

(each, a “Berkshire Bancorp Regulatory Agreement”), nor has Berkshire Bancorp or any of its Subsidiaries been advised since January 1, 2007 by any Regulatory Agency or other Governmental Entity that it is considering issuing, initiating, ordering or requesting any such Berkshire Bancorp Regulatory Agreement. Except as set forth on Section 5.5.2 of the Berkshire Bancorp Disclosure Schedules, to the knowledge of Berkshire Bancorp and Berkshire Bank, there has not been any event or occurrence since January 1, 2007 that would result in a determination that Berkshire Bank is not “well capitalized” and “well managed” as a matter of U.S. federal banking law, and there has been no notification or communication from any Governmental Entity (i) threatening to revoke any permit, license, franchise, certificate of authority or other governmental authorization, or (ii) threatening or contemplating revocation or limitation of, or which would have the effect of revoking or limiting, FDIC deposit insurance.

Section 5.6. Financial Statements.

5.6.1. The consolidated financial statements of Berkshire Bancorp and Berkshire Bank at and for the years ended December 31, 2009 and 2008 (including the related notes, where applicable), as well as the consolidated financial statements of Berkshire Bancorp and Berkshire Bank at and for the seven-month period ended July 31, 2010 that have been provided to NCB (including any notes thereto), (i) have been prepared from, and are in accordance with, the books and records of Berkshire Bancorp and Berkshire Bank (as applicable), (ii) fairly present in all material respects the consolidated results of operations, cash flows, changes in shareholders’ equity and consolidated financial position of Berkshire Bancorp and Berkshire Bank, as applicable, for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of unaudited statements to recurring year-end audit adjustments normal in nature and amount), and (iii) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of Berkshire Bancorp and Berkshire Bank have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements and reflect only actual transactions.

5.6.2. Neither Berkshire Bancorp nor Berkshire Bank has any material liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), except for those liabilities that are reflected or reserved against on the consolidated balance sheet of Berkshire Bancorp included in the consolidated financial statements of Berkshire Bancorp at and for the seven-month period ended July 31, 2010 (including any notes thereto) that have been provided to NCB and for liabilities incurred in the ordinary course of business consistent with past practice since July 31, 2010 or in connection with this Agreement and the transactions contemplated hereby.

5.6.3. Except as provided on Section 5.3.2 of the Berkshire Bancorp Disclosure Schedules, since December 31, 2009, (i) through the date hereof, neither Berkshire Bancorp nor any of its Subsidiaries nor, to the knowledge of Berkshire Bancorp, any director, officer, employee, auditor, accountant or representative of Berkshire Bancorp has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Berkshire Bancorp or its respective internal accounting controls,

including any material complaint, allegation, assertion or claim that Berkshire Bancorp has engaged in questionable accounting or auditing practices, and (ii) no attorney representing Berkshire Bancorp, whether or not employed by Berkshire Bancorp, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by Berkshire Bancorp, Berkshire Bank, any Subsidiary of either of them, or any of its officers, directors, employees or agents to the Berkshire Bancorp or Berkshire Bank board of directors or any committee thereof or to any director or executive officer of Berkshire Bancorp or Berkshire Bank.

Section 5.7. **Broker's Fees.** Neither Berkshire Bancorp nor any Berkshire Bancorp Subsidiary nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with the Merger, the Bank Merger or related transactions contemplated by this Agreement, other than to Commonwealth Advisors pursuant to agreement dated July 1, 2010, a true, complete and correct copy of which has been previously delivered to NCB.

Section 5.8. **Absence of Certain Changes or Events.**

5.8.1. Except as set forth on Section 5.8.1 of the Berkshire Bancorp Disclosure Schedule and as reflected in the July 31, 2010 financial statements, no event or events have occurred that have had or are reasonably likely to have a Material Adverse Effect on Berkshire Bancorp or Berkshire Bank.

5.8.2. Since December 31, 2009 through and including the date of this Agreement, Berkshire Bancorp and its Subsidiaries have carried on their respective businesses in all material respects in the ordinary course of business consistent with their past practice.

5.8.3. Except as set forth on Section 5.8.3 of the Berkshire Bancorp Disclosure Schedule, since December 31, 2009, neither Berkshire Bancorp nor Berkshire Bank has (i) except for (A) normal increases for employees made in the ordinary course of business consistent with past practice or (B) as required by applicable law or pre-existing contractual obligations, increased the wages, salaries, compensation, pension or other fringe benefits or perquisites payable to any executive officer, employee or director from the amount thereof in effect as of December 31, 2009, granted any severance or termination pay, entered into any contract to make or grant any severance or termination pay (in each case, except as required under the terms of agreements or severance plans listed on Section 5.8 of the Berkshire Bancorp Disclosure Schedule, as in effect as of the date hereof), or paid any bonus, (ii) granted any stock appreciation rights or options to purchase Berkshire Bancorp Shares, any restricted Berkshire Bancorp Shares or any right to acquire any shares of its capital stock to any executive officer, director or employee, (iii) changed any accounting methods, principles or practices of Berkshire Bancorp or Berkshire Bank affecting its or their assets, liabilities or business, including any reserving, renewal or residual method, practice or policy, (iv) suffered any strike, work stoppage, slow-down or other labor disturbance, (v) declared, set aside or paid any dividend or other distribution (whether in cash, stock or property) with respect to any Berkshire Bancorp Common Stock, other than customary dividends, (vi) effected or authorized any issuance, split, combination or reclassification of Berkshire Bancorp Common Stock, (vii) to the Knowledge of Berkshire Bancorp, taken or omitted to take any action, the taking or omission of which violated

or violates any provision of the Emergency Economic Stabilization Act of 2008 (“EESA”), the American Recovery and Reinvestment Act of 2009 (“ARRA”) or the regulations or statements of policy adopted under either of such acts, or (vii) made any agreement or commitment (contingent or otherwise) to do any of the foregoing.

Section 5.9. Legal Proceedings.

5.9.1. Except as set forth on Section 5.9.1 of the Berkshire Bancorp Disclosure Schedule, none of Berkshire Bancorp or any of its Subsidiaries is a party to any, and there are no pending or, to the best of Berkshire Bancorp’s knowledge, threatened, material legal, administrative, arbitration, mediation or other proceedings, claims, actions or governmental or regulatory investigations of any nature against Berkshire Bancorp or any of its Subsidiaries, or otherwise challenging the validity or propriety of the transactions contemplated by this Agreement. None of the proceedings, claims, actions or governmental or regulatory investigations set forth on Section 5.9.1 of the Berkshire Bancorp Disclosure Schedule would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on Berkshire Bancorp or any of its Subsidiaries.

5.9.2. There is no Injunction, judgment or regulatory restriction (other than those of general application that apply to similarly situated bank holding companies or their Subsidiaries) imposed upon Berkshire Bancorp, any of its Subsidiaries or the assets of Berkshire Bancorp or any of its Subsidiaries.

Section 5.10. Taxes.

5.10.1. All Tax Returns required to have been filed by or with respect to Berkshire Bancorp or Berkshire Bank have been duly and timely filed, and each such Tax Return correctly and completely reflects liability for Taxes and all other information required to be reported thereon. All Taxes owed by Berkshire Bancorp and Berkshire Bank (whether or not shown on any Tax Return) have been timely paid. Berkshire Bancorp and Berkshire Bank have adequately provided for, in its books of account and related records, liability for all unpaid Taxes, being current Taxes not yet due and payable.

5.10.2. There is no action, audit, dispute or claim now proposed, threatened or pending against, or with respect to, Berkshire Bancorp or Berkshire Bank in respect of any Taxes. Neither Berkshire Bancorp nor Berkshire Bank is the beneficiary of any extension of time within which to file any Tax Return, nor has it requested such an extension. No claim has ever been made by an authority in a jurisdiction where Berkshire Bancorp or Berkshire Bank does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no liens on any of the stock or assets of Berkshire Bancorp or Berkshire Bank with respect to Taxes.

5.10.3. Berkshire Bancorp and Berkshire Bank have withheld and timely paid all Taxes required to have been withheld and paid and has complied with all information reporting and backup withholding requirements

5.10.4. Section 5.10.4 of the Berkshire Bancorp Disclosure Schedule lists all federal, state, local, and foreign income Tax Returns filed with respect to Berkshire Bancorp

and Berkshire Bank for taxable periods ended on or after January 1, 2007, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. Berkshire Bancorp and Berkshire Bank have delivered to NCB correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by Berkshire Bancorp or Berkshire Bank since January 1, 2007. Neither Berkshire Bancorp nor Berkshire Bank has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

5.10.5. Except as provided on Section 5.10.5 of the Berkshire Bancorp Disclosure Schedules, neither Berkshire Bancorp nor Berkshire Bank has ever been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code. Except as set forth on Section 5.10.5 of the Berkshire Bancorp Disclosure Schedule, neither Berkshire Bancorp nor Berkshire Bank has made any payments, is obligated to make any payments, or is a party to any agreement that under certain circumstances could obligate it to make payments that would result in a nondeductible expense under Section 280G of the Code. Berkshire Bancorp and Berkshire Bank have never been a member of a Relevant Group.

5.10.6. Neither Berkshire Bancorp nor Berkshire Bank has agreed to and is not required to make by reason of a change in accounting method and could not be required to make by reason of a proposed or threatened change in accounting method, any adjustment under Section 481(a) of the Code. Neither Berkshire Bancorp nor Berkshire Bank has been the “distributing corporation” or the “controlled corporation” with respect to a transaction described in Section 355 of the Code within the 5-year period ending as of the date of this Agreement. Neither Berkshire Bancorp nor Berkshire Bank is subject to any ruling from or agreement with any taxing authority. Berkshire Bancorp and Berkshire Bank have each disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Section 6662 of the Code. Neither Berkshire Bancorp nor Berkshire Bank has participated in any “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4.

5.10.7. Except as set forth on Section 5.10.7 of the Berkshire Bancorp Disclosure Schedule, neither Berkshire Bancorp nor Berkshire Bank is a party to any Tax allocation or sharing agreement. Neither Berkshire Bancorp nor Berkshire Bank has any liability for the Taxes of any Person under Section 1.1502-6 of the Treasury regulations (or any similar provision of state, local, or foreign law) as a transferee or successor, by contract or otherwise. Neither Berkshire Bancorp nor Berkshire Bank is a party to any joint venture, partnership or other arrangement that is treated as a partnership for federal income Tax purposes.

5.10.8. Neither Berkshire Bancorp nor Berkshire Bank will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any installment sale or open transaction disposition made on or prior to the Closing Date, or prepaid amount received on or prior to the Closing Date. There is no power of attorney in force with respect to Taxes with respect to Berkshire Bancorp or Berkshire Bank.

5.10.9. The amount of the bad debt reserve of Berkshire Bank that must be recaptured for federal income Tax purposes as a result of the Merger and Bank Merger is \$163,450.

5.10.10. Except as set forth on Section 5.10.10 of the Berkshire Bancorp Disclosure Schedule, Berkshire Bancorp has no equity interest in any corporation, partnership, limited liability company, trust or other entity.

Section 5.11. Employee Matters.

5.11.1. Section 5.11.1 of the Berkshire Bancorp Disclosure Schedule sets forth a true and correct list of each deferred compensation plan, incentive compensation plan, equity compensation plan, “welfare” plan, fund or program (within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)); “pension” plan, fund or program (within the meaning of Section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by Berkshire Bancorp or Berkshire Bank or any of its ERISA Affiliates, for the benefit of any employee or former employee, director or consultant of Berkshire Bancorp or Berkshire Bank or with respect to which Berkshire Bancorp or Berkshire Bank has any liability or obligation, contingent or otherwise (the “Berkshire Plans”), whether or not subject to ERISA.

5.11.2. Berkshire Bancorp and Berkshire Bank have heretofore made available to NCB with respect to each of the Berkshire Plans true and correct copies of each of the following documents, if applicable: (i) the Berkshire Plan document and any amendment thereto (or if there is no Berkshire Plan document, a summary of the material terms of the Berkshire Plan); (ii) any related trust or other funding vehicle; (iii) the actuarial report and annual report for such Berkshire Plan for the most recent two years for which such reports are available; (iv) the most recent determination letter from the IRS for such Berkshire Plan, and (v) the most recent summary plan description and related summaries of material modifications.

5.11.3. Except as may be set forth in Section 5.11.3 of the Berkshire Bancorp Disclosure Schedule and to the Knowledge of Berkshire Bancorp and Berkshire Bank:

- (a) each of the Berkshire Plans has been established and has at all times been operated and administered in material compliance with the applicable law, including the Code and ERISA;
- (b) there is no material liability relating to the Berkshire Plans (with materiality determined with respect to the Berkshire Plans in the aggregate) that has not been disclosed on Berkshire Bancorp’s financial statements in accordance with GAAP and any other applicable legal and accounting requirements and such liability with respect to any Berkshire Plan will not materially increase as a result of the Merger and the Bank Merger;
- (c) with respect to each of the Berkshire Plans intended to be “qualified” within the meaning of Section 401(a) of the Code, Berkshire Bancorp has received a favorable determination or opinion letter from the IRS, and, to Berkshire Bancorp’s knowledge,

no event has occurred that would reasonably be expected to affect such determination or opinion and each of the Berkshire Plans has been timely amended to comply with current laws and regulations (or time remains to make such amendments under Section 401(b) of the Code or other similar statutory, regulatory or administrative relief);

(d) Berkshire Bancorp and its ERISA Affiliates do not sponsor, participate in or contribute to, and have not in the past sponsored, participated in or contributed to, and have no current or contingent obligation with respect to: (1) any defined benefit pension plan subject to Title IV of ERISA, (2) any multiemployer Plan (as defined in Section 3(37) of ERISA), (3) any plan or arrangement that provides medical benefits, life insurance benefits or other welfare benefits following cessation of employment, except to the extent required by the continuation coverage requirements of part 6 of Title I of ERISA (“COBRA”) or any similar state law or (4) any “welfare benefit fund” (within the meaning of Section 419 of the Code), and for purposes of this Agreement, “ERISA Affiliate” shall mean all persons that are treated as being a single employer with Berkshire Bancorp or any affiliate under Code Section 414(b), (c), (m), or (o);

(e) Neither Berkshire Bancorp nor Berkshire Bank has incurred any liability for any Tax (including any excise tax) or penalty with respect to any Berkshire Plan, and no event has occurred and no circumstance exists or has existed that could reasonably be expected to give rise to the imposition of any such Tax or penalty;

(f) to Berkshire Bancorp’s knowledge, no non-exempt “prohibited transaction” (within the meaning of Section 4975 of the Code or Section 406 of ERISA) or breach of any fiduciary duty described in Section 404 of ERISA has occurred that could result in any material liability, direct or indirect, for Berkshire Bancorp or Berkshire Bank or any of its ERISA Affiliates or any shareholder, officer, director or employee of Berkshire Bancorp or Berkshire Bank or an ERISA Affiliate;

(g) each Berkshire Plan that is a group health plan (within the meaning of section 5000(b)(1) of the Code) complies, and in each and every case has complied, with all material requirements of ERISA and section 4980B of the Code;

(h) all amounts that Berkshire Bancorp and Berkshire Bank and its ERISA Affiliates are required to pay as contributions to each of the Berkshire Plans have been paid or properly accrued and fully deducted by Berkshire Bancorp and Berkshire Bank for federal income tax purposes;

(i) all benefits accrued under any funded or unfunded Berkshire Plan have been paid, accrued or otherwise adequately reserved in accordance with GAAP; and all monies withheld from employee paychecks with respect to Berkshire Plans have been transferred to the appropriate Berkshire Plan or otherwise applied to pay premiums or benefits in a timely manner as required by applicable law;

(j) except as specifically described in this Agreement, the execution of and performance of the transactions contemplated herein will not (either alone or upon the occurrence of any additional or subsequent events) result in: (i) any payment to or

acceleration, vesting or increase in the rights of any current or former service provider of Berkshire Bancorp or Berkshire Bank, or (ii) any “excess parachute payment” (as defined in Section 280G of the Code) to any person;

(k) there are no pending or, to the knowledge of Berkshire Bancorp and Berkshire Bank, threatened or anticipated (i) claims (other than routine claims for benefits) by, on behalf of or against any of the Berkshire Plans or any trusts related thereto, or (ii) any audit or investigation by any Governmental Entity with respect to a Berkshire Plan;

(l) each Berkshire Plan that is subject to Section 409A of the Code has been maintained and operated in good faith based on the regulations promulgated by the IRS and related IRS guidance issued with respect to Section 409A of the Code and has been timely amended in accordance therewith;

(m) all persons classified by Berkshire Bancorp or Berkshire Bank or its ERISA Affiliates as independent contractors satisfy and have at all times satisfied the requirements of applicable law to be so classified; and Berkshire Bancorp and Berkshire Bank and its ERISA Affiliates have fully and accurately reported their compensation on IRS Forms 1099 when required to do so;

(n) no individuals are currently providing services to Berkshire Bancorp or Berkshire Bank or its ERISA Affiliates pursuant to an employee leasing agreement or similar type of arrangement, nor is Berkshire Bancorp or Berkshire Bank or its ERISA Affiliates party to any such arrangement; and

(o) each Berkshire Plan may be amended or terminated at any time determined by Berkshire Bancorp or Berkshire Bank in its sole discretion without the consent of any third party.

Section 5.12. Compliance with Applicable Law. Except as set forth on Section 5.12 of the Berkshire Bancorp Disclosure Schedule, Berkshire Bancorp and each of its Subsidiaries hold all material licenses, franchises, permits and authorizations necessary for the lawful conduct of their respective businesses under and pursuant to each, and have complied in all respects with and are not in default in any material respect under any, applicable law, statute, order, rule, regulation, policy or guideline of any Governmental Entity relating to Berkshire Bancorp or any of its Subsidiaries. Since the enactment of the Sarbanes-Oxley Act, Berkshire Bancorp has been and is in compliance in all material respects with the provisions of the Sarbanes-Oxley Act applicable to Berkshire Bancorp. Section 5.12 of the Berkshire Bancorp Disclosure Schedule sets forth a schedule of all officers and directors of Berkshire Bancorp and Berkshire Bank who have outstanding loans from Berkshire Bancorp or Berkshire Bank, and there has been no default on, or forgiveness or waiver of, in whole or in part, any such loan during the two years immediately preceding the date hereof.

Section 5.13. Certain Contracts.

5.13.1. Except as disclosed on Section 5.13.1 of the Berkshire Bancorp Disclosure Schedule, neither Berkshire Bancorp nor Berkshire Bank is a party to or bound by

any contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers, employees or consultants, other than in the ordinary course of business consistent with past practice, (ii) that, upon execution of this Agreement or consummation or shareholder approval of the transactions contemplated by this Agreement, will (either alone or upon the occurrence of any additional acts or events) result in any payment or benefits (whether of severance pay or otherwise) becoming due from Berkshire Bancorp, Holdco, NCB, the Resulting Institution, or any of their respective Subsidiaries to any officer or employee of Berkshire Bancorp or Berkshire Bank, (iii) that materially restricts the conduct of any line of business by Berkshire Bancorp or Berkshire Bank or, to the knowledge of Berkshire Bancorp or Berkshire Bank, upon consummation of the Merger and Bank Merger will materially restrict the ability of the Resulting Institution to engage in any line of business in which a bank holding company may lawfully engage, (iv) with or to a labor union or guild (including any collective bargaining agreement), (v) including any stock option plan, stock appreciation rights plan, restricted stock plan, stock purchase plan or benefits plan in which any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the execution of this Agreement, the occurrence of any shareholder approval or the consummation of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of or affected by any of the transactions contemplated by this Agreement, or (vi) which is otherwise material. Each contract, arrangement, commitment or understanding of the type described in this Section 5.13.1, whether or not set forth in the Berkshire Bancorp Disclosure Schedule, is referred to as a “Berkshire Contract,” and Berkshire Bancorp and Berkshire Bank do not know of, and has not received notice of, any material violation of any Berkshire Contract by any of the other parties thereto.

5.13.2. (i) Each Berkshire Contract is valid and binding on Berkshire Bancorp or Berkshire Bank and is in full force and effect, (ii) Berkshire Bancorp and Berkshire Bank have in all material respects performed all obligations required to be performed by it to date under each Berkshire Contract except as restricted by federal regulators and (iii) except as set forth on Section 5.13.2 of the Berkshire Bancorp Disclosure Schedule, no event or condition exists that constitutes or, after notice or lapse of time or both, will constitute, a material default on the part of Berkshire Bancorp or Berkshire Bank under any such Berkshire Contract.

