HERSHEY TRUST CO
Form 4
December 28, 2005

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HERSHEY TRUST CO

(Last) (First) (Middle)

100 MANSION ROAD EAST, P.O. BOX 445

(Street)

HERSHEY, PA 17033

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HERSHEY CO [HSY]

3. Date of Earliest Transaction (Month/Day/Year)
12/27/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, $1.00 par value (1)	12/27/2005		J (1) (2)		38,544	D	$ 56.8403 (2)	13,203,025	I	By Milton Hershey School Trust (4)
Common Stock, $1.00 par value								389,000	D (3)	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Class B Common Stock, $1.00 par value (5)	$ 56.05 (6)							12/27/2005 (5)	(5)	Common Stock, $1.00 par value	60,612,012

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HERSHEY TRUST CO 100 MANSION ROAD EAST P.O. BOX 445 HERSHEY, PA 17033		X		

Signatures

/s/ Robert C. Vowler, President, Hershey Trust Company	12/28/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The repurchase of shares reported on this Form 4 was effected pursuant to a Rule 10b5-1 plan adopted in an agreement between the Issuer and the Reporting Person (the "10b5-1 Plan"). Pursuant to the 10b5-1 Plan, the Issuer has agreed to repurchase from the Reporting Person, on a weekly basis, through January 30, 2006, a number of shares of Common Stock equal to the product of the number of shares of Common Stock repurchased by the Issuer on the open market from shareholders other than the Reporting Person and affiliates of the Company (the "Repurchased Shares") during the preceding calendar week (The "Prior Week Shares") and 0.44.

(2) Pursuant to the 10b5-1 Plan, the per share price for shares of Common Stock repurchased by the Issuer is equal to the total consideration paid by the Issuer for the Prior Week Shares divided by the number of Repurchased Shares.

(3) The reporting person is wholly owned by the Milton Hershey School Trust.

(4) The reporting person is the trustee of Milton Hershey School Trust.

(5) All shares of Class B common stock, $1.00 par value, are convertible share-for-share into common stock, $1.00 par value, at any time, and without payment other than for the fact of conversion. There is no expiration date.

(6) Conversion price is the current market price ($56.05 represents the closing price on 12/27/2005).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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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

Explanation of Responses:

≥

5.0

In general, Customers Bank's capital increases with the addition of earnings to stockholders' equity and with sales of stock or the issuance of certain qualifying debt, such as the subordinated debt Customers Bank issued in 2004 and 2008 (which is included in Tier II and total capital). Conversely, as Customers Bank's assets grow, its capital ratios decrease. In general, in the past few years, balance sheet growth has been offset by decreases in capital through losses and increases in capital from sales of common stock, debt issuance, growth of the allowance for loan losses and our debt issuances. In 2010, the $59.7 million capital raise improved our capital ratios. Customers Bank plans to grow in the future and to maintain strong capital ratios. To accomplish both these goals, Customers Bank will need to raise additional capital to maintain strong capital ratios.

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

The maintenance of appropriate levels of capital is an important objective of Customers Bank's Asset and Liability Management process. Through its initial capitalization and its subsequent offerings, Customers Bank has continued to maintain a strong capital position. Management believes that, under current requirements and regulations, Customers Bank will meet its minimum capital requirements for the foreseeable future.

MARKET FOR COMMON STOCK

Customers Bank's Common Stock is not listed or quoted on any exchange or electronic bulletin board or other quotation service. Furthermore, there are no brokerage firms that act as market makers in Customers Bank's stock. Consequently, information on current stock trading prices is not readily available. Customers Bank currently acts as its own transfer agent and offers to introduce potential buyers and sellers of our stock to each other, but does not make a market in its own stock or attempt to negotiate prices for trades of its stock.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

	December 31, 2010	December 31, 2009
	(in thousands)	
Commitments to fund loans	$ 23,446	$ 3,922
Unfunded commitments to fund mortgage warehouse loans	221,706	28,565
Unfunded commitments under lines of credit	40,948	16,842
Letters of credit	1,085	854

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

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

Mortgage warehouse loan commitments are agreements to purchase mortgage loans from mortgage bankers that agree to purchase the loans back in a short period of time or to sell to third party mortgage originators. These commitments generally fluctuate monthly as existing loans are repurchased by the mortgage bankers and new loans are purchased by Customers Bank.

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK - INTEREST RATE SENSITIVITY

The largest component of Customers Bank's total income is net interest income, and the majority of its financial instruments are interest rate sensitive assets and liabilities with various terms and maturities. One of the primary objectives of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Customers Bank's Asset/Liability Committee actively seeks to monitor and control the mix of interest rate sensitive assets and interest rate sensitive liabilities.

Customers Bank uses two complementary methods to analyze and measure interest rate sensitivity as part of the overall management of interest rate risk. They are income simulation modeling and estimates of economic value of equity. The combination of these two methods provides a reasonably comprehensive summary of the levels of interest rate risk of Customers Bank's exposure to time factors and changes in interest rate environments.

Income simulation modeling is used to measure Customers Bank's interest rate sensitivity and manage its interest rate risk. Income simulation considers not only the impact of changing market interest rates upon forecasted net interest income, but also other factors such as yield curve relationships, the volume and mix of assets and liabilities, customer preferences and general market conditions.

Through the use of income simulation modeling, Customers Bank has estimated the net interest income for the year ending December 31, 2010, based upon the assets, liabilities and off-balance sheet financial instruments in existence at December 31, 2010. Customers Bank has also estimated changes to that estimated net interest income based upon interest rates rising or falling immediately ("rate shocks"). Rate shocks assume that all interest rates increase or decrease immediately. The following table reflects the estimated percentage change in estimated net interest income for the year ending December 31, 2010, resulting from changes in interest rates.

Net change in net interest income

Rate Shocks	% Change	
Up 3%	15.8	%
Up 2%	10.0	%
Up 1%	5.3	%
Down 1%	(0.5	)%
Down 2%	0.5	%
Down 3%	1.8	%

The net changes in net interest income in all of the "up" rate shocks and in the "down 1%" rate shock are well within Customers Bank's interest rate risk policy guidelines. While the net changes in net interest income in the "up 1%" rate shocks are slightly higher that Customers Bank's interest rate risk policy guidelines, Management does not believe these scenarios are likely.

Economic Value of Equity ("EVE") estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for comparable assets and liabilities. Upward and downward rate shocks are used to measure volatility of EVE in relation to a constant rate environment. This method of measurement primarily evaluates the longer term repricing risks and options in Customers Bank's balance sheet. The following table reflects the estimated EVE at risk and the ratio of EVE to EVE adjusted assets at December 31, 2010, resulting from shocks to interest rates.