Section 5.14. Risk Management Instruments.

5.14.1. “Derivative Transactions” means any swap transaction, option, warrant, forward purchase or sale transaction, futures transaction, cap transaction, floor transaction or collar transaction relating to one or more currencies, commodities, bonds, equity securities, loans, interest rates, prices, values, or other financial or nonfinancial assets, credit-related events or conditions or any indexes, or any other similar transaction or combination of any of these transactions, including collateralized mortgage obligations or other similar instruments or any debt or equity instruments evidencing or embedding any such types of transactions, and any related credit support, collateral or other similar arrangements related to such transactions.

5.14.2. All Derivative Transactions, whether entered into for the account of Berkshire Bancorp or Berkshire Bank or for the account of a customer of Berkshire Bancorp or Berkshire Bank, were entered into in the ordinary course of business consistent with past

practice and in accordance with prudent banking practice and applicable laws, rules, regulations and policies of any Regulatory Authority and in accordance with the investment, securities, commodities, risk management and other policies, practices and procedures employed by Berkshire Bancorp or Berkshire Bank, and with counterparties believed at the time to be financially responsible and able to understand (either alone or in consultation with their advisers) and to bear the risks of such Derivative Transactions. All of such Derivative Transactions are legal, valid and binding obligations of Berkshire Bancorp or Berkshire Bank enforceable against it in accordance with their terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and subject to general principles of equity), and are in full force and effect. Berkshire Bancorp and Berkshire Bank have duly performed its obligations under the Derivative Transactions to the extent that such obligations to perform have accrued and, to Berkshire Bancorp and Berkshire Bank's knowledge, there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

Section 5.15. Investment Securities and Commodities.

5.15.1. Except as would not reasonably be expected to have a Material Adverse Effect on Berkshire Bancorp or Berkshire Bank, Berkshire Bancorp and Berkshire Bank have good title to all securities and commodities owned by each of them respectively (except those sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any Liens, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of Berkshire Bancorp or Berkshire Bank. Such securities and commodities are valued on the books of Berkshire Bancorp and Berkshire Bank in accordance with GAAP in all material respects.

5.15.2. Berkshire Bancorp and Berkshire Bank and their business employ and have acted in compliance in all material respects with investment, securities, commodities, risk management and other policies, practices and procedures (the "Policies, Practices and Procedures") that Berkshire Bancorp and Berkshire Bank believe are prudent and reasonable in the context of such business. Before the date hereof, Berkshire Bancorp and Berkshire Bank have made available to NCB in writing its material Policies, Practices and Procedures.

Section 5.16. Property. Each of Berkshire Bancorp and Berkshire Bank (a) has fee simple title to all its Real Property, free and clear of all Liens of any nature whatsoever, except (i) statutory Liens securing payments not yet due, (ii) Liens for real property Taxes not yet delinquent, (iii) easements, rights of way and other similar encumbrances and matters of record that do not materially adversely affect the use of the properties or assets subject thereto or affected thereby as used by Berkshire Bancorp and Berkshire Bank on the date hereof and (iv) such imperfections or irregularities of title or Liens as do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties as conducted by Berkshire Bancorp and Berkshire Bank on the date hereof (collectively, "Permitted Encumbrances"). Neither Berkshire Bancorp nor Berkshire Bank is a lessor or lessee under any real property Lease. The Real Property is in material compliance with all applicable zoning laws and building codes, and the buildings and improvements located on the Real Property are in good operating condition and in a state of good working order, ordinary wear

and tear and casualty excepted. There are no pending or, to the knowledge of Berkshire Bancorp and Berkshire Bank, threatened condemnation proceedings against the Real Property. Each of Berkshire Bancorp and Berkshire Bank is in material compliance with all applicable health and safety related requirements for the Real Property, including those under the Americans with Disabilities Act of 1990 and the Occupational Health and Safety Act of 1970. Each of Berkshire Bancorp and Berkshire Bank currently maintains (or causes to be maintained) insurance on all its property, including the Real Property in amounts, scope and coverage reasonably necessary for its operations. Neither Berkshire Bancorp nor Berkshire Bank has received any written notice of termination, nonrenewal or premium adjustment for such policies.

Section 5.17. Intellectual Property. Each of Berkshire Bancorp and Berkshire Bank owns, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted. The use of any Intellectual Property by Berkshire Bancorp and Berkshire Bank does not, to the knowledge of Berkshire Bancorp and Berkshire Bank, infringe on or otherwise violate the rights of any person and is in accordance with any applicable license pursuant to which Berkshire Bancorp and Berkshire Bank acquired the right to use any Intellectual Property. To Berkshire Bancorp and Berkshire Bank's knowledge, no person is challenging, infringing on or otherwise violating any right of Berkshire Bancorp or Berkshire Bank with respect to any Intellectual Property owned by and/or licensed to Berkshire Bancorp or Berkshire Bank. Neither Berkshire Bancorp nor Berkshire Bank has received any written notice of any pending claim with respect to any Intellectual Property used by Berkshire Bancorp or Berkshire Bank and, to Berkshire Bancorp and Berkshire Bank's knowledge, no Intellectual Property owned and/or licensed by Berkshire Bancorp or Berkshire Bank is being used or enforced in a manner that would result in the abandonment, cancellation or unenforceability of such Intellectual Property. For purposes of this Agreement, "Intellectual Property" means trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions, discoveries and ideas, whether patentable or not, in any jurisdiction; patents, applications for patents (including divisions, continuations, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; nonpublic information, trade secrets and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any person; writings and other works, whether copyrightable or not, in any jurisdiction; and registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; and any similar intellectual property or proprietary rights.

Section 5.18. Environmental Liability. There are no legal, administrative, arbitration, mediation or other proceedings, claims, actions, causes of action or notices with respect to any environmental, health or safety matters or any private or governmental environmental, health or safety investigations or remediation activities of any nature seeking to impose, or that are reasonably likely to result in, any liability or obligation of Berkshire Bancorp or Berkshire Bank arising under common law or under any local, state or federal environmental, health or safety statute, regulation or ordinance (collectively,

“Environmental Laws”), including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, pending or, to the knowledge of Berkshire Bancorp and Berkshire Bank, threatened against Berkshire Bancorp or Berkshire Bank. To the knowledge of Berkshire Bancorp and Berkshire Bank, there is no reasonable basis for, or circumstances that are reasonably likely to give rise to, any such proceeding, claim, action, investigation or remediation by any Governmental Entity or any third party that would give rise to any liability or obligation on the part of Berkshire Bancorp or Berkshire Bank. Neither Berkshire Bancorp nor Berkshire Bank is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Entity or third party imposing any liability or obligation with respect to any of the foregoing. Each of Berkshire Bancorp and Berkshire Bank is and has been, and all properties foreclosed upon by Berkshire Bancorp or Berkshire Bank are, in compliance with all applicable Environmental Laws.

Section 5.19. Personal Property Leases. Section 5.19 of the Berkshire Bancorp Disclosure Schedule sets forth a list of each personal property lease involving annual payments in excess of \$100,000 to which Berkshire Bancorp or Berkshire Bank is a party (each, a “Personal Property Lease”). Each Personal Property Lease is valid and binding on Berkshire Bancorp or Berkshire Bank and is in full force and effect. Each of Berkshire Bancorp and Berkshire Bank has performed, in all material respects, all obligations required to be performed by it to date under each Personal Property Lease. Neither Berkshire Bancorp nor Berkshire Bank is in material default under any Personal Property Lease beyond any applicable notice and cure period.

Section 5.20. Securitizations. Neither Berkshire Bancorp nor Berkshire Bank is a party to any agreement pursuant to which it has securitized any of its assets.

Section 5.21. Reorganization; Approvals. Berkshire Bancorp (a) is not aware of any fact or circumstance, and has not taken or agreed to take any actions, that could reasonably be expected to prevent the Merger or the Bank Merger from qualifying as a “reorganization” within the meaning of Section 368(a) of the Code and (b) knows of no reason why all regulatory approvals from any Governmental Entity required for the consummation of the transactions contemplated by this Agreement should not be obtained on a timely basis.

Section 5.22. Opinion. Before the execution of this Agreement, the Berkshire Bancorp board of directors has received an opinion from Commonwealth Advisors LLC to the effect that as of the date thereof and based upon and subject to the assumptions, qualifications and other matters set forth therein, the Merger Consideration is fair to Berkshire Bancorp and its shareholders from a financial point of view. A copy of such opinion shall be delivered to Holdco and NCB within 10 days of Berkshire Bancorp’s receipt thereof. Such opinion has not been amended or rescinded as of the date of this Agreement.

Section 5.23. Berkshire Bancorp Information. The information relating to Berkshire Bancorp and its Subsidiaries that is provided by Berkshire Bancorp or its representatives for inclusion in the Proxy Statement-Prospectus and Pending NCB

Registration Statement, or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Entity in connection with the transactions contemplated by this Agreement, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The portions of the Proxy Statement-Prospectus relating to Berkshire Bancorp and other portions within the reasonable control of Berkshire Bancorp will comply in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder. The Registration Statement will comply in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

Section 5.24. State Takeover Law. The Berkshire Bancorp and Berkshire Bank boards of directors have approved the transactions contemplated by this Agreement such that no “moratorium,” “control share,” “fair price,” “business combination” or other anti-takeover laws are applicable to the Merger, the Bank Merger or any transactions contemplated therein.

Section 5.25. Loan Portfolio.

5.25.1. Berkshire Bank has made available to NCB a listing, as of July 31, 2010, of the following: (i) each borrower, customer or other party which has notified Berkshire Bank during the past 12 months of, or has asserted against Berkshire Bank, in each case in writing, any “lender liability” or similar claim; (ii) (A) the aggregate outstanding principal amount of all loan agreements, notes or borrowing arrangements (including leases, credit enhancements and interest-bearing assets) payable to Berkshire Bank (each, a “Loan” and collectively, the “Loans”), other than “nonaccrual” Loans, (B) the aggregate outstanding principal amount of all “nonaccrual” Loans, (C) a summary of all Loans designated as of such date by either Berkshire Bank or Berkshire Bancorp, its accountants (whether internal or external) or its auditors (whether internal or external) as “Special Mention,” “Substandard,” “Doubtful,” “Loss,” “Classified,” “Criticized,” “Watch List” or words of similar import, including the aggregate principal amount of such Loans and the amount of specific reserves with respect to all such Loans, (D) any Loan where a reasonable doubt exists as to the timely future collectability of principal and/or interest, whether or not interest is still accruing or the Loan is less than 90 days past due, (E) any Loan where the interest rate terms have been reduced and/or the maturity dates have been extended subsequent to the agreement under which the loan was originally created due to concerns regarding the borrower’s ability to pay and (F) any Loan where a specific reserve allocation exists in connection therewith; and (iii) all other assets classified by Berkshire Bank as real estate acquired through foreclosure or in lieu of foreclosure, including in-substance foreclosures, and all other assets currently held that were acquired through foreclosure or in lieu of foreclosure. Since July 31, 2010, no Loans have been designated by either Berkshire Bank or Berkshire Bancorp, its accountants (whether internal or external) or its auditors (whether internal or external) as “Special Mention,” “Substandard,” “Doubtful,” “Loss,” “Classified,” “Criticized,” “Watch List” or words of similar import, except for Loans that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on Berkshire Bank or Berkshire Bancorp.

5.25.2. Each Loan (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent secured, has been secured by valid Liens in favor of Berkshire Bank that have been perfected and (iii) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and subject to general principles of equity). All Loans originated by Berkshire Bank, and all such Loans purchased by Berkshire Bank, were made or purchased in accordance with customary lending standards. All such Loans (and any related guarantees) and payments due thereunder are, and on the Closing Date will be, free and clear of any Lien, and Berkshire Bank has complied in all material respects, and on the Closing Date will have complied in all material respects, with all laws and regulations relating to such Loans.

5.25.3. Except as disclosed in the financial statements of Berkshire Bancorp at and for the seven-month period ended July 31, 2010 that have been provided to NCB, since December 31, 2009, neither Berkshire Bank nor Berkshire Bancorp has incurred any unusual or extraordinary loan losses which are material to Berkshire Bank or Berkshire Bancorp; to Berkshire Bancorp and Berkshire Bank's knowledge and in light of its historical loan loss experiences and its managements' analyses of the quality and performance of its loan portfolios, as of July 31, 2010, its reserves for loan losses are adequate to absorb potential loan losses determined on the basis of management of Berkshire Bancorp and Berkshire Bank's continuing review and evaluation of the loan portfolio and their judgment as to the impact of economic conditions on the portfolio.

Section 5.26. Internal Controls. The records, systems, controls, data and information of Berkshire Bancorp and Berkshire Bank are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Berkshire Bancorp or Berkshire Bank, respectively, or their accountants (including all means of access thereto and therefrom). Since December 31, 2007, Berkshire Bancorp and its Subsidiaries have devised and maintained a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Section 5.27. U.S. Treasury Capital Purchase Program. On June 12, 2009, Berkshire Bancorp closed on the issuance of \$2,892,000 in liquidation amount of its Berkshire TARP Shares Series A together with a warrant (the "TARP Warrant") for the purchase of an additional \$145,000 in liquidation amount of Berkshire TARP Shares Series B to the United States Treasury Department ("UST") under the UST's Capital Purchase Program (the "Capital Purchase Program"), for a total consideration of \$2,892,145 and liquidation amount of \$3,037,000, plus any unpaid dividends. Except as set forth on Section 5.27 of the Berkshire Bancorp Disclosure Schedule, Berkshire Bancorp and Berkshire Bank are in compliance with all statutory, regulatory and contractual requirements applicable to them in connection with their participation in the Capital Purchase Program.

Section 5.28. Intentionally omitted.

Section 5.29. Certain Matters Relating to Berkshire Bancorp Shareholders.

5.29.1. Approval of the Merger and approval and adoption of this Agreement by Berkshire Bancorp shareholders will not require the affirmative vote of more than 66 2/3% (assuming the prior approval of 75% of the members of the Berkshire board of directors) of the votes cast on the matter by all holders of shares of Berkshire Bancorp Common Stock that are entitled to vote thereon.

ARTICLE 6

Covenants Relating to Conduct of Business

Section 6.1. Conduct of Berkshire Bancorp's and Berkshire Bank's Business Before the Effective Time. Except as expressly contemplated by or permitted by this Agreement or with the prior written consent of NCB, during the period from the date of this Agreement to the Effective Time, each of Berkshire Bancorp and Berkshire Bank shall:

6.1.1. conduct its business in the ordinary course in all material respects;

6.1.2. use reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key officers and key employees; and

6.1.3. take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of either Holdco, NCB or Berkshire Bancorp to obtain any necessary approvals of any Regulatory Agency or other Governmental Entity required for the transactions contemplated hereby or to perform its covenants and agreements under this Agreement or to consummate the transactions contemplated hereby.

6.1.4. at all times comply with all statutory, regulatory and contractual requirements applicable to them in connection with their participation in the Capital Purchase Program, and deliver immediately to NCB true and complete copies of all notice and other communications given or received by either of them with respect to the Capital Purchase Program or compliance or alleged noncompliance by either of them with its requirements, the TARP Preferred, the TARP Warrant Preferred or the TARP Warrant or any agreement relating to any of the foregoing.

Section 6.2. Berkshire Bancorp and Berkshire Bank Forbearances. During the period from the date of this Agreement to the Effective Time, except as expressly contemplated or permitted by this Agreement, neither Berkshire Bancorp nor Berkshire Bank shall, without the prior written consent of NCB or at the request of a Regulatory Agency or Government Entity (provided that prior to taking any action requested by a Regulatory Agency or Government Entity, Berkshire Bancorp and Berkshire Bank shall first notify NCB and consult with NCB as to possible resolutions of the issue raised by the Regulatory Agency or Government Entity):

6.2.1. other than in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise

as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance or capital contribution to, or investment in, any person (it being understood and agreed that incurrence of indebtedness in the ordinary course of business consistent with past practice shall include the creation of deposit liabilities, purchases of federal funds, borrowings from the Federal Home Loan Bank, purchases of brokered certificates of deposit, sales of certificates of deposit and entering into repurchase agreements);

6.2.2. (i) adjust, split, combine or reclassify any of its capital stock; (ii) except to repay the Tarp Shares, make, declare or pay any dividend, or make any other distribution on, or directly or indirectly redeem, purchase or otherwise acquire, any shares of its capital stock or any securities or obligations convertible (whether currently convertible or convertible only after the passage of time or the occurrence of certain events) into or exchangeable for any shares of its capital stock (provided that nothing herein shall be deemed to limit the ability of Berkshire Bancorp and Berkshire Bank to make intercompany transfers of up to \$1,000,000 in the aggregate of newly invested capital received from third parties); (iii) grant any stock options, restricted shares or other equity-based award with respect to Berkshire Bancorp Shares or grant any individual, corporation or other entity any right to acquire any shares of its capital stock; or (iv) issue any additional shares of capital stock or other securities, except as provided on Section 6.2.2 of the Berkshire Bancorp Disclosure Schedule;

6.2.3. except (A) as required by applicable law (including, without limitation, Section 409A of the Code), (B) the terms of any Berkshire Plan as in effect on the date of this Agreement, or (C) as described on Section 6.2.3 of the Berkshire Bancorp Disclosure Schedule (i) increase the wages, salaries, incentive compensation or incentive compensation opportunities of any officer, director or employee of Berkshire Bancorp or Berkshire Bank, or pay or provide, or increase or accelerate the accrual rate, vesting or timing of payment or funding of, any compensation, benefits or other rights of any officer, director or employee of Berkshire Bancorp or Berkshire Bank, excepting (only with respect to employees who are not executive officers or directors) normal increases made in the ordinary course of business consistent with past practices; (ii) pay any bonus other than bonuses to employees who are not executive officers or directors made in the ordinary course of business and consistent with past practices or (iii) establish, adopt or become a party to any new employee benefit or compensation plan, program, commitment or agreement or amend any Berkshire Plan;

6.2.4. sell, transfer, mortgage, encumber or otherwise dispose of any material amount of its properties or assets to any person other than in the ordinary course of business consistent with past practice, or cancel, release, assign or enter into a forbearance agreement with respect to any amount of indebtedness in excess of \$[100,000], except as requested or required by any Regulatory Agency or Government Entity (provided that prior to taking such action requested or required by such Regulatory Agency or Government Entity, Berkshire Bancorp and Berkshire Bank shall first notify NCB and consult with NCB as to the requested or required action);

6.2.5. enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking, operating and servicing policies, except as required by applicable law, regulation or policies imposed by any Governmental Entity;

- 6.2.6. (i) acquire or agree to acquire, by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets or make any investments which would be material, individually or in the aggregate, to Berkshire Bancorp or Berkshire Bank, other than in connection with foreclosures and settlements in lieu of foreclosure in the ordinary course of business consistent with prudent banking practices or in accordance with Section 9.1.7 or (ii) open, close, sell or acquire any branches;
- 6.2.7. take any action, or knowingly fail to take any action, which action or failure to act could reasonably be expected to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;
- 6.2.8. amend the Berkshire Bancorp Articles, the Berkshire Bancorp Bylaws, the Berkshire Bank Articles or Berkshire Bank Bylaws, or otherwise take any action to exempt any person (other than NCB or its Subsidiaries) or any action taken by any person from any takeover statute or similarly restrictive provisions of its organizational documents or terminate, amend or waive any provisions of any confidentiality or standstill agreements in place with any third parties;
- 6.2.9. restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;
- 6.2.10. except in accordance with commitments issued prior to the date hereof which have not expired, which commitments are described in Section 6.2.10 of the Berkshire Bancorp Disclosure Schedule, renew any existing loan or credit facility, or extend any new loan or credit facility, in an amount in excess of \$500,000;
- 6.2.11. except in furtherance of loan collection efforts in the ordinary course, commence or settle any claim, action or proceeding where the amount in dispute is in excess of \$100,000 or subjecting Berkshire Bancorp or Berkshire Bank to any material restrictions on its current or future business or operations (including the future business and operations of the Resulting Institution);
- 6.2.12. take any action or fail to take any action that is intended or may reasonably be expected to result in any of its representations or warranties set forth in this Agreement being or becoming untrue in any material respect at any time prior to the Effective Time, or in any of the conditions to the Merger set forth in Article 8 not being satisfied or in a violation of any provision of this Agreement;
- 6.2.13. implement or adopt any change in its Tax accounting or financial accounting principles, practices or methods, other than as may be required by applicable law, GAAP or regulatory guidelines;
- 6.2.14. (i) file any Tax Return other than in the ordinary course of business, amend any Tax Return, make any change in any method of Tax or financial accounting (other than as may be required by applicable law, GAAP or regulatory guidelines), make, revoke

or change any Tax election, enter into any closing agreements, settle or compromise any Tax liability, (ii) surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to Berkshire Bancorp or Berkshire Bank or Holdco, or (iii) take any other action, if such action would have the effect of increasing the Tax liability of NCB, Berkshire Bancorp, Berkshire Bank, Holdco or any of their Subsidiaries for any period ending after the Effective Time or decreasing any Tax attribute of NCB existing at the Effective Time;

6.2.15. except for transactions in the ordinary course of business consistent with past practice, terminate, or waive any material provision of any Berkshire Contract or make any change in any instrument or agreement governing the terms of any of its securities, or material lease or contract, other than normal renewals of contracts and leases without material adverse changes of terms;

6.2.16. take any action that would reasonably be expected to prevent, materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any Regulatory Agency or Governmental Entity required for the transaction, contemplated hereby;

6.2.17. fail to comply with the terms of any regulatory orders issued by any Governmental Entity;

6.2.18. make capital expenditures other than in the ordinary and usual course of business consistent with past practice;

6.2.19. file any application to establish, or relocate or terminate the operations of, any banking office of Berkshire Bancorp or Berkshire Bank; or

6.2.20. agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the actions prohibited by this Section 6.2.

6.2.21. not redeem or cancel any TARP Preferred, or TARP Warrant Preferred, or any TARP Warrant, or agree to any modification of the terms of any TARP Preferred, TARP Warrant Preferred or TARP Warrant, or any agreement relating to any of the foregoing, nor issue any additional TARP Preferred, TARP Warrant Preferred or TARP Warrant, other than in accordance with Section 7.13 hereof.

Section 6.3. NCB Covenants. Except as expressly permitted by this Agreement or with the prior written consent of Berkshire Bancorp, during the period from the date of this Agreement to the Effective Time, NCB shall not, and shall not permit any of its Subsidiaries to, (i) amend, repeal or otherwise modify any provision of the NCB Articles or NCB Bylaws in a manner that would adversely effect, the shareholders of either NCB or Berkshire Bancorp or the transactions contemplated by this Agreement; (ii) take any action, or knowingly fail to take any action, which action or failure to act could reasonably be expected to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code; (iii) take any action that is intended or may reasonably be expected to result in any of the conditions to the Merger set forth in Article 8 not being

satisfied; (iv) take any action that would be reasonably expected to prevent, materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any Regulatory Agency or any Governmental Entity required for the consummation of the transactions contemplated hereby; (v) take any action or fail to take any action that is intended or may reasonably be expected to result in any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect; or (vi) agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of, any of the actions prohibited by this Section 6.3.

ARTICLE 7
Additional Agreements

Section 7.1. Registration Statement; Proxy Statement-Prospectus.

7.1.1. For the purposes (x) of registering the Holdco Common Stock to be offered to holders of Berkshire Bancorp Shares in connection with the Merger with the SEC under the Securities Act and (y) of holding the NCB Shareholder Meeting and Berkshire Shareholder Meeting, Berkshire Bancorp and NCB shall jointly draft and prepare Pending NCB Registration Statement, including a proxy statement of NCB, proxy statement of Berkshire Bancorp and prospectus of Holdco satisfying all applicable requirements of applicable state securities and banking laws, and of the Securities Act and the Exchange Act, and the rules and regulations thereunder (such proxy statement/prospectus in the form mailed to the NCB shareholders, together with any and all amendments or supplements thereto, being herein referred to as the “Proxy Statement-Prospectus”). Each of Berkshire Bancorp and NCB shall use their reasonable best efforts to have Pending NCB Registration Statement declared effective under the Securities Act as promptly as practicable after such filing, and each shall thereafter promptly mail the Proxy Statement-Prospectus to its shareholders. Holdco shall also use its reasonable best efforts to obtain all necessary state securities law or “Blue Sky” permits and approvals required to carry out the transactions contemplated by this Agreement, and Berkshire Bancorp shall furnish all information concerning Berkshire Bancorp and the holders of Berkshire Bancorp Common Stock as may be reasonably requested in connection with any such action.

7.1.2. Each party shall provide the other with any information concerning itself that the other may reasonably request in connection with the drafting and preparation of the Proxy Statement-Prospectus, and each party shall notify the other promptly of the receipt of any comments of the SEC with respect to the Proxy Statement-Prospectus and of any requests by the SEC for any amendment or supplement thereto or for additional information and shall provide to the other promptly copies of all correspondence between such party or any of their representatives and the SEC. No filing of Pending NCB Registration Statement, including any amendment thereto shall be made without the parties each having the opportunity to review, comment on and revise Pending NCB Registration Statement. Each of Berkshire Bancorp and NCB agrees to use all reasonable best efforts, after consultation with the other party hereto, to respond promptly to all such comments of and requests by the SEC and to cause the Proxy Statement-Prospectus and all required amendments and supplements thereto to be mailed to the holders of Berkshire Common Stock and NCB Common Stock at the earliest practicable time.

7.1.3. Berkshire Bancorp and NCB shall promptly notify the other party if at any time it becomes aware that the Proxy Statement-Prospectus or Pending NCB Registration Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading. In such event, Berkshire Bancorp shall cooperate with NCB in the preparation of a supplement or amendment to such Proxy Statement-Prospectus that corrects such misstatement or omission, and NCB or Holdco shall cause to be filed an amended Registration Statement with the SEC, and each party shall mail an amended Proxy Statement-Prospectus to its shareholders.

Section 7.2. Regulatory Approvals. The parties shall cooperate with each other and use their respective reasonable best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and Governmental Entities that are necessary or advisable to consummate the transactions contemplated by this Agreement (including the Merger), and to comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such third parties or Governmental Entities. Each of NCB and Berkshire Bancorp, upon request, shall furnish to the other all information concerning itself, its Subsidiaries, directors, officers and shareholders, and such other matters as may be reasonably necessary or advisable in connection with any applications, notices, petitions and filings made by Berkshire Bancorp, NCB or any of their Subsidiaries with any Governmental Entity in connection with the Merger and the other transactions contemplated by this Agreement. NCB and Berkshire Bancorp shall have the right to review in advance, and, to the extent practicable, each will consult the other on, in each case subject to applicable laws relating to the confidentiality of information, all the information relating to NCB or Berkshire Bancorp, as the case may be, and any of their respective Subsidiaries, that appears in any filing made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties shall act reasonably and as promptly as practicable. The parties shall consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to completion of the transactions contemplated by this Agreement. Notwithstanding the foregoing, nothing contained herein shall be deemed to require Berkshire Bancorp or NCB to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the foregoing permits, consents, approvals and authorizations of third parties or Governmental Entities, that would reasonably be expected to have a Material Adverse Effect on it or any of its affiliates (any of which, a “Materially Burdensome Regulatory Condition”).

Section 7.3. Access to Information; Confidentiality.

7.3.1. Upon reasonable notice and subject to applicable laws relating to the confidentiality of information, each of NCB, on the one hand, and Berkshire Bancorp and Berkshire Bank, on the other hand, shall, and shall cause each of its Subsidiaries to, afford to the

officers, employees, accountants, counsel, advisors, agents and other representatives of the other party, reasonable access, during normal business hours during the period before the Effective Time, to all its properties, books, contracts, commitments and records, and, during such period, such party shall, and shall cause its Subsidiaries to, make available to the other party (i) a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal securities laws or federal or state banking or insurance laws (other than reports or documents that such party is not permitted to disclose under applicable law) and (ii) all other information concerning its business, properties and personnel as the other party may reasonably request (in the case of a request by NCB, information concerning Berkshire Bancorp and Berkshire Bank that is reasonably related, directly or indirectly, to the prospective value of Berkshire Bancorp Common Stock or the Exchange Ratio or to Berkshire Bancorp's and Berkshire Bank's ability to consummate the transactions contemplated hereby). Neither NCB nor Berkshire Bancorp, nor any of their Subsidiaries, shall be required to provide access to or to disclose information where such access or disclosure would jeopardize the attorney-client privilege of such party or its Subsidiaries or contravene any law, rule, regulation, order, judgment, decree, fiduciary duty or binding agreement entered into before the date of this Agreement. The parties shall make appropriate substitute disclosure arrangements under circumstances in which the restrictions of the preceding sentence apply.

7.3.2. Notwithstanding any provision of this Agreement or the Confidentiality Agreement, Berkshire Bancorp and Berkshire Bank understand and agree that the Pending NCB Registration Statement is pending, and that NCB and Holdco will be subject to a variety of disclosure obligations under federal and state securities laws in that respect, and agree that NCB and Holdco shall be entitled to take such steps and make such disclosures as they reasonably conclude, with the advice of legal counsel, may be required in order to assure compliance with applicable securities laws. However, NCB and Holdco agree that, to the extent any proposed disclosure would include information about Berkshire Bancorp or Berkshire Bank, NCB and Holdco shall make reasonable efforts to consult with and notify Berkshire Bancorp and Berkshire Bank prior to making disclosure of such information.

7.3.3. All information and materials exchanged by the parties pursuant to this Agreement shall continue to be subject to the provisions of the Confidentiality Agreement entered into between Berkshire Bancorp, Berkshire Bank and NCB dated September 15, 2009 (the "Confidentiality Agreement"), and the execution of this Agreement shall not be deemed to merge or supersede the provisions of the Confidentiality Agreement, but the Confidentiality Agreement shall be deemed to have been modified to the extent it is inconsistent with any of the provisions of this Agreement.

Section 7.4. Shareholder Approval.

7.4.1. Subject to the effectiveness of Pending NCB Registration Statement, Berkshire Bancorp and NCB shall each call a meeting of its respective shareholders (respectively, the "Berkshire Shareholder Meeting" and the "NCB Shareholder Meeting") to be held as soon as reasonably practicable after the date hereof for the purposes of respectively obtaining shareholder approval of the Merger and approval and adoption of this Agreement on substantially the terms and conditions set forth in this Agreement; and shall each use its reasonable best efforts to cause such respective meeting to occur as soon as reasonably

practicable. The Berkshire Bancorp Board and the NCB Board shall each use its reasonable best efforts to obtain from its shareholders the shareholder vote approving the Merger, on substantially the terms and conditions set forth in this Agreement, required to consummate the transactions contemplated by this Agreement, and shall, subject to the provisions of Section 7.9.2 and 9.1.7, affirmatively recommend that its shareholders vote in favor of and adopt this Agreement (as to Berkshire Bancorp and NCB, respectively, an “Approval Recommendation”), and submit this Agreement to its shareholders at the Berkshire Shareholder Meeting and NCB Shareholder Meeting.

7.4.2. Each of Berkshire Bancorp and NCB shall, and shall cause its respective Subsidiaries to, use their reasonable best efforts (i) to take, or cause to be taken, all actions necessary, proper or advisable to comply promptly with all legal requirements that may be imposed on such party or its Subsidiaries with respect to the Merger and, subject to the conditions set forth in Article 8 hereof, to consummate the transactions contemplated by this Agreement, and (ii) to obtain (and to cooperate with the other party to obtain) any material consent, authorization, order or approval of, or any exemption by, any Governmental Entity and any other third party that is required to be obtained by NCB or Berkshire Bancorp or any of their respective Subsidiaries in connection with the Merger and the other transactions contemplated by this Agreement.

Section 7.5. Benefit and Incentive Compensation Plans; Existing Agreements.

7.5.1. Prior to the Effective Time, Berkshire Bancorp and Berkshire Bank shall terminate the Berkshire Plans that contain “cash or deferred arrangements” subject to section 401(k) of the Code and shall adopt such amendments to such Berkshire Plans as are necessary to cause the written terms of such Berkshire Plans to comply with Section 401(a) of the Code as of their termination dates.

7.5.2. Those individuals actively employed by, or on an authorized leave of absence from, Berkshire Bank as of the Effective Time, who continue their employment with Holdco or one of its Subsidiaries after the Effective Time (the “Covered Employees”) shall be eligible to participate in those Holdco Plans in which similarly situated employees of Holdco or its Subsidiaries participate after the Effective Time, to the same extent that similarly situated employees of Holdco or its Subsidiaries then participate. From and after the Effective Time, Holdco may elect not to provide to the Covered Employees any benefits which are not then provided by Holdco and its Subsidiaries to their employees generally, notwithstanding that such benefits were provided by NCB to its employees immediately prior to the Effective Time. In the case of benefits which are provided after the Effective Time by Holdco to employees of Holdco and its Subsidiaries but are not then provided by Berkshire Bancorp or Berkshire Bank to its employees, Holdco will as soon as possible after the Effective Time include the Covered Employees in the Holdco Plans under which such benefits are made available.

7.5.3. With respect to each Holdco Plan for which length of service is taken into account for any purpose, service with Berkshire Bank shall be treated as service with Berkshire Bancorp for purposes of determining eligibility to participate, vesting, and entitlement to benefits, including for vacation entitlement; provided, however, that such service shall not be

recognized to the extent that such recognition would result in a duplication of benefits. Such service also shall apply for purposes of satisfying any waiting periods, evidence of insurability requirements, or the application of any preexisting condition limitations. Covered Employees shall be given credit for amounts paid under a corresponding benefit plan during the same period for purposes of applying deductibles, copayments and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of the Holdco Plan.

7.5.4. Holdco shall use its commercially reasonable efforts to offer employment with the Resulting Institution to each individual who is an employee of Berkshire Bank immediately prior to the Effective Time (a "Berkshire Employee") in a position with a salary at least equal to such Berkshire Employee's salary and within forty miles of the location of their current position at the time of the execution of this Agreement immediately prior to the Effective Time, provided, however, that such position need not be the same as, or have the same duties or responsibilities as, the Berkshire Employee's position with Berkshire Bank or Berkshire Bancorp. Each Berkshire Employee who is not offered a position with a salary at least equal to such Berkshire Employee's salary immediately prior to the Effective Time shall be entitled to receive severance compensation equal to two (2) weeks' base salary for every year of service with Berkshire Bank, with a minimum benefit of two (2) weeks' base salary. Any Berkshire Employee who is offered a position with a salary at least equal to such Berkshire Employee's salary immediately prior to the Effective Time, but does not accept such position, will not be entitled to any severance compensation.

Section 7.6. Indemnification; Directors' and Officers' Insurance.

7.6.1. In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative (a "Claim"), including any such Claim in which any individual who is now, or has been at any time before the date of this Agreement, or who becomes before the Effective Time, a director or officer of Berkshire Bancorp or Berkshire Bank or their Subsidiaries (the "Indemnified Parties"), is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he or she is or was a director or officer of Berkshire Bancorp or Berkshire Bank before the Effective Time or (ii) this Agreement or any of the transactions contemplated by this Agreement, whether asserted or arising before or after the Effective Time, each such Indemnified Party shall continue to be indemnified to the same extent as such Indemnified Party was required to be indemnified under the Berkshire Bancorp Articles, Berkshire Bancorp Bylaws, Berkshire Bank Articles or Berkshire Bank Bylaws, as applicable, and the parties shall cooperate and use their best efforts to defend against and respond thereto.

7.6.2. Holdco shall cause the individuals serving as officers and directors of Berkshire Bancorp or Berkshire Bank immediately before the Effective Time to be covered for a period of six years after the Effective Time by the directors' and officers' liability insurance policy maintained after the Effective Time by Holdco or the Resulting Institution (as applicable) (provided that Holdco may substitute therefor policies of at least the same coverage and amounts containing terms and conditions that are not less advantageous than such policy) with respect to acts or omissions occurring before the Effective Time that were committed by such officers and directors in their capacity as such; provided that in no event shall Holdco be required to expend annually in the aggregate an amount in excess of 200% of the annual premiums currently paid by

Berkshire Bancorp for such insurance (the “Insurance Amount”), and provided further that if Holdco is unable to maintain such policy (or such substitute policy) as a result of the preceding proviso, Holdco shall obtain as much comparable insurance as is available for the Insurance Amount. Berkshire Bancorp represents and warrants to Holdco and NCB that the total amount of the current prepaid premium for directors’ and officers’ liability insurance by Berkshire Bancorp and Berkshire Bank for the coverage period commencing on December 1, 2009 and ending on December 1, 2010 is approximately \$10,432.00 as of July 31, 2010.

7.6.3. In the event that Holdco or any of its respective successors or assigns (i) consolidates with or merges into any other entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any entity, then, and in each such case the successors and assigns of such entity shall assume the obligations set forth in this Section 7.6.

7.6.4. The provisions of this Section 7.6 shall survive the Effective Time and are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and his or her heirs and representatives.

Section 7.7. Additional Agreements.

7.7.1. Subject to the terms and conditions of this Agreement, each of Berkshire Bancorp, Berkshire Bank and NCB agrees to cooperate fully with each other and to use reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective, at the time and in the manner contemplated by this Agreement, the Merger, including using reasonable best efforts to lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the Merger.

7.7.2. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement or to vest the Resulting Institution with full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to the Merger, the proper officers and directors of each party to this Agreement and their respective Subsidiaries shall take all such necessary action as may be reasonably requested by Berkshire Bancorp.

7.7.3. Berkshire Bancorp, Berkshire Bank and NCB shall use commercially reasonable efforts to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code.

Section 7.8. Advice of Changes. Each of Berkshire Bancorp and NCB shall promptly advise the other of any change or event (a) having or reasonably likely to have a Material Adverse Effect on it or (b) that it believes would or would be reasonably likely to cause or constitute a material breach of

any of its representations, warranties or covenants contained in this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement; provided further that a failure to comply with this Section 7.8 shall not constitute a breach of this Agreement or the failure of any condition set forth in Article 8 to be satisfied unless the underlying Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Article 8 to be satisfied.

Section 7.9. No Solicitation.

7.9.1. None of Berkshire Bancorp, Berkshire Bank or any officer, director, employee, agent or representative (including any investment banker, financial advisor, attorney, accountant or other retained representative) of either of them shall directly or indirectly (i) solicit, initiate, encourage, or (subject to Section 7.9.2(b)) facilitate (including by way of furnishing information) or take any other action designed to facilitate any inquiries or proposals regarding any merger, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of a tender offer) or similar transactions involving either of them that, if consummated, would constitute an Alternative Transaction (any of the foregoing inquiries or proposals being referred to herein as an “Alternative Proposal”), (ii) subject to Section 7.9.2(b), participate in any discussions or negotiations regarding an Alternative Transaction; or (iii) subject to Section 7.9.2(b), enter into any agreement regarding any Alternative Transaction. As used in this Agreement, “Alternative Transaction” means any of (w) a transaction pursuant to which any person (or group of persons) (other than Holdco or its affiliates), directly or indirectly, acquires or would acquire more than 25% of the outstanding shares of Berkshire Bancorp Common Stock or Berkshire Bank Common Stock or outstanding voting power or of any new series or new class of stock that would be entitled to a class or series vote with respect to the Merger, whether from Berkshire Bancorp or Berkshire Bank or pursuant to a tender offer or exchange offer or otherwise, (x) a merger, share exchange, consolidation or other business combination involving NCB (other than the Merger), (y) any transaction pursuant to which any person (or group of persons) (other than Holdco or its affiliates) acquires or would acquire control of assets (including for this purpose the outstanding equity securities of Berkshire Bancorp or Berkshire Bank and securities of the entity surviving any merger or business combination) of NCB representing more than 25% of the fair market value of all the assets, net revenues or net income of Berkshire Bancorp on a consolidated basis, taken as a whole, immediately before such transaction, or (z) any other consolidation, business combination, recapitalization or similar transaction involving Berkshire Bancorp or Berkshire Bank, other than the transactions contemplated by this Agreement, as a result of which the holders of shares of Berkshire Bancorp or Berkshire Bank immediately before such transactions do not, in the aggregate, own at least 75% of the outstanding shares of common stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of Berkshire Bancorp Common Stock immediately before the consummation thereof.

7.9.2.

(a) Berkshire Bancorp and Berkshire Bank shall immediately cease and cause to be terminated any existing discussions or negotiations with any persons (other than NCB) conducted heretofore with respect to any of the foregoing, and agree not to release any third party from the confidentiality and standstill provisions of any agreement to which Berkshire Bancorp or Berkshire Bank is or may become a party.