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Explanation of Responses:

Percent Change Economic Value of Equity

Rate Shocks	From base	EVE assets capital (a)
Up 3%	(22.6)%	(22.8)%
Up 2%	(12.5)%	(12.7)%
Up 1%	(5.7)%	(5.8)%
Down 1%	5.1 %	5.9 %
Down 2%	2.6 %	2.7 %
Down 3%	(2.7)%	(2.7)%

(a) Capital defined as Tier 1/Tier 2 Capital as calculated under regulatory quidelines.

The percent changes of EVE are within Customers Bank's interest rate risk policy guidelines.

The matching of assets and liabilities may also be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010, that are anticipated, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period were determined in accordance with the earlier of term to repricing or the contractual maturity of the asset or liability. The table sets forth an approximation of the projected repricing of assets and liabilities at December 31, 2010, on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. The loan amounts in the table reflect principal balances expected to be repaid and/or repriced as a result of contractual amortization and anticipated prepayments of adjustable and fixed rate loans, and as a result of contractual rate adjustments on adjustable rate loans.

	At December 31, 2010						
	3 months or less	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	over 5 years	Total
	(dollars in thousands)						
Interest earning deposits and federal funds sold	$ 232,328	$ -	$ -	$ -	$ -	$ -	$ 232,328
Investment Securities	6,528	5,535	11,006	43,278	41,746	97,735	205,828
Loans receivable (a)	571,562	40,181	49,768	142,784	55,479	4,039	863,813
Total interest earning assets	810,418	45,716	60,774	186,062	97,225	101,774	1,301,969
Non interest earning assets	-	-	-	-	-	72,438	72,438
Total assets	$ 810,418	$ 45,716	$ 60,774	$ 186,062	$ 97,225	$ 174,212	$ 1,374,407
Other interest bearing deposits	$ 353,448	$ -	$ -	$ -	$ -	$ 51,214	$ 404,662
Time deposits	69,563	137,276	479,069	72,375	10,467	10	768,760
Other borrowings	-	-	-	1,000	-	10,000	11,000
Subordinated debt	2,000	-	-	-	-	-	2,000
Total interest bearing liabilities	425,011	137,276	479,069	73,375	10,467	61,224	1,189,862
Non interest bearing liabilities	-	-	-	-	-	82,845	82,845
Stockholders' equity	-	-	-	-	-	105,140	105,140
Total liabilities and equity	$ 425,011	$ 137,275	$ 479,069	$ 73,375	$ 10,467	$ 249,209	$ 1,374,407
Interest sensitivity gap	$ 385,407	$ (91,560)	$ (418,295)	$ 112,687	$ 86,758	$ (74,997)	
Cumulative interest sensitivity gap	$ 385,407	$ 293,847	$ (124,448)	$ (11,761)	$ 74,997		
Cumulative interest sensitivity gap to total assets	28.0 %	(21.4)%	(9.1)%	(0.9)%	5.5 %	(5.5)%	
	190.7 %	152.3 %	88.0 %	98.9 %	55.7 %	- %	

Cumulative interest earning assets to cumulative interest bearing liabilities

(a) Including loans held for sale

As shown above, Customers Bank has a negative cumulative gap (cumulative interest sensitive assets are lower than cumulative interest sensitive liabilities) within the next year, which generally indicates that an increase in rates may lead to a decrease in net interest income and a decrease in rates may lead to an increase in net interest income. Interest rate sensitivity gap analysis measures whether assets or liabilities may reprice but does not capture the ability to reprice or the range of potential repricing on assets or liabilities. Thus indications based on a negative or positive gap position need to be analyzed in conjunction with other interest rate risk management tools.

Management believes that the assumptions and combination of methods utilized in evaluating estimated net interest income are reasonable. However, the interest rate sensitivity of Customers Bank’s assets, liabilities and off-balance sheet financial instruments, as well as the estimated effect of changes in interest rates on estimated net interest income, could vary substantially if different assumptions are used or actual experience differs from the assumptions used in the model.

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CONTRACTUAL OBLIGATIONS

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2010. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

(in thousands)

	Total	Within one year	After one but within three years	After three but within five years	More than 5 years
Operating Leases	$ 9,734	$ 1,433	$ 2,848	$ 2,014	$ 3,439
Benefit plan commitments	4,500	-	-	-	4,500
Contractual Maturities on time deposits	768,761	684,766	72,360	11,625	10
Subordinated Notes and the interest expense (1)	2,227	61	121	2,045	-
Loan Commitments	292,561	282,275	12	231	10,043
Long term Debt	11,000	-	1,000	10,000	-
Interest on Long Term Debt	1,717	356	713	648	-
Standby Letters of Credit	1,085	1,085	-	-	-
Total	$ 1,091,585	$ 969,976	$ 77,054	$ 26,563	$ 17,992

(1) Includes interest on long-term debt and subordinated debentures at a weighted rate of 3.24% and 3.04%, respectively.

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SUPERVISION AND REGULATION

GENERAL

Customers Bank is subject to extensive regulation, examination and supervision by the Pennsylvania Banking Department and, as a member of the Federal Reserve System, by the Federal Reserve Board. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, terms of deposit accounts, loans a bank makes, the interest rates it charges and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches.

PENNSYLVANIA BANKING LAWS

Pennsylvania banks that are Federal Reserve members may establish new offices only after approval by the Pennsylvania Banking Department and the Federal Reserve Board. Approval by these regulators can be subject to a variety of factors, including the convenience and needs of the community, whether the institution is sufficiently capitalized and well managed, issues of safety and soundness, the institution's record of meeting the credit needs of its community, whether there are significant supervisory concerns with respect to the institution or affiliated organizations, and whether any financial or other business arrangement, direct or indirect, involving the proposed branch and bank "insiders" (directors, officers, employees and 10%-or-greater shareholders) which involves terms and conditions more favorable to the insiders than would be available in a comparable transaction with unrelated parties.

Under the Pennsylvania Banking Code, Customers Bank is permitted to branch throughout Pennsylvania. Pennsylvania law also provides Pennsylvania state chartered institutions elective parity with the power of national banks, federal thrifts, and state-chartered institutions in other states as authorized by the FDIC, subject to a required notice to the Pennsylvania Banking Department. Customers Banking Code also imposes restrictions on payment of dividends, as well as minimum capital requirements.

Interstate Branching. Federal law allows the Federal Reserve and FDIC, and the Pennsylvania Banking Code allows the Pennsylvania Banking Department, to approve an application by a state banking institution to acquire interstate branches. For more information on federal law, see, "FEDERAL BANKING LAWS – Interstate Branching," beginning on page 178 this Joint Proxy Statement-Prospectus.

Pennsylvania banking laws authorize banks in Pennsylvania to acquire existing branches or branch de novo in other states, and also permits out-of-state banks to acquire existing branches or branch de novo in Pennsylvania.

In April 2008, Banking Regulators in the States of New Jersey, New York, and Pennsylvania entered into a Memorandum of Understanding (the "Interstate MOU") to clarify their respective roles, as home and host state regulators, regarding interstate branching activity on a regional basis pursuant to the Riegle-Neal Amendments Act of 1997. The Interstate MOU establishes the regulatory responsibilities of the respective state banking regulators regarding bank regulatory examinations and is intended to reduce the regulatory burden on state chartered banks branching within the region by eliminating duplicative host state compliance exams.