(b) Notwithstanding anything herein to the contrary, at any time prior to the Effective Time, Berkshire Bancorp and its board of directors shall be permitted (i) to comply with Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act, provided that the Berkshire Bancorp Board shall not withdraw or modify in a manner adverse to NCB its Approval Recommendation except as set forth in subsection (iii) below; (ii) to engage in any discussions or negotiations with, and provide any information to, any person in response to a Superior Proposal (as hereinafter defined) by any such person, if and only to the extent that (x) the Berkshire Bancorp Board concludes in its good faith judgment, after consulting with outside legal counsel, that the Superior Proposal is more favorable to Berkshire Bancorp, (y) prior to providing any information or data to any person in connection with a Superior Proposal by any such person, the Berkshire Bancorp Board receives from such person an executed confidentiality agreement, which confidentiality terms shall be no less favorable to Berkshire Bancorp than those contained in the Confidentiality Agreement, and (z) at least 72 hours prior to providing any information or data to any person or entering into discussions or negotiations with any person, Berkshire Bancorp promptly notifies NCB in writing of the name of such person and the material terms and conditions of any such Superior Proposal, and (iii) to withdraw, modify, qualify in a manner adverse to NCB, condition or refuse to make its Approval Recommendation if the Berkshire Bancorp Board concludes in its good faith judgment, after consultation with outside counsel and financial advisors, that such Alternative Proposal constitutes a Superior Proposal that is more favorable to Berkshire Bancorp, provided, that the Berkshire Bancorp Board may not effect a withdrawal of its Approval Recommendation pursuant to this clause (iii) unless: (x) Berkshire Bancorp shall have provided prior written notice to NCB, at least five business days in advance (“Notice Period”), of its intention to effect a withdrawal of its Approval Recommendation in response to such Superior Proposal, which notice shall specify the material terms and conditions of any such Superior Proposal (including the identity of the party making such Superior Proposal), and shall have contemporaneously provided a copy of the relevant proposed transaction agreements with the party making such Superior Proposal and other material documents and (y) prior to effecting a withdrawal of its Approval Recommendation, Berkshire Bancorp shall, and shall cause its financial and legal advisors to, during the Notice Period, negotiate with NCB in good faith (to the extent NCB desires to negotiate) to make such adjustments in the terms and conditions of this Agreement so that such Alternative Proposal ceases to constitute a Superior Proposal.

(c) Berkshire Bancorp shall notify NCB promptly (but in no event later than 24 hours) after receipt of any Alternative Proposal, or any material modification of or material amendment to any Alternative Proposal, or any request for nonpublic information relating to Berkshire Bancorp or for access to the properties, books or records of Berkshire Bancorp by any person that informs the Berkshire Bancorp Board that it is considering making, or has made, an Alternative Proposal. Such notice to NCB shall be made orally and in writing, and shall indicate the identity of the person making the Alternative Proposal or intending to make or considering making an Alternative Proposal or requesting nonpublic information or access to the books and records of Berkshire Bancorp, and the material terms of any such Alternative Proposal or modification or amendment to an Alternative Proposal. Berkshire Bancorp shall keep NCB fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such Alternative Proposal, indication or request. Berkshire Bancorp shall also promptly, and in any event within 24 hours,

notify NCB, orally and in writing, if it enters into discussions or negotiations concerning any Alternative Proposal in accordance with this Section 7.9.

(d) For purposes of this Agreement, “Superior Proposal” means any bona fide, unsolicited written Alternative Proposal made by any person or entity, other than NCB or Holdco, that is on terms that the Board of Directors of Berkshire Bancorp in good faith concludes, after consultation with its financial advisors and legal counsel (with the advice of outside counsel), taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and the person making the proposal, including any break-up fees, expense reimbursement provisions and conditions to consummation, (A) is on terms that the Board of Directors of Berkshire Bancorp in its good faith judgment believes to be more favorable to its shareholders than the Merger; (B) for which financing, to the extent required, is then fully committed or reasonably determined to be available by the Board of Directors of Berkshire Bancorp and (C) is reasonably capable of being completed; provided that for purposes of the definition of “Superior Proposal”, the references to “25%” in the definition of Alternative Transaction shall be deemed to be references to “a majority.”

7.9.3. Berkshire Bancorp shall notify all officers, directors and all employees, agents and representatives (including any investment bankers, financial advisors, attorneys, accountants or other retained representatives) of Berkshire Bancorp of the restrictions described in this Section 7.9 as reasonably necessary to avoid violations thereof. It is understood that any violation of the restrictions set forth in this Section 7.9 by any officer, director, employee, agent or representative (including any investment banker, financial advisor, attorney, accountant or other retained representative) of Berkshire Bancorp, at the direction or with the consent of Berkshire Bancorp, shall be deemed to be a breach of this Section 7.9 by Berkshire Bancorp.

Section 7.10. Employment Agreements. Subject to any applicable TARP restrictions that may remain at the Effective Time and any other regulatory approvals, Holdco will honor and expressly assumes all management contracts, including all change of control and vesting payments, of Norm Heilenman, Rick Gromis, and Lori Maley, as such agreements are executed prior to the date of this Agreement and shall have been fully disclosed to NCB prior to the date of this Agreement, and will offer management positions to each of them at the Resulting Institution, subject to the respective individual entering into amendments to their employment contracts reflecting only change in position and title, in a form attached hereto as Exhibit “C” .

Section 7.11. Appointment of Directors. Prior to the Effective Time, Holdco and NCB shall cause the number of directors constituting their respective boards of directors immediately after the Effective Time to be increased, if necessary, to permit the actions required in this Section 7.11. At or immediately after the Effective Time, Holdco shall cause the “Berkshire Director Designee” (as defined below) to be appointed to the boards of directors of Holdco and the Resulting Institution. The term “Berkshire Director Designee” means one (1) of the existing Berkshire Bancorp directors, to be mutually agreed upon prior to the Effective Time.

Section 7.12. Bank Advisory Board Memberships. All directors of Berkshire Bancorp and Berkshire Bank other than the Berkshire Director Designee (collectively, the “Departing Berkshire Directors”) will be invited by the Resulting Institution to serve on its Berks/Schuylkill Advisory Board after the Effective Time, with board fees equal to the previously approved board fees on Schedule 7.12.

Section 7.13. Tier 1 Capital Investment. Subject to the receipt of all applicable regulatory approvals and consents, prior to or at the Effective Time, Holdco shall cause an investment in Berkshire Bancorp Common Stock of \$3,180,000, such that Berkshire Bancorp shall have received not less than \$3,180,000 in new, net cash proceeds (after deducting a fee of 10% for equity placement and other customary expenses, provided that the same shall not affect the Berkshire Valuation and Material Adverse Effect provisions hereof) of an issuance of fully paid, nonassessable capital securities qualifying for Tier 1 capital treatment under all applicable banking laws and regulations.

Section 7.14. Retirement of Berkshire TARP Shares and TARP Obligations. Berkshire Bancorp shall, on or before the Effective Time, use its commercially reasonable best efforts to promptly apply to the U.S. Treasury to repurchase and retire the Berkshire TARP Shares and otherwise terminated and satisfied all obligations of Berkshire Bancorp or Berkshire Bank under the U.S. Treasury Department’s Troubled Asset Relief Program. The proceeds Berkshire Bancorp receives pursuant to Section 7.1.3 shall only be used for retirement of the Berkshire Tarp shares and Tarp obligations.

Section 7.15. Post Closing Covenants.

7.15.1. Notwithstanding Section 7.10, Holdco or NCB shall not terminate Norman E. Heilenman, Richard C. Gromis, or Lori Maley within seven (7) calendar days following the Effective Time.

7.15.2. Holdco or NCB shall have the Berkshire Director Designee or a former Berkshire Bancorp director replacement for three (3) years following the Effective Time.

ARTICLE 8 Conditions Precedent

Section 8.1. Conditions to Each Party’s Obligation to Effect the Merger. The respective obligations of the parties to effect the Merger shall be subject to the satisfaction at or before the Effective Time of the following conditions:

8.1.1. Shareholder Approval. This Agreement, the Merger and the Bank Merger, on substantially the terms and conditions set forth in this Agreement with such modifications thereto as may hereafter be made, shall have been approved by the NCB shareholders and the Berkshire Bancorp shareholders.

8.1.2. Registration Statement. The Registration Statement shall have become effective under the Securities Act, no stop order suspending the effectiveness of Pending NCB Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC and if the offer and sale of Holdco Common Stock

in the Merger is subject to the blue sky laws of any state, shall not be subject to a stop order of any state securities commission and all comments with such have been satisfied.

8.1.3. No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition (an “Injunction”) preventing the consummation of the Merger or any of the other transactions contemplated by this Agreement shall be in effect, and no such Injunction shall be threatened by or before any Governmental Entity which represents a reasonable probability of preventing the consummation of the Merger or any of the other transactions contemplated by this Agreement or imposing damages that would reasonably be expected to have a Material Adverse Effect on Berkshire Bancorp or Berkshire Bank, a Material Adverse Effect on NCB or Holdco or a Material Adverse Effect on the Resulting Institution. No statute, rule, regulation, order, Injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Entity that prohibits or makes illegal consummation of the Merger.

8.1.4. Intentionally omitted.

8.1.5. Holdco Reorganization. The Holdco Reorganization shall have been consummated on such terms as NCB and Holdco shall determine, but in any event based upon an exchange in which holders of NCB Shares receive one (1) Holdco Share for every three (3) NCB Shares, subject to such holders’ receipt of cash instead of fractional Holdco Shares, provided, however, that after the Berkshire Shareholder Meeting, no changes that affect the rights or consideration to the Berkshire Bancorp shareholders shall be made.

Section 8.2. Conditions to Obligations of Berkshire Bancorp and Berkshire Bank. The obligation of Berkshire Bancorp and Berkshire Bank to effect the Merger is also subject to the satisfaction, or waiver by Berkshire Bancorp and Berkshire Bank, at or before the Effective Time, of the following conditions:

8.2.1. Representations and Warranties. Subject to the standard set forth in Section 10.2, the representations and warranties of NCB set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), and Berkshire Bancorp shall have received a certificate signed without personal liability on behalf of NCB by the Chief Executive Officer or Chief Financial Officer of NCB to the foregoing effect.

8.2.2. Performance of Obligations of NCB and Holdco. NCB and Holdco shall have performed in all material respects all obligations required to be performed by them under this Agreement at or before the Effective Time; and Berkshire Bancorp shall have received a certificate or certificates signed without personal liability on behalf of NCB and Holdco by their respective Chief Executive Officer to such effect.

8.2.3. Regulatory Approvals. All regulatory approvals set forth in Section 5.4 required to consummate the transactions contemplated by this Agreement, including the Merger and Bank Merger, shall have been obtained and shall remain in full force and effect

and all statutory waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred as the “Berkshire Bancorp Requisite Regulatory Approvals”), and no such regulatory approval shall have resulted in the imposition of any Materially Burdensome Regulatory Condition.

8.2.4. Federal Tax Opinion. Berkshire Bancorp shall have received the opinion of Berkshire Bancorp’s counsel, dated as of the Effective Time, in form and substance reasonably satisfactory to Berkshire Bancorp, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, Berkshire Bancorp’s counsel may require and rely upon customary representations contained in certificates of officers of Holdco, NCB, Berkshire Bancorp and Berkshire Bank, reasonably satisfactory in form and substance to such counsel.

8.2.5. Employment Agreements. Holdco or NCB shall have expressly assumed all management contracts, including, subject to all applicable regulatory and legal limitations, including, but not limited to TARP limitations, change in control and vesting payments of Norm Heilenman, Rick Gromis, and Lori Maley.

8.2.6. Tier 1 Capital Investment. Berkshire Bancorp shall have received not less than \$3,180,000 in new net cash proceeds from an issuance of fully paid, non-assessable capital securities qualifying for Tier 1 capital treatment under all applicable banking laws and regulations.

Section 8.3. Conditions to Obligations of NCB. The obligation of NCB to effect the Merger is also subject to the satisfaction or waiver by NCB at or before the Effective Time of the following conditions:

8.3.1. Representations and Warranties. Subject to the standard set forth in Section 10.2, the representations and warranties of Berkshire Bancorp and Berkshire Bank set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), and NCB shall have received a certificate signed on behalf of Berkshire Bancorp and Berkshire Bank by the Chief Executive Officer or the Chief Financial Officer of Berkshire Bancorp and Berkshire Bank to the foregoing effect.

8.3.2. Performance of Obligations of Berkshire Bancorp. Berkshire Bancorp and Berkshire Bank shall have performed in all material respects all obligations required to be performed by them under this Agreement at or before the Effective Time, and NCB shall have received a certificate signed without personal liability on behalf of Berkshire Bancorp and Berkshire Bank by the Chief Executive Officer or the Chief Financial Officer of Berkshire Bancorp and Berkshire Bank to such effect.

8.3.3. Regulatory Approvals. All regulatory approvals set forth in Section 4.4 required to consummate the transactions contemplated by this Agreement, including the Merger, shall have been obtained and shall remain in full force and effect and all statutory

waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred as the “NCB Requisite Regulatory Approvals”).

8.3.4. Federal Tax Opinion. NCB shall have received the opinion of NCB’s counsel, dated as of the Effective Time, in form and substance reasonably satisfactory to NCB, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, NCB’s counsel may require and rely upon customary representations contained in certificates of officers of Holdco, NCB, Berkshire Bancorp and Berkshire Bank, reasonably satisfactory in form and substance to such counsel.

8.3.5. Dissenting Shares. The Dissenting Shares, if any, shall not include greater than 1% of the outstanding Berkshire Bancorp Common Stock.

8.3.6. FIRPTA Certificate. On the Closing Date, Holdco and the Resulting Institution shall have received from Berkshire Bancorp and Berkshire Bank a certification, in form and substance reasonably acceptable to Holdco, for purposes of satisfying Holdco’s and/or the Resulting Institution’s obligations under Treasury Regulation Section 1.1445-2(c)(3).

8.3.7. Retirement of Berkshire TARP Shares and TARP Obligations. Berkshire shall have repurchased and retired the Berkshire TARP Shares and otherwise terminated and satisfied all obligations of Berkshire Bancorp or Berkshire Bank under the U.S. Treasury Department’s Troubled Asset Relief Program.

ARTICLE 9

Termination and Amendment

Section 9.1. Termination. This Agreement may be terminated at any time before the Effective Time, whether before or after approval of the matters presented in connection with the Merger by the shareholders of NCB or Berkshire Bancorp:

9.1.1. Consent of the Parties. By consent of Holdco, NCB, Berkshire Bank and Berkshire Bancorp in a written instrument, if the board of directors of each of Holdco, NCB, Berkshire Bancorp and Berkshire Bank so determines by a vote of the majority of the members of its entire board of directors;

9.1.2. Approvals. By either Holdco and NCB, of the one part, or Berkshire Bancorp and Berkshire Bank, of the other part, if

(a) any Governmental Entity that must grant a Berkshire Bancorp Requisite Regulatory Approval or a NCB Requisite Regulatory Approval has denied approval of the Merger or Bank Merger and such denial has become final and nonappealable or any Governmental Entity of competent jurisdiction shall have issued a final and nonappealable order permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement; or

(b) the NCB shareholders or the Berkshire Bancorp shareholders do not approve the Merger, on substantially the terms and conditions set forth in this Agreement;

9.1.3. Delay. By either Holdco and NCB, of the one part, or Berkshire Bancorp and Berkshire Bank, of the other part, if the Merger shall not have been consummated on or before March 31, 2011, unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth in this Agreement, provided however, the parties agree that if the Holding Company Reorganization has not been approved by the shareholders of NCB by March 31, 2011, the parties agree to extend this Agreement for a period of 45 additional days;

9.1.4. Material Breach of Representation, Warranty or Covenant. By either Berkshire Bancorp and Berkshire Bank, of the one part, or Holdco and NCB, of the other part (provided that no terminating party is then in material breach of any representation, warranty, covenant or other agreement contained in this Agreement), if there shall have been a material breach of any of the covenants or agreements or any of the representations or warranties set forth in this Agreement on the part of NCB or Holdco, in the case of a termination by Berkshire Bancorp and Berkshire Bank, or Berkshire Bancorp or Berkshire Bank in the case of a termination by NCB and Holdco, which breach, either individually or in the aggregate, would result in, if occurring or continuing on the Closing Date, the failure of any of the conditions set forth in Sections 8.1, 8.2 or Section 8.3, as the case may be, and which is not cured within 30 days following written notice to the party committing such breach or by its nature or timing cannot be cured within such time period; or

9.1.5. Failure to Recommend. By NCB, if the Berkshire Bancorp Board shall have (i) failed to recommend in the Proxy Statement-Prospectus the approval and adoption of this Agreement or (ii) in a manner adverse to NCB, (A) withdrawn, modified or qualified, or proposed to withdraw, modify or qualify, the recommendation by the Berkshire Bancorp Board of this Agreement and/or the Merger or Bank Merger to Berkshire Bancorp's shareholders, (B) taken any public action or made any public statement in connection with the Berkshire Bancorp Shareholder Meeting inconsistent with such recommendation (including not taking action to convene the Berkshire Bancorp Shareholder Meeting) or (C) recommended any Alternative Proposal (or, in the case of clause (ii), resolved to take any such action), whether or not permitted by the terms hereof.

9.1.6. Material Adverse Effect. By Berkshire Bancorp, Berkshire Bank, NCB and Holdco, if there shall have been a Material Adverse Effect with respect to the other party, which has not been cured by the Effective Time.

9.1.7. Superior Proposal. By Berkshire Bancorp and Berkshire Bank at any time prior to the Effective Time, in order to enter concurrently into a Superior Proposal; provided, however, that this Agreement may be terminated by Berkshire Bancorp pursuant to this Section only after the fifth business day following Berkshire Bancorp's provision of written notice to NCB (which notice shall specify the material terms and conditions of any such Superior Proposal, including the identity of the party making such Superior Proposal, and such notice

shall also include a copy of the relevant proposed transaction agreements with the party making such Superior Proposal and other material documents) advising NCB that the Berkshire Bancorp Board of Directors is prepared to accept such Superior Proposal and only if (i) during such five business day period, Berkshire Bancorp has caused its financial and legal advisors to negotiate with NCB in good faith (to the extent Berkshire Bancorp chooses to negotiate) to make such adjustments in the terms and conditions of this Agreement such that such Acquisition Proposal would no longer constitute a Superior Proposal, and (ii) Berkshire Bancorp's Board of Directors has considered such adjustments in the terms and conditions of this Agreement resulting from such negotiations and has concluded in good faith, based upon consultation with its financial and legal advisers, that such Acquisition Proposal remains a Superior Proposal even after giving effect to any adjustments that may be proposed by NCB and further provided that such termination shall not be effective until Berkshire Bancorp has paid the Termination Fee to NCB.

The party desiring to terminate this Agreement pursuant to any clause of this Section 9.1 (other than Section 9.1.1) shall give written notice of such termination to the other party in accordance with Section 10.4, specifying the provision or provisions hereof pursuant to which such termination is effected.

Section 9.2. Effect of Termination. If either NCB or Berkshire Bancorp terminates this Agreement as provided in Section 9.1, this Agreement shall forthwith become void and have no effect, and none of NCB, Berkshire Bancorp, any of their respective Subsidiaries or any of the officers or directors of any of them shall have any liability of any nature whatsoever under this Agreement, or in connection with the transactions contemplated by this Agreement, except that (i) Sections 7.3.3, 9.2, 9.3, 10.4, 10.5, 10.8, 10.10 and 10.12 shall survive any termination of this Agreement and (ii) neither NCB nor Berkshire Bancorp shall be relieved or released from any liabilities or damages arising out of its breach of any provision of this Agreement.

Section 9.3. Fees and Expenses.