Under the Interstate MOU, the activities of branches established by Customers Bank in New Jersey or New York would be governed by Pennsylvania state law to the same extent that federal law governs the activities of the branch of an out-of-state national bank in such host states. For Customers Bank, issues regarding whether a particular host state law is preempted are to be determined in the first instance by the Pennsylvania Banking Department. In the event that the Pennsylvania Banking Department and the applicable host state regulator disagree regarding whether a particular host state law is pre-empted, the Pennsylvania Banking Department and the applicable host state regulator would use their reasonable best efforts to consider all points of view and to resolve the disagreement.

FEDERAL BANKING LAWS

Interstate Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (called the "Interstate Act"), among other things, permits bank holding companies to acquire banks in any state. A bank may also merge with a bank in another state. Interstate acquisitions and mergers are subject, in general, to certain concentration limits and state entry rules relating to the age of Customers Bank. Under the Interstate Act, the responsible federal regulatory agency is permitted to approve the acquisition of less than all of the branches of an insured bank by an out-of-state bank or bank holding company without the acquisition of an entire bank, only if the law of the state in which the branch is located permits. Under the Interstate Act, branches of state-chartered banks that operate in other states are covered by the laws of the chartering state, rather than the host state. The Dodd-Frank Act created a more permissive interstate branching regime by permitting banks to establish branches de novo in any state if a bank chartered by such state would have been permitted to establish the branch. For more information on interstate branching under Pennsylvania law, see, "PENNSYLVANIA BANKING LAWS – Interstate Branching," beginning on page 178 this Joint Proxy Statement-Prospectus.

Prompt Corrective Action. Federal banking law mandates certain “prompt corrective actions,” which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be “adequately capitalized” or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed “undercapitalized” if it fails to meet the minimum capital requirements, “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and “critically undercapitalized” if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain “management fees” to any “controlling person.” Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

Safety and Soundness; Regulation of Bank Management. The Federal Reserve Board possesses the power to prohibit us from engaging in any activity that would be an unsafe and unsound banking practice and in violation of the law. Moreover, Federal law enactments have expanded the circumstances under which officers or directors of a bank may be removed by the institution’s Federal supervisory agency; restricted and further regulated lending by a bank to its executive officers, directors, principal shareholders or related interests thereof; and restricted management personnel of a bank from serving as directors or in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area; and restricted management personnel from borrowing from another institution that has a correspondent relationship with the bank for which they work.

Capital Rules. Federal banking agencies have issued certain “risk-based capital” guidelines, which supplemented existing capital requirements. In addition, the Federal Reserve Board imposes certain “leverage” requirements on member banks such as us. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

The risk-based guidelines require all banks to maintain two “risk-weighted assets” ratios. The first is a minimum ratio of total capital (“Tier 1” and “Tier 2” capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of “Tier 1” capital to risk-weighted assets equal to 4.00%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also account for interest rate risk. Institutions with interest rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. A bank’s exposure to declines in the economic value of its capital due to changes in interest rates is a factor that Customers Banking agencies will consider in evaluating a bank's capital adequacy. The rule does not codify an explicit minimum capital charge for interest rate risk. Customers Bank currently monitors and manages its assets and liabilities for interest rate risk, and management believes that the interest rate risk rules which have been implemented and proposed will not materially adversely affect our operations.

The Federal Reserve Board's "leverage" ratio rules require member banks which are rated the highest in the composite areas of capital, asset quality, management, earnings and liquidity to maintain a ratio of "Tier 1" capital to "adjusted total assets" (equal to Customers Bank's average total assets as stated in its most recent quarterly Call Report filed with the Federal Reserve Board, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 3.00%. For banks which are not the most highly rated, the minimum "leverage" ratio will range from 4.00% to 5.00%, or higher at the discretion of the Federal Reserve Board, and is required to be at a level commensurate with the nature of the level of risk of Customers Bank's condition and activities.

For purposes of the capital requirements, "Tier 1" or "core" capital is defined to include Common Stockholders' equity and certain noncumulative perpetual preferred stock and related surplus. "Tier 2" or "qualifying supplementary" capital is defined to include a bank's allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain "hybrid capital instruments" and certain term subordinated debt instruments.

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The Basel Committee on Banking Supervision (the "Basel Committee") released a comprehensive list of proposals for changes to capital, leverage, and liquidity requirements for banks in December 2009 (commonly referred to as "Basel III"). In July 2010, the Basel Committee announced the design for its capital and liquidity reform proposals.

In September 2010, the oversight body of the Basel Committee announced minimum capital ratios and transition periods providing: (i) the minimum requirement for the Tier 1 common equity ratio will be increased from the current 2.0% level to 4.5% (to be phased in by January 1, 2015); (ii) the minimum requirement for the Tier 1 capital ratio will be increased from the current 4.0% to 6.0% (to be phased in by January 1, 2015); (iii) an additional 2.5% of Tier 1 common equity to total risk-weighted assets (to be phased in between January 1, 2016 and January 1, 2019; and (iv) a minimum leverage ratio of 3.0% (to be tested starting January 1, 2013). The proposals also narrow the definition of capital, excluding instruments that no longer qualify as Tier 1 common equity as of January 1, 2013, and phasing out other instruments over several years. It is unclear how U.S. banking regulators will define "well-capitalized" in their implementation of Basel III.

The liquidity proposals under Basel III include: (i) a liquidity coverage ratio (to become effective January 1, 2015); (ii) a net stable funding ratio (to become effective January 1, 2018); and (iii) a set of monitoring tools for banks to report minimum types of information to their regulatory supervisors.

Many of the details of the new framework related to minimum capital levels and minimum liquidity requirements in the Basel Committee's proposals will remain uncertain until the final release is issued. Implementation of the final provisions of Basel III will require implementing regulations and guidelines by U.S. banking regulators. Implementation of these new capital and liquidity requirements has created significant uncertainty with respect to the future liquidity and capital requirements for financial institutions. Therefore, we are not able to predict at this time the content of liquidity and capital guidelines or regulations that may be adopted by regulatory agencies or the impact that any changes in regulation may have on CBI and Customers Bank.

Deposit Insurance Assessments. The deposits of Customers Bank are insured by the FDIC up to the limits set forth under applicable law and are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Act"). Under this system, the amount of FDIC assessments paid by an individual insured depository institution, such as Customers Bank, is based on the level of risk incurred in its activities. The FDIC places a depository institution in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rates based on certain specified financial ratios. Effective April 1, 2011, a bank's annual assessment rates were as follows, depending on Customers Bank's risk category:

The base assessment rate can be adjusted downward based on a bank's unsecured debt and level of excess capital above the well capitalized threshold, or upward based on a bank's secured liabilities including FHLB-P advances and repurchase agreements, so that the total risk-based assessment rates will range as follows depending on a bank's risk category:

Initial and Total Base Assessment Rates*

Risk Category I	Risk Category II	Risk Category III	Risk Category IV	Large and Highly Complex Institutions
5-9	14	23	35	5-35

Initial base assessment rate					
Unsecured debt adjustment* *	(4.5)-0	(5)-0	(5)-0	(5)-0	(5)-0
Brokered deposit adjustment		0-10	0-10	0-10	0-10
TOTAL BASE ASSESSMENT RATE	2.5-9	9-24	18-33	30-45	2.5-45

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* Total base assessment rates do not include the depository institution debt adjustment.
**The unsecured debt adjustment cannot exceed the lesser of 5 basis points or 50 percent of an insured depository institution's initial base assessment rate; thus for example, an insured depository institution with an initial base assessment rate of 5 basis points will have a maximum unsecured debt adjustment of 2.5 basis points and cannot have a total base assessment rate lower than 2.5 basis points.

On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution will not exceed 10 basis points times the institution's assessment base for the second quarter 2009. The special assessment was collected on September 30, 2009.

On October 12, 2009, the FDIC adopted a final rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. The prepaid assessment was collected on December 30, 2009, along with each institution's regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For purposes of calculating the prepaid assessment, each institution's assessment rate was its total base assessment rate in effect on September 30, 2009. In calculating the prepayment attributable to 2011 and thereafter, it was calculated using the September 29, 2009 increase in 2011 base assessment rates. In addition, future deposit growth was reflected in the prepayment by assuming that an institution's third quarter 2009 assessment base increased quarterly at a 5 percent annual growth rate through the end of 2012. The FDIC began to draw down an institution's prepaid assessments on March 30, 2010, representing payment for the regular quarterly risk-based assessment for the fourth quarter of 2009. In announcing these initiatives, the FDIC stated that, while the prepaid assessment would not immediately affect bank earnings, each institution would record the entire amount of its prepaid assessment as a prepaid expense asset as of December 30, 2009, the date the payment would be made and, as of December 31, 2009 and each quarter thereafter, record an expense or charge to earnings for its regular quarterly assessment and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, institutions would resume paying and accounting for quarterly deposit insurance assessments as they currently do. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010, enacted a number of changes to the federal deposit insurance regime that will affect the deposit insurance assessments the Bank will be obligated to pay in the future. For example:

- The law permanently raises the federal deposit insurance limit to $250,000 per account ownership. This change may have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

- The new law makes deposit insurance coverage unlimited in amount for non-interest bearing transaction accounts until December 31, 2012. This change may also have the effect of increasing losses to the FDIC insurance fund on future failures of other insured depository institutions.

- The law increases the insurance fund's minimum designated reserve ratio from 1.15 to 1.35, and removes the current 1.50 cap on the reserve ratio. The law gives the FDIC discretion to suspend or limit the declaration or payment of dividends even when the reserve ratio exceeds the minimum designated reserve ratio.

Each of these changes may increase the rate of FDIC insurance assessments to maintain or replenish the FDIC's deposit insurance fund. This could, in turn, raise Customers Bank's future deposit insurance assessment costs. On the other hand, the law changes the deposit insurance assessment base so that it will generally be equal to consolidated assets less tangible equity. This change of the assessment base from an emphasis on deposits to an emphasis on assets is generally considered likely to cause larger banking organizations to pay a disproportionately higher portion of future deposit insurance assessments, which may, correspondingly, lower the level of deposit insurance assessments that community banks such as Customers Bank may otherwise have to pay in the future. While it is likely that the new law will increase Customers Bank's future deposit insurance assessment costs, the specific amount by which the new law's combined changes will affect Customers Bank's deposit insurance assessment costs is hard to predict, particularly because the new law gives the FDIC enhanced discretion to set assessment rate levels.

As of December 31, 2010, Customers Bank's initial base assessment rate was 14.10 basis points.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for us (and all other banks) for the fourth quarter of 2008 was an annual rate of $.0184 for each $100 of deposits.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 ("CRA"), the record of a bank holding company and its subsidiary banks must be considered by the appropriate Federal banking agencies, including the Federal Reserve Board, in reviewing and approving or disapproving a variety of regulatory applications including approval of a branch or other deposit facility, office relocation, a merger and certain acquisitions of bank shares. Federal banking agencies have recently demonstrated an increased readiness to deny applications based on unsatisfactory CRA performance. The Federal Reserve Board is required to assess our record to determine if Customers Bank is meeting the credit needs of the community (including low and moderate neighborhoods) that we serve. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the CRA to require, among other things, that the Federal Reserve Board make publicly available an evaluation of our record of meeting the credit needs of our entire community including low- and moderate-income neighborhoods. This evaluation includes a descriptive rating (outstanding, satisfactory, needs to improve, or substantial noncompliance) and a statement describing the basis for the rating.

Consumer Protection Laws. Customers Bank is subject to a variety of consumer protection laws, including the Truth in Lending Act, the Truth in Savings Act adopted as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Funds

Transfer Act, the Real Estate Settlement Procedures Act and the regulations adopted thereunder. In the aggregate, compliance with these consumer protection laws and regulations involves substantial expense and administrative time on our part.

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Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank bill was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. Among many other provisions, the legislation:

- establishes the Financial Stability Oversight Council, a federal agency acting as the financial system's systemic risk regulator with the authority to review the activities of significant bank holding companies and non-bank financial firms, to make recommendations and impose standards regarding capital, leverage, conflicts and other requirements for financial firms and to impose regulatory standards on certain financial firms deemed to pose a systemic threat to the financial health of the U.S. economy;

- creates a new Consumer Financial Protection Bureau within the U.S. Federal Reserve, which will have substantive rule-making authority over a wide variety of consumer financial services and products, including the power to regulate unfair, deceptive, or abusive acts or practices;

- permits state attorney generals and other state enforcement authorities broader power to enforce consumer protection laws against banks;

- authorizes federal regulatory agencies to ban compensation arrangements at financial institutions that give employees incentives to engage in conduct that could pose risks to the nation's financial system;

- grants the U.S. government resolution authority to liquidate or take emergency measures with regard to troubled financial institutions, such as bank holding companies, that fall outside the existing resolution authority of the Federal Deposit Insurance Corporation;

- gives the FDIC substantial new authority and flexibility in assessing deposit insurance premiums, which is likely to result in increased deposit insurance premiums for Customers Bank in the future;

- increases the deposit insurance coverage limit for insurable deposits to $250,000 generally, and removes the limit entirely for transaction accounts;

- permits banks to pay interest on business demand deposit accounts;

- extends the national bank lending (or loans-to-one-borrower) limits to other institutions such as Customers Bank;

- prohibits banks subject to enforcement action such as a memorandum of understanding from changing their charter without the approval of both their existing charter regulator and their proposed new charter regulator;

- imposes new limits on asset purchase and sale transactions between banks and their insiders;

- may require collateralization of interest rate swap exposure by parties to those transactions;

- modify disclosure standards and limit fees chargeable with respect to consumer loans, including home mortgage loans; and

- provide for low- or no-cost basic consumer deposit accounts and require new disclosures and consumer protections for remittance transactions.