9.3.1. Except as set forth in Section 9.3.2, and except with respect to costs and expenses of printing and mailing the Proxy Statement-Prospectus and all filing and other fees paid to the SEC in connection with the Merger, which shall be borne equally by NCB and Berkshire Bancorp, all fees and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

9.3.2. Berkshire Bancorp and Berkshire Bank shall be jointly and severally obligated to pay to NCB, by wire transfer of immediately available funds, a termination fee in the amount of \$400,000 (the "Termination Fee") and/or expense reimbursement on the following terms:

(a) If this Agreement is terminated by NCB pursuant to Section 9.1.5, then Berkshire Bancorp shall pay the Termination Fee on the business day following such termination;

(b) If this Agreement is terminated by Berkshire Bancorp pursuant to Section 9.1.7, then Berkshire Bancorp shall pay the Termination Fee immediately upon such termination;

(c) If (A) either party shall terminate this Agreement pursuant to Section 9.1.2(b) and (B) at any time after the date of this Agreement and on or before the date of the Berkshire Shareholder Meeting an Alternative Transaction shall have been publicly announced or otherwise communicated to the Berkshire Bancorp Board (a “Public Proposal”) that has not been withdrawn prior to such date, and, if within 12 months of the date of such termination, Berkshire Bancorp enters into any definitive agreement with respect to, or consummates, any Alternative Transaction, then Berkshire Bancorp shall pay the Termination Fee on the date of such execution or consummation;

(d) Intentionally omitted;

(e) If (A) either party shall terminate this Agreement pursuant to Section 9.1.3 and (B) at any time after the date of this Agreement and before such termination there shall have been a Public Proposal that has not been withdrawn prior to such termination, and, if within 12 months of the date of termination, Berkshire Bancorp executes any definitive agreement with respect to, or consummates, any Alternative Transaction, then Berkshire Bancorp shall pay the Termination Fee upon the date of such execution or consummation.

Upon payment of all applicable fees and expenses in accordance with this Section 9.3, Berkshire Bancorp and Berkshire Bank shall have no further liability to NCB at law or in equity with respect to such termination, or with respect to Berkshire Bancorp’s Board’s failure to take action to convene the Berkshire Bancorp Shareholder Meeting and/or recommend that Berkshire Bancorp shareholders adopt this Agreement.

9.3.3. Berkshire Bancorp and Berkshire Bank acknowledge that the agreements contained in this Section 9.3 are an integral part of the transactions contemplated by this Agreement and that, without these agreements, NCB would not enter into this Agreement. Accordingly, if Berkshire Bancorp and Berkshire Bank fail to pay timely any amount due pursuant to this Section 9.3 and, in order to obtain such payment, NCB commences a suit that results in a judgment against Berkshire Bancorp or Berkshire Bank for the amount payable to NCB pursuant to this Section 9.3, Berkshire Bancorp and Berkshire Bank shall jointly and severally pay to NCB its reasonable, out-of-pocket costs and expenses (including attorneys’ fees and expenses) in connection with such suit, together with interest on the amount so payable at the prime lending rate prevailing at such time, as published in The Wall Street Journal, from the date such amounts were required to be paid until the date actually received by Berkshire Bancorp.

Section 9.4. Amendment. This Agreement may, to the extent legally allowed, be amended by the parties, by action taken or authorized by their respective boards of directors, at any time before or after approval of the matters presented in connection with the Merger and Bank Merger by the shareholders of NCB and Berkshire Bancorp; provided, however, that after any approval of the transactions contemplated by this Agreement by the shareholders of NCB and Berkshire Bancorp, there may not be, without further approval of

such shareholders, any amendment of this Agreement that (a) alters or changes the amount or the form of the consideration to be delivered under this Agreement to the holders of Berkshire Bancorp Common Stock, if such alteration or change would adversely affect the holders of any security of Berkshire Bancorp, (b) alters or changes any term of the articles of incorporation of Holdco or NCB from those contemplated herein if such alteration or change would adversely affect the holders of any securities of Berkshire Bancorp, or (c) alters or changes any of the terms and conditions of this Agreement if such alteration or change would adversely affect the holders of any securities of Berkshire Bancorp, in each case other than as contemplated by this Agreement. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

Section 9.5. Extension; Waiver. At any time before the Effective Time, the parties, by action taken or authorized by their respective boards of directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or (c) waive compliance with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

ARTICLE 10 General Provisions

Section 10.1. Closing. On the terms and subject to conditions set forth in this Agreement, the closing of the Merger and Bank Merger (the “Closing”) shall take place at 10:00 a.m. on a date and at a place to be specified by the parties, which date shall be no later than ten (10) business days after the satisfaction or waiver (subject to applicable law) of the latest to occur of the conditions set forth in Article 8 (other than those conditions that by their nature are to be satisfied or waived at the Closing), unless extended by mutual agreement of the parties (the “Closing Date”). If the conditions set forth in Article 8 are satisfied or waived during the two weeks immediately before the end of a fiscal quarter of Berkshire Bancorp, then Berkshire Bancorp may postpone the Closing until the first full week after the end of that fiscal quarter.

Section 10.2. Standard. No representation or warranty of Holdco contained in Article 4 or of Berkshire Bancorp or Berkshire Bank contained in Article 5 shall be deemed untrue or incorrect for any purpose under this Agreement, and no party hereto shall be deemed to have breached a representation or warranty for any purpose under this Agreement, in any case as a consequence of the existence or absence of any fact, circumstance or event unless such fact, circumstance or event, individually or when taken together with all other facts, circumstances or events inconsistent with any representations or warranties contained in Article 4, in the case of Holdco or NCB, or Article 5, in the case of Berkshire Bancorp and Berkshire Bank, has had or would be reasonably likely to have a Material Adverse Effect with respect to Holdco or NCB or Berkshire Bancorp or Berkshire Bank, respectively (disregarding for purposes of this Section 10.2 any materiality or

Material Adverse Effect qualification contained in any representations or warranties). Notwithstanding the immediately preceding sentence, the representations and warranties contained in (a) Sections 4.1.1, 4.2, 4.3 and 4.7 in the case of NCB or Holdco, and Sections 5.1.1, 5.1.3, 5.2.1, 5.2.2, 5.3 and 5.7 in the case of Berkshire Bancorp or Berkshire Bank, shall be deemed untrue and incorrect if not true and correct in all material respects, and (b) Section 4.8.1 in the case of NCB or Holdco and Section 5.8.1 in the case of Berkshire Bancorp or Berkshire Bank, shall be deemed untrue and incorrect if not true and correct in all respects.

Section 10.3. Nonsurvival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and agreements set forth in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time, except for Sections 7.5, 7.10, 7.12 and 7.13 and for those other covenants and agreements contained in this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time.

Section 10.4. Notices. All notices and other communications in connection with this Agreement shall be in writing and shall be deemed given if delivered personally, sent via facsimile (with confirmation), mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to NCB, to:

New Century Bank
99 Bridge Street
Phoenixville, PA 18518
Attn: Jay S. Sidhu, Chairman & CEO
Facsimile: _____

with a copy to:

Stradley Ronon Stevens & Young, LLP
30 Valley Stream Parkway
Malvern, PA 19355-1481
Attn: David F. Scranton, Esquire
Facsimile: 610.640.1965

if to Berkshire Bancorp or Berkshire Bank, to:

Berkshire Bancorp, Inc.
1101 Woodland Road
Wyomissing, PA 19610
Attn: President and Chief Executive Officer
Facsimile: 610-376-8200

with a copy to:

Bybel Rutledge LLP
1017 Mumma Road, Suite 302
Lemoyne, PA 17043
Attn: Nicholas Bybel, Jr.
Facsimile: 717-731-8205

Section 10.5. Interpretation. When a reference is made in this Agreement to Articles, Sections, Exhibits or Schedules, such reference shall be to an Article or Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The NCB Disclosure Schedule and the Berkshire Bancorp Disclosure Schedule, as well as all other schedules and all exhibits hereto, shall be deemed part of this Agreement and included in any reference to this Agreement. This Agreement shall not be interpreted or construed to require any person to take any action, or fail to take any action, if to do so would violate any applicable law. For purposes of this Agreement, (a) “person” means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity (including its permitted successors and assigns) and (b) “knowledge” of any person that is not an individual means the knowledge of such person’s directors and senior executive officers.

Section 10.6. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that each party need not sign the same counterpart. Facsimile copy or electronic transmission of a signature page shall be deemed an original signature page.

Section 10.7. Entire Agreement. This Agreement (including the Disclosure Schedules and Exhibits hereto and the other documents and the instruments referred to in this Agreement), together with the Confidentiality Agreement, constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement, other than the Confidentiality Agreement.

Section 10.8. Governing Law; Jurisdiction. This Agreement shall be governed and construed in accordance with the internal laws of the Commonwealth of Pennsylvania applicable to contracts made and wholly performed within such state, without regard to any applicable conflicts-of-law principles. The parties agree that any suit, action or proceeding brought by either party to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby shall be brought in any federal court located in the Commonwealth of Pennsylvania having jurisdiction over the matter; provided, however, that if such a federal court does not have jurisdiction over the matter, any aforementioned suit, action or proceeding shall be brought in a state court located in the Commonwealth of Pennsylvania having jurisdiction over the

matter. Each of the parties submits to the jurisdiction of any such court in any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of, or in connection with, this Agreement or the transactions contemplated hereby and hereby irrevocably waives the benefit of jurisdiction derived from present or future domicile or otherwise in such action or proceeding. Each party irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 10.9. Publicity. Neither NCB nor Berkshire Bancorp shall, and neither NCB nor Berkshire Bancorp shall permit any of its Subsidiaries or agents to, issue or cause the publication of any press release or other public announcement with respect to the transactions contemplated by this Agreement without the prior consent (which consent shall not be unreasonably withheld) of Berkshire Bancorp, in the case of a proposed announcement by NCB, or NCB, in the case of a proposed announcement by Berkshire Bancorp or any of its Subsidiaries; provided, however, that any party may, without the prior consent of the other parties (but after prior consultation with the other parties to the extent practicable under the circumstances) issue or cause the publication of any press release or other public announcement to the extent required by law or by the rules and regulations of any applicable securities exchange.

Section 10.10. Assignment; Third-Party Beneficiaries. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned by either of the parties (whether by operation of law or otherwise) without the prior written consent of the other party. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by each of the parties and their respective successors and assigns. Except as otherwise specifically provided in Section 7.5, this Agreement (including the documents and instruments referred to in this Agreement) is not intended to and does not confer upon any person other than the parties hereto any rights or remedies under this Agreement.

Section 10.11. Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that this Agreement were not performed in accordance with its specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 10.12. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only as broad as is enforceable.

[Signature Page Follows.]

IN WITNESS WHEREOF, the parties have caused this Agreement and Plan of Merger to be executed by their respective officers thereunto duly authorized as of the date first above written.

CUSTOMERS 1ST BANCORP, INC.

By: /s/ Richard Ehst
Name: Richard Ehst
Title: President

NEW CENTURY BANK

By: /s/ Richard Ehst
Name: Richard Ehst
Title: President

BERKSHIRE BANCORP, INC.

By: /s/ Norman E. Heilenman
Name: Norman E. Heilenman
Title: Chairman and CEO

BERKSHIRE BANK

By: /s/ Norman E. Heilenman
Name: Norman E. Heilenman
Title: Chairman and CEO

Signature Page to Agreement and Plan of Merger

Schedule A

List of Individuals for Support Agreements

B-SA-1

Edgar Filing: - Form

Schedule B

Non-Performing Assets

		Balance as of 7/31/2010	
Non-performing Loans		2,519,271.97	
Non-performing Assets:			
Other Real Estate Owned	4,350,042.00		
Less: Valuation allowance	(160,724.00)		
		4,189,318.00	
Troubled Debt Restructuring		1,363,000.00	
Combined NPL's and NPA's		8,071,589.97	
	x 20% based on 7/31/2010 numbers	1,614,317.99	
Allowance for Loan Losses		\$1,260,225.37	
Coverage Ratio		50.02	%

B-SB-1

EXHIBIT A

SUPPORT AGREEMENT

This SUPPORT AGREEMENT (“Agreement”), dated as of August __, 2010, is by and among CUSTOMERS 1ST BANCORP, INC., (“Holdco”), NEW CENTURY BANK, a Pennsylvania bank (“NCB”) and each of the undersigned individuals, each of whom is a director (“Director”) of Berkshire Bancorp, Inc. (“Berkshire Bancorp”) or Berkshire Bank (“Berkshire Bank”). This Agreement will be effective upon the signing of the Merger Agreement (defined below).

RECITAL

As an inducement for NCB and Holdco to enter into the Agreement and Plan of Merger dated as of the date hereof (the "Merger Agreement"), whereby, among other things, Berkshire Bancorp will merge with and into Holdco and Berkshire Bank will merge with and into NCB (collectively, the "Merger"), each of the Directors, for himself or herself, his or her heirs and legal representatives, hereby agrees as follows:

AGREEMENT

1. VOTING AND OTHER MATTERS. Each of the Directors will vote or cause to be voted all shares of Berkshire Bancorp common stock that he or she has power to vote or direct the voting of (the "Shares"), in favor of approval of the Merger Agreement, the Merger and Bank Merger.
2. REPRESENTATIONS AND WARRANTIES. Each Director represents and warrants that, as of this date, he or she has power to vote or direct the voting of each of the shares of common stock of Berkshire Bancorp shown opposite his or her name on Exhibit A to this Agreement, and hence that each of such shares is a “Share” within the meaning of this Agreement.
3. CONDITIONS TO TRANSFER OR ENCUMBRANCE. Until the earlier of the consummation of the Merger and Bank Merger or the termination of the Merger Agreement, each Director will not sell, permit a lien or other encumbrance to be created hereafter with respect to, or grant any proxy in respect of (except for proxies solicited by the board of directors of Berkshire Bancorp in connection with Berkshire Bancorp shareholders' meeting at which the Merger Agreement and Merger is presented for shareholder approval) any Shares, unless all other parties to any such sale or other transaction enter into an agreement in form and substance satisfactory to Holdco and NCB embodying the benefits and rights contained in this Agreement.
3. INDIVIDUAL OBLIGATIONS. Obligations of each of the Directors under this Agreement are intended to be several and not joint and shall be binding upon each Director and his or her personal representatives, heirs and assigns.
4. RIGHT TO EQUITABLE REMEDIES. The Directors severally acknowledge and agree that money damages may not be an adequate remedy for Holdco and NCB for any breach

or of any obligation under this Agreement by any one or more Directors. The parties therefore agree that in addition to any other remedies available hereunder, by law or otherwise, Holdco and NCB shall be entitled to seek equitable remedies, including without limitation injunctive relief, specific performance or a constructive trust, against or with respect to any such existing, threatened, prospective or continued breach by any of them.

6. MISCELLANEOUS.

(a) Severability. If any provision of this Agreement or the application of such provision to any person or circumstances will be held invalid or unenforceable by a court of competent jurisdiction, such provision or application will be unenforceable only to the extent of such invalidity or unenforceability, and the remainder of the provision held invalid or unenforceable and the application of such provision to persons or circumstances, other than the party as to which it is held invalid, and the remainder of this Agreement, will not be affected.

(b) Counterparts. This Agreement may be executed in one or more counterparts or by counterpart signature pages, including facsimile counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same document.

(c) Governing Law. This Agreement will be deemed a contract made under, and for all purposes will be construed in accordance with, the internal laws of the Commonwealth of Pennsylvania (without reference to rules of choice of law or conflicts of laws), and be federal law to the extent it pre-empts state law.

(d) Entire Agreement. This Agreement is the entire agreement of the parties with respect to their subject matter, and no other discussions, undertakings, promises, inducements, representations or prior agreements (whether oral or written) shall be of any force or effect.

(e) Individual Capacity. Each Director is signing this Agreement solely in his or her capacity as a shareholder of Berkshire Bancorp, and not in any other capacity, such as a director or officer of Berkshire Bancorp or as a fiduciary of any trusts of which such Director is not a beneficiary. Notwithstanding anything in this Agreement to the contrary, (1) no Director makes any agreement or understanding herein in any capacity other than in his or her capacity as an owner of Berkshire Bancorp stock, and (2) nothing herein shall be construed to limit or affect any action or inaction by such Director or any of his or her representatives, as applicable, serving on Berkshire Bancorp's Board of Directors or as an officer of Berkshire Bancorp, acting in his or her capacity as a director, officer or fiduciary of Berkshire Bancorp or as a fiduciary of any trust of which he or she is not a beneficiary.

(f) Modification; Waiver. This Agreement may only be modified, or any benefits of this Agreement waived, by an instrument in writing signed by the party or parties to be bound thereby.

(g) Termination. This Agreement shall terminate and be of no further force or effect concurrently with and automatically upon the earlier of (1) the “Effective Time” of the Merger and Bank Merger (as defined in the Merger Agreement), (2) the “Outside Effective Time” (as defined in the Merger Agreement), or (3) the termination of the Merger Agreement in accordance with its terms.

IN WITNESS WHEREOF, the undersigned have duly executed this Director Support Agreement as of the date first set forth above.

B-EA-3

EXHIBIT B

BANK PLAN OF MERGER

THIS BANK PLAN OF MERGER ("Plan of Merger") dated _____, 200__, is by and between BERKSHIRE BANK, a Pennsylvania bank ("Berkshire Bank"), and NEW CENTURY BANK, a Pennsylvania bank ("New Century Bank").

Background:

1. The authorized capital stock of New Century Bank consists of (i) 30,000,000 shares of common stock, par value \$1.00 per share ("New Century Bank Common Stock"), of which at the date hereof _____ shares are issued and outstanding; (ii) 500,000 shares of nonvoting common stock, par value \$1.00 per share of which no shares are issued or outstanding; (iii) 10,000,000 shares of Class B Non-Voting Common Stock, of which _____ shares are issued and outstanding; and (iv) 10,000,000 shares of preferred stock, with such par value or no par value as shall be established by New Century Bank's board of directors, of which no shares are issued and outstanding.

2. Berkshire Bank is a Pennsylvania bank and a wholly owned Subsidiary of Berkshire Bancorp, Inc., a Pennsylvania corporation ("Berkshire Bancorp"). The authorized capital stock of Berkshire Bank consists of 10,000,000 shares of common stock, par value \$1.00 per share.

3. The respective Boards of Directors of New Century Bank and Berkshire Bank deem the merger of Berkshire Bank with and into New Century Bank, pursuant to the terms and conditions set forth or referred to in this Agreement, to be desirable and in the best interests of the respective corporations and their respective shareholders.

4. The respective Boards of Directors of New Century Bank and Berkshire Bank have adopted resolutions approving this Plan of Merger. The respective boards of directors of Customers 1st Bancorp, Inc. and Berkshire Bancorp, Inc. adopted resolutions approving a merger agreement dated August ____, 2010 (the "Agreement") among Customers 1st Bancorp, Inc., New Century Bank, Berkshire Bancorp, Inc. and Berkshire Bank, providing for the merger of Berkshire Bancorp with and into Customers 1st Bancorp, Inc., (the "Holding Company Merger"). This Plan of Merger is being executed by New Century Bank and Berkshire Bank pursuant to the Agreement

Agreements:

In consideration of the premises and of the mutual covenants and agreements contained in this Plan of Merger, and in accordance with the applicable laws and regulations of the Commonwealth of Pennsylvania, New Century Bank and Berkshire Bank, intending to be legally bound hereby, agree:

B-EB-1

ARTICLE I
MERGER

Subject to the terms and conditions of this Plan of Merger and in accordance with the applicable laws and regulations of the Commonwealth of Pennsylvania on the "Effective Time" (as that term is defined in Article IV hereof): (i) Berkshire Bank shall merge with and into New Century Bank; (ii) the separate existence of Berkshire Bank shall cease; and (iii) New Century Bank shall be the surviving corporation (such transaction referred to in this Plan of Merger as the "Merger" and New Century Bank, as the surviving corporation in the Merger, referred to in this Plan of Merger as the "Resulting Institution"). New Century Bank will have its home office at Wyomissing, Berks County, Pennsylvania and its branch offices at the present locations of each of the existing authorized branch offices of New Century Bank and Berkshire Bank.

ARTICLE II
CHARTER AND BYLAWS

On and after the Effective Time, the Charter and Bylaws of New Century Bank, as in effect immediately prior to the Effective Time, shall automatically be and remain the Charter and Bylaws of the Resulting Institution, until altered, amended or repealed.

ARTICLE III
CONVERSION OF SHARES

4.1 Stock of New Century Bank.

Each share of New Century Bank Common Stock issued and outstanding immediately prior to the Effective Time shall, on and after the Effective Time, continue to be issued and outstanding as a share of common stock of the Resulting Institution.

4.2 Stock of Berkshire Bank.

Each share of Berkshire Bank Common Stock issued and outstanding immediately prior to the Effective Time, and each share of Berkshire Bank Common Stock issued and held in the treasury of Berkshire Bank as of the Effective Time, if any, shall, on the Effective Time, be cancelled, and no cash, stock or other property shall be delivered in exchange therefor.