Many of these provisions are subject to further rule making and to the discretion of regulatory bodies, including Customers Bank's and Holding Company's primary federal banking regulator, the Federal Reserve. It is not possible to predict at this time the extent to which regulations authorized or mandated by the Dodd-Frank bill will impose requirements or restrictions on Customers Bank or Holding Company in addition to or different from the provisions summarized above.

MEMORANDUM OF UNDERSTANDING

As a result of a March 31, 2009 regulatory examination prior to the arrival of new management, Customers Bank entered into an August 24, 2009 Memorandum of Understanding ("MOU") with its regulators that called for a back-up Bank Secrecy Act officer and employee training, and precluded Customers Bank from declaring or paying dividends that would cause its capital ratios to fall below the higher of the minimum levels for a "well capitalized" classification under Prompt Corrective Action standards or the internal ratios set in Customers Bank's capital plan, or redeeming its stock or issuing debt with maturity greater than one year without prior regulatory approval. The MOU calls for Customers Bank to update plans relating to earnings and capital improvement, management and board oversight, credit risk management and liquidity risk, enhancing pre-purchase analysis of investment securities, and a revision to its allowance for loan and lease losses ("ALLL") methodology by November 15, 2009. Management believes that the Bank is in substantial compliance with all terms of the MOU at this time.

BANK HOLDING COMPANY REORGANIZATION AND REGULATION

As a bank holding company, CBI will be subject to additional regulation beyond that to which Customers Bank is currently subject.

The Bank Holding Company Act requires a "company" (including CBI, to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank. It also prohibits acquisition by any "company" (including Customers Bank's proposed holding company) of more than five percent (5%) of the voting shares of, or interest in, or all or substantially all of the assets of, any bank located outside of the state in which a current bank subsidiary is located unless such acquisition is specifically authorized by laws of the state in which such bank is located. A bank holding company is prohibited from engaging in or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh possible adverse effects. Applications under the Bank Holding Company Act and the Change in Control Act are subject to review, based upon the record of compliance of the applicant with the Community Reinvestment Act of 1977.

CBI will be required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may also make examinations of Customers Bank's proposed holding company and any or all of its subsidiaries. Further, under Section 106 of the 1970 amendments to the Bank Holding Company Act and the Federal Reserve Board's regulations, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or provision of any property or services. The so-called "anti-tie-in" provisions state generally that a bank may not extend credit, lease, sell property or furnish any service to a customer on the condition that the customer provide additional credit or service to Customers Bank, to its bank holding company or to any other subsidiary of its bank holding company or on the condition that the customer not obtain other credit or service from a competitor of Customers Bank, its bank holding company or any subsidiary of its bank holding company.

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. A number of activities are authorized by Federal Reserve Board regulation, while other activities require prior Federal Reserve Board approval. The types of permissible activities are subject to change by the Federal Reserve Board. Recent revisions to the Bank Holding Company Act contained in the Federal Gramm Leach Bliley Act of 1999 (the "Gramm Leach Bliley Act") permit certain eligible bank holding companies to qualify as "financial holding companies" and thereupon engage in a wider variety of financial services such as securities and insurance activities.

The Gramm Leach Bliley Act repealed certain restrictions on bank and securities firm affiliations, and allows bank holding companies to elect to be treated as a "financial holding company" that can engage in approved "financial activities," including insurance, securities underwriting and merchant banking. Banks without holding companies can engage in many of these new financial activities through a "financial subsidiary." The law also mandates functional regulation of bank securities activities. Banks' exemption from broker dealer regulation would be limited to, for example, trust, safekeeping, custodian, shareholder and employee benefit plans, sweep accounts, private placements (under certain conditions), self-directed IRAs, third party networking arrangements to offer brokerage services to bank customers, and the like. It also requires banks that advise mutual funds to register as investment advisers. The legislation provides for state regulation of insurance, subject to certain specified state preemption standards. It establishes which insurance products banks and bank subsidiaries may provide as principal or underwriter, and prohibits bank underwriting of title insurance, but also preempts state laws interfering with affiliations. The Gramm Leach Bliley Act prohibits approval of new de novo thrift charter applications by commercial entities and limits sales of existing so-called “unitary” thrifts to commercial entities. The law bars banks, savings and loans, credit unions, securities firms and insurance companies, as well as other “financial institutions,” from disclosing customer account numbers or access codes to unaffiliated third parties for telemarketing or other direct marketing purposes, and enables customers of financial institutions to “opt out” of having their personal financial information shared with unaffiliated third parties, subject to exceptions related to the processing of customer transactions and joint financial services marketing arrangements with third parties, as long as the institution discloses the activity to its customers and requires the third party to keep the information confidential. It requires policies on privacy and disclosure of information to be disclosed annually, requires federal regulators to adopt comprehensive regulations for ensuring the security and confidentiality of consumers’ personal information, and allows state laws to give consumers greater privacy protections.

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BERKSHIRE BANCORP, INC.

History and Business

History

BBI is a Pennsylvania business corporation and a registered bank holding company headquartered in Wyomissing, Pennsylvania and was founded in 2006 to become the holding company for Berkshire Bank. Berkshire Bank is a Pennsylvania state chartered bank and was founded in 2002.

BBI received funds under the United States Department of Treasury's TARP Capital Purchase Program pursuant to the securities purchase agreement entered into by BBI and the Treasury on June 12, 2009. Through its participation in the TARP Capital Purchase Program, BBI issued (1) 2,892 shares of its Series A Preferred Stock and (2) a warrant to purchase 145.14515 shares of its Series B Preferred Stock which was immediately exercised to purchase 145 shares. BBI received $2,892,000 through its participation in the TARP Capital Purchase Program. As a participant in the TARP Capital Purchase Program, BBI is subject to additional regulations to which other financial institutions that did not participate in TARP are not subject.

Business

BBI's primary activity consists of owning and supervising its subsidiary, Berkshire Bank. Berkshire Bank, has five branch locations (West Reading, Bern Township, Muhlenberg, Exeter Township and Wyomissing, Pennsylvania), and is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Southeastern Pennsylvania market area. Berkshire Bank's commercial banking activities include accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans.

At March 31, 2011, Berkshire Bank had 39 full time employees and 5 part time employees. In the opinion of management, Berkshire Bank enjoys a satisfactory relationship with its employees. Berkshire Bank is not a party to any collective bargaining agreement.