ARTICLE IV
EFFECTIVE DATE OF THE MERGER

The Merger shall be effective on a date (the "Effective Time") which shall be the later of (i) the date on which all filings with government agencies as may be required under applicable laws and regulations for the Merger to become effective have been made and all regulatory approvals therefor shall have been received and first become effective, and (ii) immediately after the "Effective Time" of the Holding Company Merger.

ARTICLE V
EFFECT OF THE MERGER

6.1 Separate Existence.

On the Effective Time: the separate existence of Berkshire Bank shall cease, and all of the property (real, personal and mixed), rights, powers, duties and obligations of Berkshire Bank shall be taken and deemed to be transferred to and vested in the Resulting Institution, without further act or deed, as provided by applicable laws and regulations.

6.2 Deposit Accounts.

After the Effective Time, (i) each deposit account liability of New Century Bank and each deposit account liability of Berkshire Bank shall be and become, automatically and by operation of law, the equivalent deposit account liability of the Resulting Institution, and (ii) the Resulting Institution will continue to issue deposit accounts on the same basis as New Century Bank had immediately prior to the Effective Time.

ARTICLE VI
CONDITIONS PRECEDENT

The obligations of New Century Bank and Berkshire Bank to effect the Merger shall be subject to satisfaction, unless duly waived by the party permitted to do so, of the conditions precedent set forth in the Agreement.

ARTICLE VII
TERMINATION

This Plan of Merger shall terminate upon any termination of the Agreement in accordance with its terms; provided, however, that any such termination of this Plan of Merger shall not relieve any party hereto from liability on account of a breach by such party of any of the terms hereof or thereof.

ARTICLE VIII
AMENDMENT

Subject to applicable law, this Plan of Merger may be amended, by action of the respective Boards of Directors of the parties hereto, at any time prior to consummation of the Merger, but only by an instrument in writing signed by duly authorized officers on behalf of Berkshire Bank and New Century Bank.

ARTICLE IX
MISCELLANEOUS

10.1 Extensions; Waivers.

Each party, by a written instrument signed by a duly authorized officer, may extend the time for the performance of any of the obligations or other acts of the other party hereto and may waive compliance with any of the covenants, or performance of any of the obligations, of the other party contained in this Plan of Merger.

10.2 Notices.

Any notice or other communication required or permitted under this Plan of Merger shall be given, and shall be effective, in accordance with the notice provisions of the Agreement.

10.3 Captions.

The headings of the several Articles and Sections in this Plan of Merger are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Plan of Merger.

10.4 Counterparts.

For the convenience of the parties hereto, this Plan of Merger may be executed in several counterparts, each of which shall be deemed the original, but all of which together shall constitute one and the same instrument.

10.5 Governing Law.

This Plan of Merger shall be governed by and construed in accordance with the federal laws of the United States of America, and by Pennsylvania law in the absence of controlling Federal law.

B-EB-4

EXHIBIT C

FORM AMENDMENT

This Amendment to the Employment Agreement entered into between Berkshire Bancorp, Inc. (“Berkshire Bancorp”), Berkshire Bank (“Berkshire Bank”) and _____ is made and entered into as of _____, by and between Berkshire Bancorp, Berkshire Bank, New Century Bank (“NCB”), and _____ (the “Executive”) (collectively the “Parties”).

WHEREAS, Berkshire Bancorp, Berkshire Bank and Executive entered into an Employment Agreement dated October 18, 2007 (“Employment Agreement”);

WHEREAS, Berkshire Bancorp, Berkshire Bank, NCB, and Customers 1st Bancorp, Inc. (“Customers 1st”) entered into an Agreement and Plan of Merger dated _____ (“Merger Agreement”);

WHEREAS, pursuant to Section 7.10 of the Merger Agreement, Berkshire Bancorp, Berkshire Bank, Customers 1st and NCB have agreed that the Berkshire Bank executives will enter into an amendment to his or her employment agreement reflecting only a change in position and title; and

WHEREAS, this Amendment is in satisfaction of Section 7.10 of the Merger Agreement.

NOW, THEREFORE, in consideration of the covenants hereinafter set forth, and intending to be legally bound hereby, the Parties agree, effective on the Effective Time of the Merger Agreement (as defined therein), that the Employment Agreement shall be amended as follows:

1. Section 3 of the Employment Agreement shall be amended in its entirety as follows:

3. Position and Duties. The Executive shall serve as _____ reporting only to _____, and shall have responsibility for _____.

2. Customers 1st and NCB hereby expressly assumes all obligations and responsibilities under the Employment Agreement effective at the Effective Time of the Merger, subject to any applicable TARP restrictions that may remain applicable.

3. This Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania except to the extent that they are preempted by federal law.

4. Except as amended by this Amendment, the Agreement shall continue in full force and effect.
5. Unless otherwise defined in this Amendment, defined terms shall have the meanings ascribed to them in the Agreement.

IN WITNESS WHEREOF, the Parties, intending to be legally bound hereby, have caused this Amendment to be duly executed in their respective names or by its authorized representative, on the day and year first above written.

ATTEST BERKSHIRE BANCORP, INC.

ATTEST BERKSHIRE BANK

ATTEST CUSTOMERS 1ST BANCORP,
INC.

ATTEST NEW CENTURY BANK

WITNESS EXECUTIVE

AMENDMENT TO
AGREEMENT AND PLAN OF MERGER

This AMENDMENT dated as of April 27, 2011 (the "Amendment") to the Agreement and Plan of Merger dated as of August 23, 2010 (the "Agreement"), by and among Berkshire Bancorp, Inc., a Pennsylvania corporation ("Berkshire Bancorp"), its direct wholly-owned subsidiary, Berkshire Bank, a Pennsylvania commercial bank ("Berkshire Bank"), Customers Bancorp, Inc., formerly named Customers 1st Bancorp, Inc., a Pennsylvania business corporation ("Holdco") and Customers Bank, formerly named New Century Bank, a Pennsylvania commercial bank ("NCB").

WITNESSETH:

WHEREAS, Berkshire Bancorp, Berkshire Bank, Holdco and NCB, as permitted by Article 9, Section 9.4. of the Agreement, desire to amend the Agreement to the extent specified in this Amendment;

NOW, THEREFORE, Berkshire Bancorp, Berkshire Bank, Holdco and NCB, in consideration of the agreements and covenants contained in this Amendment and the Agreement and intending to be legally bound hereby, covenant and agree as follows:

1. Amendment of Article 9, Section 9.1.3. of the Agreement. Article 9, Section 9.1.3. of the Agreement is hereby amended and restated so that, as amended and restated, said Article 9, Section 9.1.3. of the Agreement shall read in its entirety as follows:

9.1.3. Delay. By either Holdco and NCB, of the one part, or Berkshire Bancorp and Berkshire Bank, of the other part, if the Merger shall not have been consummated on or before July 31, 2011, unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth in this Agreement, provided however, the parties agree that if the Holding Company Reorganization has not been approved by the shareholders of NCB by July 31, 2011, the parties agree to extend this Agreement for a period of 45 additional days;

2. Ratification of Remainder of the Agreement. Except for the amendment to Article 9, Section 9.1.3. of the Agreement as set forth in Section 1 of this Amendment, all of the other terms and provisions of the Agreement are hereby ratified and confirmed and shall remain in full force and effect.

[Signature Page Follows]

B-AMEND-1

Edgar Filing: - Form

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

CUSTOMERS BANCORP, INC.

By: /s/ Jay S. Sidhu
Name: Jay S. Sidhu
Title: Chairman and CEO

CUSTOMERS BANK

By: /s/ Jay S. Sidhu
Name: Jay S. Sidhu
Title: Chairman and CEO

BERKSIRE BANCORP, INC.

By: /s/ Norman E. Heilenman
Name: Norman E. Heilenman
Title: Chairman and CEO

BERKSHIRE BANK

By: /s/ Norman E. Heilenman
Name: Norman E. Heilenman
Title: Chairman and CEO

B-AMEND-2

ANNEX C

SECTIONS 1607 AND 1222 OF THE PENNSYLVANIA BANKING CODE

Section 1222. Rights of Dissenting Shareholders

If a shareholder of an institution shall object to a proposed plan of action of the institution authorized under a section of this act and such section provides that the shareholder shall be entitled to the rights and remedies of a dissenting shareholder, the rights and remedies of such shareholder shall be governed by the provisions of the Business Corporation Law applicable to dissenting shareholders and shall be subject to the limitations on such rights and remedies under those provisions. Shares acquired by an institution as a result of the exercise of such rights by a dissenting shareholder may be held and disposed of as treasury shares or, in the case of a merger or consolidation, as otherwise provided in the plan of merger or consolidation.

Section 1607. Rights of Dissenting Shareholders

(a) A shareholder of an institution which is a party to a plan in which the proposed merger or consolidation will result in an institution subject to this act who objects to the plan shall be entitled to the rights and remedies of a dissenting shareholder provided under, and subject to compliance with, the provisions of section 1222 of this act.

(b) If a shareholder of a national bank which is a party to a plan in which the proposed merger or consolidation will result in an institution subject to this act shall object to the plan and shall comply with the requirements of applicable laws of the United States, the resulting institution shall be liable for the value of his shares as determined in accordance with such laws of the United States. If the laws of the United States do not provide rights of dissenting shareholders or requirements for the exercise of such rights and the valuation of shares, such shareholder shall be entitled to the rights and remedies of a dissenting shareholder under, and subject to compliance with, the provisions of section 1222 of this act.

SUBCHAPTER D OF CHAPTER 15 AND SECTION 1930
OF THE PENNSYLVANIA BUSINESS CORPORATION LAW
OF 1988 (15 Pa. C.S.A. §§1571-1580 and 1930) AS AMENDED,
RELATING TO DISSENTERS' RIGHTS

§ 1930. Dissenters rights

(a) General rule. If any shareholder of a domestic business corporation that becomes a party to a merger or consolidation pursuant to a plan of merger or consolidation objects to the plan of merger or consolidation and complies with the provisions of Subchapter D of Chapter 15 (relating to dissenters rights), the shareholder shall be entitled to the rights and remedies of dissenting shareholders therein provided, if any. See also section 1906(c) (relating to dissenters right upon special treatment).

(b) Plans adopted by directors only. Except as otherwise provided pursuant to section 1571(c) (relating to grant of optional dissenters rights), Subchapter D of Chapter 15 shall not apply to any of the shares of a corporation that is a party to a merger or consolidation pursuant to section 1924(b)(1)(i) or (4) (relating to adoption by board of directors).

(c) Cross references. See sections 1571(b) (relating to exceptions) and 1904 (relating to de facto transaction doctrine abolished).

§ 1571. Application and effect of subchapter

(a) General rule. Except as otherwise provided in subsection (b) any shareholder (as defined in Section 1572 (relating to definitions)) of a business corporation shall have the right to dissent from, and to obtain payment of the fair value of his shares in the event of, any corporate action, or to otherwise obtain fair value for his shares, where this part expressly provides that a shareholder shall have the rights and remedies provided in this subchapter. See:

Section 1906(c) (relating to dissenters rights upon special treatment).

Section 1930 (relating to dissenters rights).

Section 1931(d) (relating to dissenters rights in share exchanges).

Section 1932(c) (relating to dissenters rights in asset transfers).

Section 1952(d) (relating to dissenters rights in division).

Section 1962(c) (relating to dissenters rights in conversion).

Section 2104(b) (relating to procedure).

Section 2324 (relating to corporation option where a restriction on transfer of a security is held invalid).

Section 2325(b) (relating to minimum vote requirement).

Section 2704(c) (relating to dissenters rights upon election).

Section 2705(d) (relating to dissenters rights upon renewal of election).

Section 2904(b) (relating to procedure)

Section 2907(a) (relating to proceedings to terminate breach of qualifying conditions).

Section 7104(b)(3) (relating to procedure).

(b) Exceptions.

(1) Except as otherwise provided in paragraph (2), the holders of the shares of any class or series of shares shall not have the right to dissent and obtain payment of the fair market value of the shares under this subchapter if, on the record date fixed to determine the shareholders entitled to notice of and to vote at the meeting at which a plan specified in any of section 1930, 1931(d), 1932(c) or 1952(d) is to be voted on or on the date of the first public announcement that such a plan has been approved by the shareholders by consent without a meeting, the shares are either:

(i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or

(ii) held of record by more than 2,000 persons.

(2) Paragraph (1) shall not apply to and dissenters rights shall be available without regard to the exception provided in that paragraph in the case of:

(i) (Repealed.)

(ii) Shares of any preferred or special class unless the articles, the plan or the terms of the transaction entitle all shareholders of the class or series to vote thereon and require for the adoption of the plan or the effectuation of the transaction the affirmative vote of a majority of the votes cast by all shareholders of the class or series.

C-2

(iii) Shares entitled to dissenters rights under section 1906(c) (relating to dissenters rights upon special treatment).

(3) The shareholders of a corporation that acquires by purchase, lease, exchange or other disposition all or substantially all of the shares, property or assets of another corporation by the issuance of shares, obligations or otherwise, with or without assuming the liabilities of the other corporation and with or without the intervention of another corporation or other person, shall not be entitled to the rights and remedies of dissenting shareholders provided in this subchapter regardless of the fact, if it be the case, that the acquisition was accomplished by the issuance of voting shares of the corporation to be outstanding immediately after the acquisition sufficient to elect a majority or more of the directors of the corporation.

(c) Grant of optional dissenters rights. The bylaws or a resolution of the board of directors may direct that all or a part of the shareholders shall have dissenters rights in connection with any corporate action or other transaction that would otherwise not entitle such shareholders to dissenters rights.

(d) Notice of dissenters rights. Unless otherwise provided by statute, if a proposed corporate action that would give rise to dissenters rights under this subpart is submitted to a vote at a meeting of shareholders, there shall be included in or enclosed with the notice of meeting:

(1) a statement of the proposed action and a statement that the shareholders have a right to dissent and obtain payment of the fair value of their shares by complying with the terms of this subchapter; and

(2) a copy of this subchapter.

(e) Other statutes. The procedures of this subchapter shall also be applicable to any transaction described in any statute other than this part that makes reference to this subchapter for the purpose of granting dissenters rights.

(f) Certain provisions of articles ineffective. This subchapter may not be relaxed by any provision of the articles.

(g) Computation of Beneficial Ownership. For purposes of subsection (b)(1)(ii), shares that are held beneficially as joint tenants, tenants by the entireties, tenants in common or in trust for two or more persons, as fiduciaries or otherwise, shall be deemed to be held beneficially by one person.

(h) Cross references. See sections 1105 (relating to restriction on equitable relief), 1904 (relating to de facto transaction doctrine abolished), 1763(c) (relating to determination of shareholders of record) and 2512 (relating to dissenters rights procedure).

§ 1572. Definitions

The following words and phrases when used in this subchapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Corporation." The issuer of the shares held or owned by the dissenter before the corporate action or the successor by merger, consolidation, division, conversion or otherwise of that issuer. A plan of division may designate which one or more of the resulting corporations is the successor corporation for the purposes of this subchapter. The designated successor corporation or corporations in a division shall have sole responsibility for payments to dissenters and other liabilities under this subchapter except as otherwise provided in the plan of division.

"Dissenter." A shareholder who is entitled to and does assert dissenters rights under this subchapter and who has performed every act required up to the time involved for the assertion of those rights.

"Fair value." The fair value of shares immediately before the effectuation of the corporate action to which the dissenter objects, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the corporate action.

"Interest." Interest from the effective date of the corporate action until the date of payment at such rate as is fair and equitable under all the circumstances, taking into account all relevant factors, including the average rate currently paid by the corporation on its principal bank loans.

"Shareholder." A shareholder as defined in section 1103 (relating to definitions) or an ultimate beneficial owner of shares, including, without limitation, a holder of depository receipts, where the beneficial interest owned includes an interest in the assets of the corporation upon dissolution.

§ 1573. Record and beneficial holders and owners

(a) Record holders of shares. A record holder of shares of a business corporation may assert dissenters rights as to fewer than all of the shares registered in his name only if he dissents with respect to all the shares of the same class or series beneficially owned by any one person and discloses the name and address of the person or persons on whose behalf he dissents. In that event, his rights shall be determined as if the shares as to which he has dissented and his other shares were registered in the names of different shareholders.

(b) Beneficial owners of shares. A beneficial owner of shares of a business corporation who is not the record holder may assert dissenters rights with respect to shares held on his behalf and shall be treated as a dissenting shareholder under the terms of this subchapter if he submits to the corporation not later than the time of the assertion of dissenters rights a written consent of the record holder. A beneficial owner may not dissent with respect to some but less than all shares of the same class or series owned by the owner, whether or not the shares so owned by him are registered in his name.

§ 1574. Notice of intention to dissent

If the proposed corporate action is submitted to a vote at a meeting of shareholders of a business corporation, any person who wishes to dissent and obtain payment of the fair value of his shares must file with the corporation, prior to the vote, a written notice of intention to demand that he be paid the fair value for his shares if the proposed action is effectuated, must effect no change in the beneficial ownership of his shares from the date of such filing continuously through the effective date of the proposed action and must refrain from voting his shares in approval of such action. A dissenter who fails in any respect shall not acquire any right to payment of the fair value of his shares under this subchapter. Neither a proxy nor a vote against the proposed corporate action shall constitute the written notice required by this section.

C-4

§ 1575. Notice to demand payment

(a) General rule. If the proposed corporate action is approved by the required vote at a meeting of shareholders of a business corporation, the corporation shall mail a further notice to all dissenters who gave due notice of intention to demand payment of the fair value of their shares and who refrained from voting in favor of the proposed action. If the proposed corporate action is to be taken without a vote of shareholders, the corporation shall send to all shareholders who are entitled to dissent and demand payment of the fair value of their shares a notice of the adoption of the plan or other corporate action. In either case, the notice shall:

(1) State where and when a demand for payment must be sent and certificates for certificated shares must be deposited in order to obtain payment.

(2) Inform holders of uncertificated shares to what extent transfer of shares will be restricted from the time that demand for payment is received.

(3) Supply a form for demanding payment that includes a request for certification of the date on which the shareholder, or the person on whose behalf the shareholder dissents, acquired beneficial ownership of the shares.

(4) Be accompanied by a copy of this subchapter.

(b) Time for receipt of demand for payment. The time set for receipt of the demand and deposit of certificated shares shall be not less than 30 days from the mailing of the notice.

§ 1576. Failure to comply with notice to demand payment, etc.

(a) Effect of failure of shareholder to act. A shareholder who fails to timely demand payment, or fails (in the case of certificated shares) to timely deposit certificates, as required by a notice pursuant to section 1575 (relating to notice to demand payment) shall not have any right under this subchapter to receive payment of the fair value of his shares.

(b) Restriction on uncertificated shares. If the shares are not represented by certificates, the business corporation may restrict their transfer from the time of receipt of demand for payment until effectuation of the proposed corporate action or the release of restrictions under the terms of section 1577(a) (relating to failure to effectuate corporate action).

(c) Rights retained by shareholders. The dissenter shall retain all other rights of a shareholder until those rights are modified by effectuation of the proposed corporate action.

§ 1577. Release of restrictions or payment for shares

(a) Failure to effectuate corporate action. Within 60 days after the date set for demanding payment and depositing certificates, if the business corporation has not effectuated the proposed corporate action, it shall return any certificates that have been deposited and release uncertificated shares from any transfer restrictions imposed by reason of the demand for payment.

(b) Renewal of notice to demand payment. When uncertificated shares have been released from transfer restrictions and deposited certificates have been returned, the corporation may at any later time send a new notice conforming to the requirements of section 1575 (relating to notice to demand payment), with like effect.

(c) Payment of fair value of shares. Promptly after effectuation of the proposed corporate action, or upon timely receipt of demand for payment if the corporate action has already been effectuated, the corporation shall either remit to dissenters who have made demand and (if their shares are certificated) have deposited their certificates the amount that the corporation estimates to be the fair value of the shares, or give written notice that no remittance under this section will be made. The remittance or notice shall be accompanied by:

(1) The closing balance sheet and statement of income of the issuer of the shares held or owned by the dissenter for a fiscal year ending not more than 16 months before the date of remittance or notice together with the latest available interim financial statements.

(2) A statement of the corporation's estimate of the fair value of the shares.

(3) A notice of the right of the dissenter to demand payment or supplemental payment, as the case may be, accompanied by a copy of this subchapter.