Supervision and Regulation of BBI and Berkshire Bank

The operations of BBI and Berkshire Bank are subject to federal and state statutes applicable to bank holding companies and banks chartered under the banking laws of the Federal Reserve System, the Commonwealth of Pennsylvania, and to banks whose deposits are insured by the FDIC. Berkshire Bank's operations are also subject to regulations of the Commonwealth of Pennsylvania and the FDIC.

During 2010, BBI and Berkshire Bank became subject to certain regulatory actions, restrictions, and agreements which may materially affect BBI's and Berkshire Bank's ability to do business and compete with other financial institutions that are not subject to such actions, restrictions, and agreements. The regulatory actions, restrictions and agreements include, but are not limited to, (1) notices of downgrades in ratings for BBI and Berkshire Bank, (2) notices of violations of Regulation W and Section 1103 of the Pennsylvania Banking Code relating to intercompany transactions between BBI and Berkshire Bank due to insufficient collateral for specific covered transactions not involving customers, (3) the board of directors of Berkshire Bank adopting resolutions requiring action on certain matters requiring attention as well as prohibitions, (4) BBI being determined by the Federal Reserve Board to be in "troubled condition", (5) restrictions by the Federal Reserve Board from paying dividends on BBI's preferred stock issued to the U.S. Treasury under TARP or on any other preferred stock or debt securities, and (6) a consent order and fines for violation of the Home Mortgage Disclosure Act.

While management believes BBI and Berkshire Bank have made progress in addressing each of the above matters, the regulatory actions, restrictions and agreements have the effect of restricting the ability of BBI and Berkshire Bank from competing effectively with other financial institutions in their markets and regionally. Although, management is unaware of any pending concerns, BBI and Berkshire Bank may become subject to further regulatory restrictions or enforcement actions in the future.

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MARKET PRICE OF COMMON STOCK AND DIVIDENDS – BBI

Trading Market for Common Stock

There is no established public trading market for BBI's common stock. BBI's common stock is neither actively traded nor listed for trading on any securities exchange. BBI's common stock is traded in the local over-the-counter market and in privately negotiated transactions. Furthermore, there are no brokerage firms that act as a market maker in BBI's common stock. Consequently, information on current stock trading prices is not readily available. Berkshire Bank currently acts as BBI's transfer agent, but it does not make a market in BBI's common stock, nor does it attempt to negotiate prices for trades of such stock.

Market Price of Common Stock

As of March 31, 2011, there were 421 shareholders of record, 4,051,063 outstanding shares of BBI's common stock and 774,571 outstanding warrants to purchase BBI's common stock.

The chart below shows the high and low sale prices known by management to have occurred of BBI common stock for the periods indicated.

	High(1)	Low(1)
2011 through March 31, 2011 (2)	-	-
2010 (2)	-	-
2009	$10.25	$9.75
2008	$10.25	$10.00

(1) These ranges are limited only to those transactions known by management to have occurred, based primarily on individual trades of which management may have become aware. There may, in fact, have been additional transactions of which management is unaware, and such transactions could have occurred at higher or lower prices.

(2) There were no trades of BBI common stock during 2010 and 2011.

Dividends on Common Stock

BBI has not paid any cash dividends on its shares. Presently, BBI and Berkshire Bank are not authorized to pay cash dividends on their shares and must obtain approval of their primary regulators prior to declaration of a dividend. BBI's ability to pay dividends is restricted by banking laws, Pennsylvania corporate law, the regulations of the Federal Reserve Board and the Berkshire Bank's ability to pay dividends to BBI.

Security Ownership of Certain Beneficial Owners and Management

The following table shows, to the best of Berkshire Bank's knowledge, those persons or entities, who owned of record or beneficially, on March 31, 2011, more than 5% of the outstanding BBI common stock.

Beneficial ownership of BBI common stock was determined by referring to Securities and Exchange Commission Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares:

- Voting power, which includes power to vote or to direct the voting of the stock; or
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
- The right to acquire beneficial ownership within 60 days after March 31, 2011.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
First Niagara Financial Group*	878,757 **	20.68%***
726 Exchange Street, Suite 618		
Buffalo, New York 14210		

* On April 9, 2010, First Niagara Financial Group ("First Niagara") acquired Harleysville National Corporation ("HNC"), a bank holding company that had, until this time, held a passive investment interest in BBI pursuant to "Crown X" written commitment provided by HNC to the Federal Reserve Bank of Philadelphia. As part of the acquisition, First Niagara assumed HNC ownership percentage with the same terms as was extended to HNC.

Pursuant to this commitment, First Niagara may not acquire or retain BBI shares that would cause the combined interests of First Niagara, its directors, officers, and affiliates to equal or exceed 25% of the outstanding voting shares of BBI or any of its subsidiaries.

** For purposes of the Crown X written commitment entered into by HNC, and subsequently assumed by First Niagara, with the Federal Reserve Bank of Philadelphia, the ownership by First Niagara of 679,728 shares of common stock or 16.78% ownership of BBI by First Niagara. First Niagara also holds 127,758 vested warrants and 71,271 five-year, non-detachable warrants.

*** For federal securities law purposes, the beneficial ownership percentage calculation is based on 679,728 shares, 127,758 vested warrants, and 71,271 five-year, non-detachable warrants owned by First Niagara as the numerator, divided by the aggregate of 4,051,063 shares of issued and outstanding common stock and First Niagara 127,758 vested warrants and 71,271 five-year, non-detachable warrants, expressed as a percentage.

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Beneficial Ownership of Executive Officers, Directors and Nominees

The following table shows, as of March 31, 2011 the amount and percentage of BBI common stock beneficially owned by each director and executive officer individually and as a group.

Beneficial ownership of shares of BBI common stock is determined in accordance with Securities and Exchange Commission Rule 13d-3, which provides that a person should be credited with the ownership of any stock held, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, in which the person has or shares:

- Voting power, which includes the power to vote or to direct the voting of the stock; or
- Investment power, which includes the power to dispose or direct the disposition of the stock; or
- The right to acquire beneficial ownership within 60 days after the record date of March 31, 2011.

Unless otherwise indicated in a footnote appearing below the table, all shares reported in the table below are owned directly by the reporting person. The number of shares owned by the directors and executive officers is rounded to the nearest whole share.

Directors and Nominees	Amount and Nature of Beneficial Ownership*	Percentage of Class**
(i) Rick B. Burkey*****/******	159,3131	3.88%
(ii) Richard C. Gromis***/*****/******	114,4162	2.81%
(iii) Richard I. Hart, Jr.*****/******	125,5293	3.07%
(iv) Norman E. Heilenman****/*****/******	113,1534	2.77%
(v) Edward S. Jenkins*****	90,4155	2.21%
(vi) Dennis H. Lorah******	125,9966	3.07%
(vii) Jeffrey A. Nilsson*****/******	147,0877	3.59%
(viii) Alan D. Ross, CPA*****/******	93,6208	2.31%
(ix) Aggregate of All Directors and Executive Officers (8 Directors, 2 Executive Officers also serve as Directors)	969,529	22.49%

* Information furnished by the directors and BBI.
** As of March 31, 2011, the number of shares of common stock issued and outstanding was 4,051,063. The calculation of individual director’s percentage ownership is based on the individual director’s beneficial ownership as

the numerator, divided by the sum of the aggregate common stock of 4,051,063 shares, and the individual director's vested transferable warrants, vested non-transferable warrants and five-year non-detachable warrants as the denominator, expressed as a percentage. The aggregate calculation for ownership by all directors is the sum of the aggregate directors' beneficial ownership of 969,529 as the numerator, divided by the sum of 4,051,063 shares of common stock issued and outstanding and 135,493 vested transferable warrants, 102,841 vested non-transferable warrants and 21,200 five-year, non-detachable warrants from the 2007 stock offering, expressed as a percentage.