(d) Failure to make payment. If the corporation does not remit the amount of its estimate of the fair value of the shares as provided by subsection (c), it shall return any certificates that have been deposited and release uncertificated shares from any transfer restrictions imposed by reason of the demand for payment. The corporation may make a notation on any such certificate or on the records of the corporation relating to any such uncertificated shares that such demand has been made. If shares with respect to which notation has been so made shall be transferred, each new certificate issued therefore or the records relating to any transferred uncertificated shares shall bear a similar notation, together with the name of the original dissenting holder or owner of such shares. A transferee of such shares shall not acquire by such transfer any rights in the corporation other than those that the original dissenter had after making demand for payment of their fair value.

§ 1578. Estimate by dissenter of fair value of shares

(a) General rule. If the business corporation gives notice of its estimate of the fair value of the shares, without remitting such amount, or remits payment of its estimate of the fair value of a dissenter's shares as permitted by section 1577(c) (relating to payment of fair value of shares) and the dissenter believes that the amount stated or remitted is less than the fair value of his shares, he may send to the corporation his own estimate of the fair value of the shares, which shall be deemed a demand for payment of the amount or the deficiency.

(b) Effect of failure to file estimate. Where the dissenter does not file his own estimate under subsection (a) within 30 days after the mailing by the corporation of its remittance or notice, the dissenter shall be entitled to no more than the amount stated in the notice or remitted to him by the corporation.

§ 1579. Valuation proceedings generally

(a) General rule. Within 60 days after the latest of:

(1) effectuation of the proposed corporate action;

(2) timely receipt of any demands for payment under section 1575 (relating to notice to demand payment); or

(3) timely receipt of any estimates pursuant to section 1578 (relating to estimate by dissenter of fair value of shares);

if any demands for payment remain unsettled, the business corporation may file in court an application for relief requesting that the fair value of the shares be determined by the court.

(b) Mandatory joinder of dissenters. All dissenters, wherever residing, whose demands have not been settled shall be made parties to the proceeding as in an action against their shares. A copy of the application shall be served on each such dissenter. If a dissenter is a nonresident, the copy may be served on him in the manner provided or prescribed by or pursuant to 42 Pa. C.S. Ch. 53 (relating to bases of jurisdiction and interstate and international procedure).

(c) Jurisdiction of the court. The jurisdiction of the court shall be plenary and exclusive. The court may appoint an appraiser to receive evidence and recommend a decision on the issue of fair value. The appraiser shall have such power and authority as may be specified in the order of appointment or in any amendment thereof.

(d) Measure of recovery. Each dissenter who is made a party shall be entitled to recover the amount by which the fair value of his shares is found to exceed the amount, if any, previously remitted, plus interest.

(e) Effect of corporation's failure to file applications. If the corporation fails to file an application as provided in subsection (a), any dissenter who made a demand and who has not already settled his claim against the corporation may do so in the name of the corporation at any time within 30 days after the expiration of the 60-day period. If a dissenter does not file an application within the 30-day period, each dissenter entitled to file an application shall be paid the corporation's estimate of the fair value of the shares and no more, and may bring an action to recover any amount not previously remitted.

§ 1580. Costs and expenses of valuation proceedings

(a) General rule. The costs and expenses of any proceeding under section 1579 (relating to valuation proceedings generally), including the reasonable compensation and expenses of the appraiser appointed by the court, shall be determined by the court and assessed against the business corporation except that any part of the costs and expenses may be apportioned and assessed as the court deems appropriate against all or some of the dissenters who are parties and whose action in demanding supplemental payment under section 1578 (relating to estimate by dissenter of fair value of shares) the court finds to be dilatory, obdurate, arbitrary, vexatious or in bad faith.

(b) Assessment of counsel fees and expert fees where lack of good faith appears. Fees and expenses of counsel and of experts for the respective parties may be assessed as the court deems appropriate against the corporation and in favor of any or all dissenters if the corporation failed to comply substantially with the requirements of this subchapter and may be assessed against either the corporation or a dissenter, in favor of any other party, if the court finds that the

Edgar Filing: - Form

party against whom the fees and expenses are assessed acted in bad faith or in a dilatory, obdurate, arbitrary or vexatious manner in respect to the rights provided by this subchapter.

C-7

(c) Award of fees for benefits to other dissenters. If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated and should not be assessed against the corporation, it may award to those counsel reasonable fees to be paid out of the amounts awarded to the dissenters who were benefited.

C-8

ANNEX D

[Commonwealth Advisors LLC Letterhead]

August 23, 2010

The Board of Directors
Berkshire Bancorp, Inc.
1101 Woodland Road
Wyomissing, PA 19610

Members of the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of common stock (the “Company Common Stock”), \$1.00 par value per share, of Berkshire Bancorp, Inc. (the “Company”) of the consideration, defined below, in the proposed merger (the “Transaction”) of the Company with Customers 1st Bancorp, Inc. (the “Acquiror”). Pursuant to the Agreement and Plan of Merger, dated as of August 23, 2010 (the “Agreement”), by and among the Company, the Acquiror, Berkshire Bank and New Century Bank, the Company will be merged with and into the Acquiror, and Berkshire Bank will be merged with and into New Century Bank and each outstanding share of Company Common Stock, other than shares of Company Common Stock held in treasury or owned by the Acquiror and its affiliates, will be converted into the right to receive a calculated number of shares of the Acquiror’s common stock (the “Acquiror Common Stock”), such that the consideration received for each share of the Company Common Stock will be not less than \$1.95 nor more than the tangible common book value per share of the Company Common Stock, or the adjusted tangible common book value per share of the Company Common Stock, after the effect of the Book Value Adjustment , as defined in the Agreement, if applicable.

In arriving at our opinion, we have (i) reviewed the Agreement; (ii) reviewed and discussed with the Company and the Acquiror certain publicly available business and financial information concerning the Company and the Acquiror and the industry in which they operate; (iii) reviewed and discussed with the Company and the Acquiror matters relating to their respective liquidity, leverage and capital adequacy; (iv) compared the proposed financial terms of the Transaction with the publicly available financial terms of certain transactions involving companies we deemed relevant; (v) compared the financial and operating performance of the Company and the Acquiror with publicly available information concerning certain other companies we deemed relevant and reviewed the current and historical market prices of the Company Common Stock and the Acquiror Common Stock and certain publicly traded securities of such other companies; (vi) reviewed and discussed with the Company certain internal financial analyses and forecasts prepared by the management of the Company relating to its business; (vii) reviewed and discussed with the Acquiror the estimated amount and timing of the cost savings and related expenses expected to result from the Transaction; and (viii) performed

D-1

such other financial studies and analyses and considered such other information as we deemed appropriate for the purposes of this opinion.

In addition, we have held discussions with certain members of the management of the Company and the Acquiror with respect to certain aspects of the Transaction, and the past and current business operations of the Company and the Acquiror, the financial condition and future prospects and operations of the Company and the Acquiror, the effects of the Transaction on the financial condition and future prospects of the Company and the Acquiror, and certain other matters we believed necessary or appropriate to our inquiry. In the course of such discussions, we have been advised by members of the management of the Company that the Company has been negatively affected by, and continues to have exposure to, risks related to asset quality issues, including the impact thereof on the Company's capital.

In giving our opinion, we have relied upon and assumed the accuracy and completeness of all information that was publicly available or was furnished to or discussed with us by the Company and the Acquiror or otherwise reviewed by or for us, and we have not independently verified (nor have we assumed responsibility or liability for independently verifying) any such information or its accuracy or completeness. We have not reviewed individual credit files of the Company or the Acquiror, nor have we conducted or been provided with any valuation or appraisal of any assets or liabilities (including any derivative or off-balance sheet liabilities) of the Company or the Acquiror, nor have we evaluated the solvency of the Company or the Acquiror under any state or federal laws relating to bankruptcy, insolvency or similar matters. We are not experts in the evaluation of loan and lease portfolios for assessing the adequacy of the allowances for losses with respect thereto and, accordingly, we did not make an independent evaluation of the adequacy of the allowance for loan losses of the Company or the Acquiror and we have assumed, with your consent, that the respective allowances for loan losses for both the Company and the Acquiror, respectively, are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. In relying on financial analyses and forecasts provided to us by the Company and the Acquiror or derived therefrom, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of the Company to which such analyses or forecasts relate, and that they have been reviewed and accepted by the parties' respective regulators. We express no view as to the validity or accuracy of any analyses, forecasts or estimates referred to above, or the assumptions on which they were based. We have also assumed that the Transaction contemplated by the Agreement will qualify as a tax-free reorganization for United States federal income tax purposes, and will be consummated as described in the Agreement. We have also assumed that the representations and warranties made by the Company and the Acquiror in the Agreement and the related agreements are and will be true and correct in all respects material to our analysis and that the covenants and agreements contained therein will be performed in all respects material to our analysis. We are not legal, regulatory or tax experts and have relied on the assessments made by advisors to the Company with respect to such issues. We have further assumed that all material governmental, regulatory or other consents and

approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company or the Acquiror or on the contemplated benefits of the Transaction. The Agreement provides that the Acquiror's obligation to carry out the Transaction may be voided a Material Adverse Effect, as described in the Agreement, in which case our opinion is invalid.

Our opinion is necessarily based on economic, market and other conditions in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion. Our opinion is limited to the fairness, from a financial point of view, to the holders of the Company Common Stock of the Consideration in the proposed Transaction, and we express no opinion as to the fairness of the Transaction, or any consideration to be paid to creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the Transaction. Furthermore, we express no opinion with respect to the amount or nature of any compensation to any officers, directors, or employees of any party to the Transaction, or any class of such persons relative to the consideration defined above applicable to the holders of the Company Common Stock in the Transaction or with respect to the fairness of any such compensation. We are expressing no opinion herein as to the price at which the Company Common Stock or the Acquiror Common Stock will trade at any future time or the value of the Acquiror Common Stock when issued pursuant to the Agreement.

We have acted as financial advisor to the Company with respect to the proposed Transaction and will receive a fee from the Company for our services, a portion of which will become payable only if the proposed Transaction is consummated. In addition, the Company has agreed to indemnify us for certain liabilities arising out of our engagement. During the two years preceding the date of this letter, we have had no commercial or investment banking relationships with the Company or the Acquiror. Commonwealth Advisors LLC is indirectly owned by Bybel Rutledge LLP. Bybel Rutledge LLP is serving as special counsel to the Company with respect to the Transaction.

On the basis of and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio in the proposed Transaction is fair, from a financial point of view, to the holders of the Company Common Stock.

This letter is provided to the Board of Directors of the Company in connection with and for the purposes of its evaluation of the Transaction. This opinion does not constitute a recommendation to any shareholder of the Company as to how such shareholder should vote with respect to the Transaction, the relative merits of the Transaction as compared to other business strategies or transactions that might be available to the Company, or any other matter. This opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written approval. This opinion may, however, be reproduced in any proxy statement mailed to shareholders of the Company provided that the opinion is reproduced in such document in its entirety, and such document includes a summary of the opinion and related analysis

in a form prepared or approved by us (such approval not to be unreasonably withheld), but may not otherwise be disclosed publicly in any manner without our prior written approval.

Very truly yours,

Commonwealth Advisors LLC

/s/ Commonwealth Advisors LLC

D-4

ANNEX E

DISSENTERS' RIGHTS PROVISIONS

Pennsylvania Business Corporation Law of 1988, as Amended, Provisions For Dissenting Shareholders

Subchapter D.—Dissenters Rights.

§ 1571. Application and effect of subchapter.

(a) General rule.—Except as otherwise provided in subsection (b), any shareholder (as defined in Section 1572 (relating to definitions)) of a business corporation shall have the right to dissent from, and to obtain payment of the fair value of his shares in the event of, any corporate action, or to otherwise obtain fair value for his shares, only where this part expressly provides that a shareholder shall have the rights and remedies provided in this subchapter. See:

Section 1906(c) (relating to dissenters rights upon special treatment).

Section 1930 (relating to dissenters rights).

Section 1931(d) (relating to dissenters rights in share exchanges).

Section 1932(c) (relating to dissenters rights in asset transfers).

Section 1952(d) (relating to dissenters rights in division).

Section 1962(c) (relating to dissenters rights in conversion).

Section 2104(b) (relating to procedure).

Section 2324 (relating to corporation option where a restriction on transfer of a security is held invalid).

Section 2325(b) (relating to minimum vote requirement).

Section 2704(c) (relating to dissenters rights upon election).

Section 2705(d) (relating to dissenters rights upon renewal of election).

Section 2904(b) (relating to procedure).

Section 2907(a) (relating to proceedings to terminate breach of qualifying conditions).

Section 7104(b)(3) (relating to procedure).

(b) Exceptions.—(1) Except as otherwise provided in paragraph (2), the holders of the shares of any class or series of shares shall not have the right to dissent and obtain payment of the fair value of the shares under this subchapter if, on the record date fixed to determine the shareholders entitled to notice of and to vote at the meeting at which a plan specified in any of section 1930, 1931(d), 1932(c) or 1952(d) is to be voted on, or on the first public announcement that such a plan has been approved by the shareholders by consent without a meeting, the shares are either:

(i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.; or

(ii) held beneficially or of record by more than 2,000 persons.

(2) Paragraph (1) shall not apply to and dissenters rights shall be available without regard to the exception provided in that paragraph in the case of:

(i) (Repealed).

(ii) Shares of any preferred or special class or series unless the articles, the plan or the terms of the transaction entitle all shareholders of the class or series to vote thereon and require for the adoption of the plan or the effectuation of the transaction the affirmative vote of a majority of the votes cast by all shareholders of the class or series.

(iii) Shares entitled to dissenters rights under section 1906(c) (relating to dissenters rights upon special treatment).

(3) The shareholders of a corporation that acquires by purchase, lease, exchange or other disposition all or substantially all of the shares, property or assets of another corporation by the issuance of shares, obligations or otherwise, with or without assuming the liabilities of the other corporation and with or without the intervention of another corporation or other person, shall not be entitled to the rights and remedies of dissenting shareholders provided in this subchapter regardless of the fact, if it be the case, that the acquisition was accomplished by the issuance of voting shares of the corporation to be outstanding immediately after the acquisition sufficient to elect a majority or more of the directors of the corporation.

(c) Grant of optional dissenters rights.—The bylaws or a resolution of the board of directors may direct that all or a part of the shareholders shall have dissenters rights in connection with any corporate action or other transaction that would otherwise not entitle such shareholder to dissenters rights.

(d) Notice of dissenters rights.—Unless otherwise provided by statute, if a proposed corporate action that would give rise to dissenters rights under this subpart is submitted to a vote at a meeting of shareholders, there shall be included in or enclosed with the notice of meeting:

(1) a statement of the proposed action and a statement that the shareholders have a right to dissent and obtain payment of the fair value of their shares by complying with the terms of this subchapter; and

(2) a copy of this subchapter.

(e) Other statutes.—The procedures of this subchapter shall also be applicable to any transaction described in any statute other than this part that makes reference to this subchapter for the purpose of granting dissenters rights.

- (f) Certain provisions of articles ineffective.—This subchapter may not be relaxed by any provision of the articles.
- (g) Computation of beneficial ownership.—For purposes of subsection (b)(1)(ii), shares that are held beneficially as joint tenants, tenants by the entireties, tenants in common or in trust by two or more persons, as fiduciaries or otherwise, shall be deemed to be held beneficially by one person.
- (h) Cross references.—See sections 1105 (relating to restriction on equitable relief), 1904 (relating to de facto transaction doctrine abolished), 1763(c) (relating to determination of shareholders of record) and 2512 (relating to dissenters rights procedure).

§ 1572. Definitions.

The following words and phrases when used in this subchapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

“Corporation.” The issuer of the shares held or owned by the dissenter before the corporate action or the successor by merger, merger, division, conversion or otherwise of that issuer. A plan of division may designate which one or more of the resulting corporations is the successor corporation for the purposes of this subchapter. The designated successor corporation or corporations in a division shall have sole responsibility for payments to dissenters and other liabilities under this subchapter except as otherwise provided in the plan of division.

“Dissenter.” A shareholder who is entitled to and does assert dissenters rights under this subchapter and who has performed every act required up to the time involved for the assertion of those rights.

“Fair value.” The fair value of shares immediately before the effectuation of the corporate action to which the dissenter objects, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the corporate action.

“Interest.” Interest from the effective date of the corporate action until the date of payment at such rate as is fair and equitable under all the circumstances, taking into account all relevant factors, including the average rate currently paid by the corporation on its principal bank loans.

“Shareholder.” A shareholder as defined in section 1103 (relating to definitions), or an ultimate beneficial owner of shares, including without limitation, a holder of depository receipts, where the beneficial interest owned includes an interest in the assets of the corporation upon dissolution.

§ 1573. Record and beneficial holders and owners.

- (a) Record holders of shares.—A record holder of shares of a business corporation may assert dissenters rights as to fewer than all of the shares registered in his name only if he dissents with respect to all the shares of the same class or series beneficially owned by any one person and discloses the name and address of the person or persons on whose behalf he dissents. In that event, his rights shall be determined as if the shares as to which he has dissented and his other shares were registered in the names of different shareholders.
- (b) Beneficial owners of shares.—A beneficial owner of shares of a business corporation who is not the record holder may assert dissenters rights with respect to shares held on his behalf and shall be treated as a dissenting shareholder under the terms of this subchapter if he submits to the corporation not later than the time of the assertion of dissenters rights a written consent of the record holder. A beneficial owner may not dissent with respect to some but less than all shares of the same class or series owned by the owner, whether or not the shares so owned by him are registered in his name.

§ 1574. Notice of intention to dissent.

If the proposed corporate action is submitted to a vote at a meeting of shareholders of a business corporation, any person who wishes to dissent and obtain payment of the fair value of his shares must file with the corporation, prior to the vote, a written notice of intention to demand that he be paid the fair value for his shares if the proposed action is effectuated, must effect no change in the beneficial ownership of his shares from the date of such filing continuously through the effective date of the proposed action and must refrain from voting his shares in approval of such action. A dissenter who fails in any respect shall not acquire any right to payment of the fair value of his shares under this subchapter. Neither a proxy nor a vote against the proposed corporate action shall constitute the written notice required by this section.

§ 1575. Notice to demand payment.

- (a) General rule.—If the proposed corporate action is approved by the required vote at a meeting of shareholders of a business corporation, the corporation shall mail a further notice to all dissenters who gave due notice of intention to demand payment of the fair value of their shares and who refrained from voting in favor of the proposed action. If the proposed corporate action is to be taken without a vote of shareholders, the corporation shall send to all shareholders who are entitled to dissent and demand payment of the fair value of their shares a notice of the adoption of the plan or other corporate action. In either case, the notice shall:
- (1) State where and when a demand for payment must be sent and certificates for certificated shares must be deposited in order to obtain payment.

- (2) Inform holders of uncertificated shares to what extent transfer of shares will be restricted from the time that demand for payment is received.
- (3) Supply a form for demanding payment that includes a request for certification of the date on which the shareholder, or the person on whose behalf the shareholder dissents, acquired beneficial ownership of the shares.

(4) Be accompanied by a copy of this subchapter.

- (b) Time for receipt of demand for payment.—The time set for receipt of the demand and deposit of certificated shares shall be not less than 30 days from the mailing of the notice.

§ 1576. Failure to comply with notice to demand payment, etc.

- (a) Effect of failure of shareholder to act.—A shareholder who fails to timely demand payment, or fails (in the case of certificated shares) to timely deposit certificates, as required by a notice pursuant to section 1575 (relating to notice to demand payment) shall not have any right under this subchapter to receive payment of the fair value of his shares.
- (b) Restriction on uncertificated shares.—If the shares are not represented by certificates, the business corporation may restrict their transfer from the time of receipt of demand for payment until effectuation of the proposed corporate action or the release of restrictions under the terms of section 1577(a) (relating to failure to effectuate corporate action).
- (c) Rights retained by shareholder.—The dissenter shall retain all other rights of a shareholder until those rights are modified by effectuation of the proposed corporate action.

§ 1577. Release of restrictions or payment for shares.

- (a) Failure to effectuate corporate action.—Within 60 days after the date set for demanding payment and depositing certificates, if the business corporation has not effectuated the proposed corporate action, it shall return any certificates that have been deposited and release uncertificated shares from any transfer restrictions imposed by reason of the demand for payment.
- (b) Renewal of notice to demand payment.—When uncertificated shares have been released from transfer restrictions and deposited certificates have been returned, the corporation may at any later time send a new notice conforming to the requirements of section 1575 (relating to notice to demand payment), with like effect.