*** Mr. Richard C. Gromis is a Director and the President and Chief Operating Officer of BBI.

**** Mr. Norman E. Heilenman is the Chairman of the Board and Chief Executive Officer of BBI.

***** Five members of the Board of Directors and the Executive Officers of BBI are members in BB Investment Group, LLC organized March 28, 2005 to invest in the common stock of BBI. BB Investment Group, LLC purchased 40,909 shares of BBI common stock during the final phase of the stock offering in 2005. BB Investment Group, LLC also purchased 47,871 shares of BBI common stock during the 2007 offering and currently owns 63,734 shares and 57,801 five-year, non-detachable warrants, as of March 31, 2011.

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****** Seven members of the Board of Directors and the Executive Officers of BBI are members in BB II Investment Group, LLC organized August 20, 2010 to invest in common stock of BBI. BB II Investment Group, LLC purchased 175,000 shares during a private placement offering in September 2010.

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1 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 21,362 vested non-transferable warrants, 11,913 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC.

2 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 4,065 shares owned individually by spouse, and 20,446 vested transferable warrants and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC.

3 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 7,629 vested non-transferable warrants, 3,038 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non- detachable warrants through BB Investment Group, LLC.

4 Includes 2,440 shares owned by spouse, 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 12,817 vested transferable warrants, 11,901 vested non-transferable warrants, 781 five-year, non-detachable warrants from the 2007 stock offering and 6,422 five-year, non-detachable warrants through BB Investment Group, LLC and 5,796 shares held in an IRA.

5 Includes 7,082 shares through BB Investment Group, LLC, 22,018 shares owned jointly with spouse, 7,627 shares owned individually by spouse, 20,446 vested transferable warrants, 13,732 vested non-transferable warrants, 6,422 five-year, non-detachable warrants and 13,088 shares held in an IRA.

6 Includes 25,000 shares through BB II Investment Group, LLC, 20,446 vested transferable warrants, 26,855 vested non-transferable warrants, 1,562 five-year, non-detachable warrants from the 2007 stock offering and 7,627 shares held in an IRA.

7 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, and 20,446 vested transferable warrants, 21,362 vested non-transferable warrants, 6,422 five-year, non-detachable warrants through BB Investment Group, LLC, 26,243 shares held in an IRA and 40,532 shares held in a revocable trust.

8 Includes 7,082 shares through BB Investment Group, LLC, 25,000 shares through BB II Investment Group, LLC, 3,906 five-year, non-detachable warrants from the 2007 stock offering which represent a purchase by the 401(k) plan, 6,422 five-year, non-detachable warrants through BB Investment Group, LLC and 26,547 shares in 401(k) plan and 24,663 shares owned jointly with spouse.

BERKSHIRE BANCORP, INC. - MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Critical Accounting Policies

BBI has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with banking industry practices in the preparation of financial statements. BBI's significant accounting policies are described in footnote 1 to its audited consolidated financial statements.

Certain accounting policies involve significant judgments and assumptions by BBI that have a material impact on the carrying value of certain assets and liabilities. BBI considers these accounting policies to be critical accounting policies. The judgment and assumptions BBI uses are based on historical experience and other factors, which BBI believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions management makes, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of its assets and liabilities and its results of operations.

The following is a summary of the policies BBI recognizes as involving critical accounting estimates: Allowance for Loan Losses, Fair value of Available for Sale Securities and Deferred Income taxes.

Allowance for Loan Losses. BBI maintains an allowance for loan losses at a level management believes is sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by management. Consideration is given to a variety of factors in establishing these estimates including historical losses, current and anticipated economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and management strengths, the adequacy of underlying collateral, the dependence on collateral, or the strength of the present value of future cash flows and other relevant factors. These factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required which may adversely affect BBI's results of operations in the future.

Fair Value of Securities Available for Sale. BBI receives estimated fair values of debt securities from independent valuation services and brokers. In developing these fair values, the valuation services and brokers use estimates of cash flows based on historical performance of similar instruments in similar rate environments. Debt securities available for sale are mostly comprised of U.S. government agency securities. BBI uses various indicators in determining whether a security is other-than-temporarily impaired, including if the market value is below its cost for an extended period of time with low expectation of recovery or, for debt securities, when it is probable that the contractual interest and principal will not be collected. The debt securities are monitored for changes in credit ratings because adverse changes in credit ratings could indicate a change in the estimated cash flows of the underlying collateral or issuer. The unrealized losses associated with securities that management does not intend to sell, and it is not more likely than not that BBI will be required to sell prior to maturity or market price recovery, are not considered to be other than temporary as of December 31, 2010, because the unrealized losses are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer.

Deferred Income Taxes. BBI provides for deferred income taxes on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carry-forwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

2. Overview

The following discussion and analysis presents material factors affecting BBI's financial condition as of December 31, 2010 and 2009, and results of operations for each of the three years in the period ended December 31, 2010, 2009 and 2008. This discussion and analysis should be read in conjunction with BBI's financial statements, notes thereto and other financial information appearing elsewhere in this document.

Like most financial institutions, BBI derives the majority of its income from interest it receives on its interest-earning assets, such as loans and investments. BBI's primary source of funds for making these loans and investments is its deposits, on which BBI pays interest. Consequently, one of the key measures of BBI's success is its amount of net interest income, or the difference between the income on its interest-earning assets and the expense on its interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield BBI earns on these interest-earning assets and the rate it pays on its interest-bearing liabilities, which is called its net interest spread.

There are risks inherent in all loans, so BBI maintains an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. BBI maintains this allowance by charging a provision for loan losses against our operating earnings.

The external environment in 2010 was and continues to be very challenging as the economy struggles through a recession. Many business customers in our market experienced a loss of revenues and there was an increase in bankruptcies. Many overleveraged real estate customers were forced to take action to improve their cash flow due to high vacancy rates and a reduction in rents due to the reduced demand for space during the downturn. Unemployment increased throughout 2010 as companies reduced expenses to manage through the challenging times. These conditions produced stress in the asset quality of the loan portfolio, primarily the commercial real estate portfolio. There continues to be uncertainty in the external environment and it is likely that these challenging conditions will continue in the next few years.