- (c) Payment of fair value of shares.—Promptly after effectuation of the proposed corporation action, or upon timely receipt of demand for payment if the corporate action has already been effectuated, the corporation shall either remit to dissenters who have made demand and (if their shares are certificated) have deposited their certificates the amount that the corporation estimates to be the fair value of the shares, or give written notice that no remittance under this section will be made. The remittance or notice shall be accompanied by:
- (1) The closing balance sheet and statement of income of the issuer of the shares held or owned by the dissenter for a fiscal year ending not more than 16 months before the date of remittance or notice together with the latest available interim financial statements.
- (2) A statement of the corporation’s estimate of the fair value of the shares.
- (3) A notice of the right of the dissenter to demand payment or supplemental payment, as the case may be, accompanied by a copy of this subchapter.
- (d) Failure to make payment.—If the corporation does not remit the amount of its estimate of the fair value of the shares as provided by subsection (c), it shall return any certificates that have been deposited and release uncertificated shares from any transfer restrictions imposed by reason of the demand for payment. The corporation may make a notation on any such certificate or on the records of the corporation relating to any such uncertificated shares that such demand has been made. If shares with respect to which notation has been so made shall be transferred, each new certificate issued therefor or the records relating to any transferred uncertificated shares shall bear a similar notation, together with the name of the original dissenting holder or owner of such shares. A transferee of such shares shall not acquire by such transfer any rights in the corporation other than those that the original dissenters had after making demand for payment of their fair value.

§ 1578. Estimate by dissenter of fair value of shares.

- (a) General rule.—If the business corporation gives notice of its estimate of the fair value of the shares, without remitting such amount, or remits payment of its estimate of the fair value of a dissenter’s shares as permitted by section 1577(c) (relating to payment of fair value of shares) and the dissenter believes that the amount stated or remitted is less than the fair value of his shares, he may send to the corporation his own estimate of the fair value of the shares, which shall be deemed a demand for payment of the amount or the deficiency.
- (b) Effect of failure to file estimate.—Where the dissenter does not file his own estimate under subsection (a) within 30 days after the mailing by the corporation of its remittance or notice, the dissenter shall be entitled to no more than the amount stated in the notice or remitted to him by the corporation.

§ 1579. Valuation proceedings generally.

(a) General rule.—Within 60 days after the latest of:

(1) effectuation of the proposed corporate action;

(2) timely receipt of any demands for payment under section 1575 (relating to notice to demand payment); or

(3) timely receipt of any estimates pursuant to section 1578 (relating to estimate by dissenter of fair value of shares);

if any demands for payment remain unsettled, the business corporation may file in court an application for relief requesting that the fair value of the shares be determined by the court.

(b) Mandatory joinder of dissenters.—All dissenters, wherever residing, whose demands have not been settled shall be made parties to the proceeding as in an action against their shares. A copy of the application shall be served on each such dissenter. If a dissenter is a nonresident, the copy may be served on him in the manner provided or prescribed by or pursuant to 42 Pa.C.S. Ch. 53 (relating to bases of jurisdiction and interstate and international procedure).

(c) Jurisdiction of the court.—The jurisdiction of the court shall be plenary and exclusive. The court may appoint an appraiser to receive evidence and recommend a decision on the issue of fair value. The appraiser shall have such power and authority as may be specified in the order of appointment or in any amendment thereof.

(d) Measure of recovery.—Each dissenter who is made a party shall be entitled to recover the amount by which the fair value of his shares is found to exceed the amount, if any, previously remitted, plus interest.

(e) Effect of corporation's failure to file application.—If the corporation fails to file an application as provided in subsection (a), any dissenter who made a demand and who has not already settled his claim against the corporation may do so in the name of the corporation at any time within 30 days after the expiration of the 60-day period. If a dissenter does not file an application within the 30-day period, each dissenter entitled to file an application shall be paid the corporation's estimate of the fair value of the shares and no more, and may bring an action to recover any amount not previously remitted.

§ 1580. Costs and expenses of valuation proceedings.

(a) General rule.—The costs and expenses of any proceeding under section 1579 (relating to valuation proceedings generally), including the reasonable compensation and expenses of the appraiser appointed by the court, shall be determined by the court and assessed against the business corporation except that any part of the costs and expenses may be apportioned and assessed as the court deems appropriate against all or some of the dissenters who are parties and whose action in demanding supplemental payment under section 1578 (relating to estimate by dissenter of fair value of shares) the court finds to be dilatory, obdurate, arbitrary, vexatious or in bad faith.

- (b) Assessment of counsel fees and expert fees where lack of good faith appears.—Fees and expenses of counsel and of experts for the respective parties may be assessed as the court deems appropriate against the corporation and in favor of any or all dissenters if the corporation failed to comply substantially with the requirements of this subchapter and may be assessed against either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted in bad faith or in a dilatory, obdurate, arbitrary or vexatious manner in respect to the rights provided by this subchapter.
- (c) Award of fees for benefits to other dissenters.—If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated and should not be assessed against the corporation, it may award to those counsel reasonable fees to be paid out of the amounts awarded to the dissenters who were benefited.

§ 1930. Dissenters rights.

- (a) General rule.—If any shareholder of a domestic business corporation that is to be a party to a merger or merger pursuant to a plan of merger or merger objects to the plan of merger or merger and complies with the provisions of Subchapter D of Chapter 15 (relating to dissenters rights), the shareholder shall be entitled to the rights and remedies of dissenting shareholders therein provided, if any. See also section 1906(c) (relating to dissenters rights upon special treatment).
- (b) Plans adopted by directors only.—Except as otherwise provided pursuant to section 1571(c) (relating to grant of optional dissenters rights), Subchapter D of Chapter 15 shall not apply to any of the shares of a corporation that is a party to a merger or merger pursuant to section 1924(b)(1)(i) or (4) (relating to adoption by board of directors).
- (c) Cross references.—See sections 1571(b) (relating to exceptions) and 1904 (relating to de facto transaction doctrine abolished).

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Officers and Directors.

Subchapter D of PBCL provides for indemnification of, and insurance for any person who is or was a representative of CBI and specifically empowers CBI to indemnify, subject to the standards therein prescribed, any person who is or was a representative of CBI in connection with any action, suit or proceeding brought or threatened by reason of the fact that he is or was a representative of CBI. Article 8.02 of CBI's Bylaws requires CBI to indemnify each of CBI's directors and officers in such capacity in which any such director or officer acts for or on behalf of CBI including as an employee or agent.

Article 8 of CBI's bylaws provide for indemnification of officers and directors, as follows:

Section 8.01 provides that, to the fullest extent under Subchapter B of Chapter 7 of the Pennsylvania Business Corporation Law, CBI's directors shall not be personally liable to CBI or its shareholders or others for monetary damages for any action taken or any failure to take any action unless the director has breached or failed to perform the duties of his or her office and such breach or failure constitutes self-dealing, willful misconduct or recklessness. This section does not apply to the responsibility or liability of such director under any criminal statute or with respect to the payment of taxes pursuant to local, state or federal law.

Section 8.02(a) provides for the indemnification of any person who was or is a party or is threatened to be made a party to any threatened, ending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact of such person's involvement as a director, officer, employee or agents of CBI or its bank subsidiaries or any other director or indirect subsidiary of CBI, of Customers Bank serving at the request of CBI as a director, officer, employee or agent against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, to the fullest extent authorized or permitted by the laws of the Commonwealth of Pennsylvania.

Section 8.02(b) requires CBI to pay the expenses (including attorney's fees) incurred in defending a civil or criminal action, suit or proceeding in advance of the final disposition of any action suit or proceeding upon the receipt of (i) an undertaking by or on behalf of a director, officer, employee or agent to repay such amount if it shall be ultimately determined that he or she is not entitled to be indemnified as authorized under the Articles of Incorporation and ii) if requested at the discretion of the board of directors, adequate security or a bond to cover such amounts for which it is ultimately determined that he is not entitled to such indemnity.

Section 8.02(c) provides the right to indemnification and advancement of expenses is not exclusive of any other right to which such persons seeking indemnification and advancement of expenses may be entitled under any agreement, vote of shareholders, or disinterested Directors or otherwise.

Section 8.02(d) provides that CBI may purchase and maintain insurance on behalf of any person, may enter into contracts of indemnification with any person and may create a fund of any nature for the benefit of any person and may otherwise secure in any manner its obligations with respect to indemnification and advancement of expenses regardless of the source of the indemnification right and without respect to whether or not CBI would have the power to indemnify such person under the articles of incorporation.

Item 21. Exhibits and Financial Statements.

Schedules

(a) Exhibits. The following exhibits are submitted:

ExhibitDescription
No.

2.1* Plan of Merger and Reorganization

2.2* Agreement and Plan of Merger, dated as of August 24, 2010, by and among Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc.

2.3* Purchase and Assumption Agreement, dated as of July 9, 2010, by and among Customers Bank, the FDIC as Receiver of USA Bank, and the FDIC acting in its corporate capacity

Edgar Filing: - Form

- 2.4* Purchase and Assumption Agreement, dated as of September 17, 2010, by and among Customers Bank, the FDIC as Receiver of ISN Bank, and the FDIC acting in its corporate capacity
- 2.5 Amendment to Agreement and Plan of Merger, dated as of April 27, 2011, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc. and Customers Bank, filed herewith
- 3.1* Articles of Incorporation of Customers Bancorp, Inc.
- 3.2* Articles of Amendment to the Articles of Incorporation of Customers Bancorp, Inc.
- 3.3* Bylaws of Customers Bancorp, Inc.
- 4.1* Specimen stock certificate of Customers Bancorp, Inc. Common Stock
- 4.2* Specimen stock certificate of Customers Bancorp, Inc. Class B Non-Voting Common Stock
- 4.3* Indenture, dated as of June 29, 2004, by and between New Century Bank and Wilmington Trust Company, relating to Floating Rate Subordinated Debt Securities Due 2014
- 4.4* Form of Anti-Dilution Agreement entered into by Customers Bank with each of the lead investors in Customers Bank's March and February 2010 private offerings, and all investors in Customers Bank's 2009 private offering
- 4.5* Form of Supplement to Anti-Dilution Agreement entered into by Customers Bank with each of the lead investors in Customers Bank's March and February 2010 private offerings, and all investors in Customers Bank's 2009 private offering
- 4.6* Stock Option Agreement, dated as of March 23, 2005, by and between New Century Bank and Univest Corporation of Pennsylvania
- 4.7 * Stock Option Agreement, dated as of July 10, 1997, by and between New Century Bank and NexTier Bank, f/k/a Citizens Incorporated
- 4.8* Form of Warrant issued to investors in New Century Bank's March and February 2010 private offerings, 2009 private offering, and in partial exchange for New Century Bank's shares of 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock in June 2009
- 4.9* Warrants issued to Jay S. Sidhu, June 30, 2009
- 5.1 Opinion of Stradley Ronon Stevens & Young, LLP, filed herewith
- 8.1 Tax Opinion of Stradley Ronon Stevens & Young, LLP relating to the reorganization, filed herewith

Edgar Filing: - Form

- 8.2 Tax Opinion of Stradley Ronon Stevens & Young, LLP relating to the merger, filed herewith
- 8.3 Tax Opinion of Bybel Rutledge LLP relating to the merger, filed herewith
- 10.1 *+ New Century Bank Management Stock Purchase Plan
- 10.2 *+ New Century Bank 2010 Stock Option Plan
- 10.3 *+ Employment Agreement, dated as of June 17, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.4 + Employment Agreement, dated as of February 17, 2011, by and between New Century Bank and Richard A. Ehst, filed herewith
- 10.5 + Employment Agreement, dated as of February 17, 2011, by and between New Century Bank and Thomas Brugger, filed herewith
- 10.6* Agreement, dated as of May 19, 2009, by and between New Century Bank and Jay Sidhu
- 10.7 * New Century Bank 2004 Incentive Equity and Deferred Compensation Plan
- 10.8* Lease Agreement, dated January 5, 2007, by and between New Century Bank and Gateway Partnership LLC
- 10.9* Amendment to Lease, dated May 4, 2007, by and between New Century Bank and Gateway Partnership LLC
-

- 10.10 *+ Warrant issued to Jay S. Sidhu, June 30, 2009 (included in Exhibit 4.9)
- 10.11* Subscription Agreement, dated May 19, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.12* Amendment to Subscription Agreement, dated June 29, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.13 * Amendment #2 to Subscription Agreement, dated as of June 30, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.14 *+ New Century Bank Bonus Recognition and Retention Plan
- 10.15 *+ Supplemental Executive Retirement Plan of Jay S. Sidhu
- 10.16 + Form of Restricted Stock Agreement, filed herewith
- 13.1 Annual Report to Security Holders of New Century Bank (incorporated herein by reference to New Century Bank Financial Statements and the Notes related thereto beginning on page Customers F-1 of the Joint Proxy Statement-Prospectus which forms a part of this registration statement)
- 21.1* List of Subsidiaries of Customers Bancorp, Inc.
- 23.1 Consent of Stradley Ronon Stevens & Young, LLP (included in Exhibits 5.1, and 8.2), filed herewith
- 23.2 Consent of ParenteBeard LLC, filed herewith
- 23.3 Consent of Bybel Rutledge LLP (included in Exhibit 8.3), filed herewith
- 23.4 Consent of McGladrey & Pullen, LLP, filed herewith
- 23.5* Consent of Commonwealth Advisors LLC
- 24.1* Powers of Attorney (contained on the signature page of the registration statement on Form S-1, filed with the SEC on April 22, 2010)
- 24.2* Power of Attorney - John R. Miller
- 99.1 Form of Proxy Card for shareholders of Customers Bank, filed herewith
- 99.2 Form of Proxy Card for shareholders of Berkshire Bancorp, Inc., filed herewith

* Previously filed

+ Management Contract or compensatory plan or arrangement.

(b) The following financial statement schedules are furnished:

13.1 – Annual Report to Security Holders

13.2 – Quarterly Report to Security Holders

13.3 – Balance Sheet Related to USA Bank FDIC Assisted Transaction

13.4 – Balance Sheet Related to ISN Bank FDIC Assisted Transaction

(c) Not applicable.

Item 22. Undertakings.

(1) The undersigned registrant hereby undertakes as follows: That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) The undersigned registrant undertakes that every prospectus (i) that is filed pursuant to paragraph (h)(1) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415 (§230.415 of this chapter), will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(4) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against liability arising under the Securities Act (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Wyomissing, Commonwealth of Pennsylvania, on June 10, 2011.

Customers Bancorp, Inc.

By: /s/ Thomas Brugger
Executive Vice President and Chief Financial
Officer

In accordance with the requirements of the Securities Act of 1933, this Registration Statement was signed by the following persons in the capacities indicated on June 10, 2011.

Signature	Title(s)
* Jay S. Sidhu	Chairman, Chief Executive Officer and Director (principal executive officer)
/s/ Thomas Brugger Thomas Brugger	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)
* Bhanu Choudhrie	Director
* Daniel K. Rothermel	Director
* John R. Miller	Director
* T. Lawrence Way	Director
* Steven J. Zuckerman	Director

* By: /s/ Thomas Brugger
Thomas Brugger
Attorney-in-Fact

INDEX TO EXHIBITS

Exhibit No.	Description
2.1*	Plan of Merger and Reorganization
2.2*	Agreement and Plan of Merger, dated as of August 24, 2010, by and among Customers Bank, Customers Bancorp, Inc., Berkshire Bank and Berkshire Bancorp, Inc.
2.3*	Purchase and Assumption Agreement, dated as of July 9, 2010, by and among Customers Bank, the FDIC as Receiver of USA Bank, and the FDIC acting in its corporate capacity
2.4*	Purchase and Assumption Agreement, dated as of September 17, 2010, by and among Customers Bank, the FDIC as Receiver of ISN Bank, and the FDIC acting in its corporate capacity
2.5	<u>Amendment to Agreement and Plan of Merger, dated as of April 27, 2011, by and among Berkshire Bancorp, Inc., Berkshire Bank, Customers Bancorp, Inc. and Customers Bank, filed herewith</u>
3.1*	Articles of Incorporation of Customers Bancorp, Inc.
3.2*	Articles of Amendment to the Articles of Incorporation of Customers Bancorp, Inc.
3.3*	Bylaws of Customers Bancorp, Inc.
4.1*	Specimen stock certificate of Customers Bancorp, Inc. Common Stock
4.2*	Specimen stock certificate of Customers Bancorp, Inc. Class B Non-Voting Common Stock
4.3*	Indenture, dated as of June 29, 2004, by and between New Century Bank and Wilmington Trust Company, relating to Floating Rate Subordinated Debt Securities Due 2014
4.4*	Form of Anti-Dilution Agreement entered into by Customers Bank with each of the lead investors in Customers Bank's March and February 2010 private offerings, and all investors in Customers Bank's 2009 private offering
4.5*	Form of Supplement to Anti-Dilution Agreement entered into by Customers Bank with each of the lead investors in Customers Bank's March and February 2010 private offerings, and all investors in Customers Bank's 2009 private offering
4.6*	Stock Option Agreement, dated as of March 23, 2005, by and between New Century Bank and Univest Corporation of Pennsylvania
4.7 *	Stock Option Agreement, dated as of July 10, 1997, by and between New Century Bank and NexTier Bank, f/k/a Citizens Incorporated
4.8*	

Edgar Filing: - Form

Form of Warrant issued to investors in New Century Bank's March and February 2010 private offerings, 2009 private offering, and in partial exchange for New Century Bank's shares of 10% Series A Non-Cumulative Perpetual Convertible Preferred Stock in June 2009

- 4.9* Warrants issued to Jay S. Sidhu, June 30, 2009
- 5.1 Opinion of Stradley Ronon Stevens & Young, LLP, filed herewith
- 8.1 Tax Opinion of Stradley Ronon Stevens & Young, LLP relating to the reorganization, filed herewith
- 8.2 Tax Opinion of Stradley Ronon Stevens & Young, LLP relating to the merger, filed herewith
- 8.3 Tax Opinion of Bybel Rutledge LLP relating to the merger, filed herewith
- 10.1 *+ New Century Bank Management Stock Purchase Plan
- 10.2 *+ New Century Bank 2010 Stock Option Plan
-

- 10.3 *+Employment Agreement, dated as of June 17, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.4 + Employment Agreement, dated as of February 17, 2011, by and between New Century Bank and Richard A. Ehst, filed herewith
- 10.5 + Employment Agreement, dated as of February 17, 2011, by and between New Century Bank and Thomas Brugger, filed herewith
- 10.6* Agreement, dated as of May 19, 2009, by and between New Century Bank and Jay Sidhu
- 10.7 * New Century Bank 2004 Incentive Equity and Deferred Compensation Plan
- 10.8* Lease Agreement, dated January 5, 2007, by and between New Century Bank and Gateway Partnership LLC
- 10.9* Amendment to Lease, dated May 4, 2007, by and between New Century Bank and Gateway Partnership LLC
- 10.10 Warrant issued to Jay S. Sidhu, June 30, 2009 (included in Exhibit 4.9)
*+
- 10.11* Subscription Agreement, dated May 19, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.12* Amendment to Subscription Agreement, dated June 29, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.13 *Amendment #2 to Subscription Agreement, dated as of June 30, 2009, by and between New Century Bank and Jay S. Sidhu
- 10.14 New Century Bank Bonus Recognition and Retention Plan
*+
- 10.15 Supplemental Executive Retirement Plan of Jay S. Sidhu
*+
- 10.16 Form of Restricted Stock Agreement, filed herewith
+
- 13.1 Annual Report to Security Holders of New Century Bank (incorporated herein by reference to New Century Bank Financial Statements and the Notes related thereto beginning on page Customers F-1 of the Joint Proxy Statement-Prospectus which forms a part of this registration statement)
- 21.1* List of Subsidiaries of Customers Bancorp, Inc.
- 23.1 Consent of Stradley Ronon Stevens & Young, LLP (included in Exhibits 5.1, and 8.2), filed herewith
- 23.2 Consent of ParenteBeard LLC, filed herewith
- 23.3 Consent of Bybel Rutledge LLP (included in Exhibit 8.3), filed herewith

23.4 Consent of McGladrey & Pullen, LLP, filed herewith

23.5* Consent of Commonwealth Advisors LLC

24.1* Powers of Attorney (contained on the signature page of the registration statement on Form S-1, filed with the SEC on April 22, 2010)

24.2* Power of Attorney - John R. Miller

99.1 Form of Proxy Card for shareholders of Customers Bank, filed herewith

99.2 Form of Proxy Card for shareholders of Berkshire Bancorp, Inc., filed herewith

* Previously filed

+ Management Contract or compensatory plan or arrangement