This prediction about continued growth is a forward-looking statement and is subject to a number of contingencies, including an assumption that the recession may have reached bottom, and to BBI's estimation that borrowers will increase their borrowing activity in the coming months. If the economy falters or remains stagnant, or if businesses delay their borrowings, it is possible that BBI's continued growth in this business will not occur. Further, given the unprecedented low level of interest rates, there is no guarantee that the demand and profitability in this type of lending will continue. If interest rates rise, refinancing activity will most likely decline. The decline in volumes could put pressure on spreads and fee income margins. See "FORWARD-LOOKING STATEMENTS" on page 1.

In addition to earning interest on its loans and investments, BBI earns income through other sources, such as fees and other charges to its customers and earnings from bank owned life insurance ("BOLI"). We describe the various components of this non-interest income, as well as non-interest expense, in the following discussion.

3. Results of Operations – Years ended December 31, 2010, 2009 and 2008

Over the past year, management has seen signs of economic recovery, albeit at a moderate rate. Household spending has expanded but remains constrained by other factors, such as high unemployment, modest income growth, lower housing wealth, and tighter credit standards. Consumer spending continues to be concentrated in necessities, as opposed to discretionary big-ticket items, while business spending patterns are tempered due to uncertainties in the economic and political environment. Economists expect that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations are likely to warrant the continued low levels of the federal funds rate for an extended period.

There continues to be stress on the financial industry in terms of asset quality and loan demand. Credit quality continues to remain a primary focus as delinquencies are inflated throughout the industry. Commercial, industrial and consumer lending remains weak throughout the national banking industry. Real estate lending, however, has increased. Despite these economic conditions and the impact the recession has had on our borrowers, BBI is pleased to report stability in our financial performance as noted below.

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BBI's performance during the year ended December 31, 2010 included the following items when compared to the year ended December 31, 2009:

- Net loss increased $22,000 or 1.76%;
- Net interest margin increased to 3.67% or by 51 basis points due to reduced funding costs as higher-priced time deposits rolled off and higher-cost borrowings were paid off;
- The provision for loan losses decreased $137,000 as non-performing loans stabilized;
- Increase in non-interest income of $187,000 or 25.62% due to increased gains on the sale of SBA and residential mortgage loans and increases in other miscellaneous income; and
- BBI was well-capitalized.

Twelve months ended December 31, 2010 and 2009

BBI experienced a net loss of $1.3 million and a net loss attributable to common shareholders of $1.5 million for the year ended December 31, 2010 compared to a net loss of $1.3 million and a net loss attributable to common shareholders of $1.4 million for the year ended December 31, 2009. Net interest income was up $751 thousand at $4.8 million for the year ended December 31, 2010 compared to $4 million for the year ended December 31, 2009. The decrease in provision for loan losses of $137 thousand over that in 2009 was primarily due to the decrease in non-performing loans and the mediation of the deterioration of the economic conditions during 2010 as compared to 2009. This is highlighted by a 2 basis point decrease in our allowance for loan losses to loans ratio, to 1.48% at December 31, 2010 from 1.50% at December 31, 2009. Non-interest income increased $187 thousand to $917 thousand for the year ended December 31, 2010 compared to $730 thousand for the year ended December 31, 2009. The increase of $1.1 million in non-interest expense to $6.3 million for the year ended December 31, 2010 from $5.2 million for the year ended December 31, 2009 was due to an increase in merger related expenses in the amount of $243 thousand in addition to the impairment charge to goodwill in the amount of $418 thousand, expenses related to loan workout, increased charges for impaired loans, and increased premiums for FDIC insurance. On a basic and diluted per share basis, the net loss was $0.37 per share for 2010 compared to a net loss of $0.35 per share for 2009. BBI's loss on average assets was -0.89% in 2010 compared to -0.90% in 2009. BBI's loss on average equity was -10.91% in 2010 compared to -11.22% in 2009.

Twelve months ended December 31, 2009 and 2008

BBI reported a net loss of $1.3 million for the fiscal year ended December 31, 2009. This represents an increase of $98 thousand, when compared to $1.2 million net loss for the fiscal year ended December 31, 2008. On a basic and diluted per share basis, the net loss was $0.35 per share for 2009 compared to net loss of $0.31 per share for 2008. BBI's loss on average assets was -0.90% in 2009 compared to -.92% in 2008. BBI's loss on average equity was -11.22% in 2009 compared to -11.98% in 2008.

NET INTEREST INCOME

Twelve months ended December 31, 2010 and 2009

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

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	2010 Average Balance	2010 Interest income or expense	2010 Average yield or cost	2009 Average Balance	2009 Interest income or expense	2009 Average yield or cost	2008 Average Balance	2008 Interest income or expense	2008 Average yield or cost
Assets:									
Interest earning deposits with banks	$ 4,046	$ 32	0.80 %	$ 401	$ 1	0.25 %	$ 346	$ 8	2.32 %
Federal funds sold	7,540	10	0.13 %	2,268	2	0.10 %	1,966	55	2.79 %
Investment securities	7,682	360	4.69 %	12,053	558	4.63 %	14,748	688	4.66 %
Loans (A)	109,335	6,410	5.86 %	110,890	6,398	5.77 %	96,430	6,340	6.57 %
Restricted stock	1,143	-	0.00 %	1,149	-	0.00 %	1,036	30	2.88 %
Total interest earning assets	129,746	6,812	5.25 %	126,761	6,959	5.49 %	114,526	7,121	6.22 %
Less allowance for loan losses	(1,397)			(1,254)			(1,038)		
Other assets	15,078			12,971			11,220		
TOTAL ASSETS	$ 143,427			$ 138,478			$ 124,708		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest checking	$ 17,620	88	0.50 %	$ 21,775	149	0.68 %	$ 28,827	$ 634	2.20 %
Money market	54,292	864	1.59 %	12,316	147	1.19 %	9,356	209	2.23 %
Other Savings	1,949	9	0.46 %	1,438	7	0.49 %	953	10	1.05 %
Certificates of deposit	47,190	976	2.07 %	69,709	2,215	3.18 %	53,731	2,279	4.24 %
Total interest-bearing deposits	121,051	1,937	1.60 %	105,238	2,518	2.39 %	92,867	3,132	3.37 %
Other borrowings	3,275	119	3.64 %	14,466	436	3.01 %	16,137	539	3.34 %
Total interest-bearing liabilities	124,326	2,056	1.64 %	119,704	2,954	2.46 %	109,004	3,671	3.36 %
Non-interest-bearing deposits	6,666	-		6,658	-		5,447	-	
Other liabilities	780			976			641		
Shareholders' equity	11,655			11,140			9,616		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 143,427			$ 138,478			$ 124,708		
Net interest income		$ 4,756			$ 4,005			$ 3,450	
Interest spread			3.61 %			3.03 %			2.86 %
Net interest margin			3.67 %			3.16 %			3.01 %

(A) Includes non-accrual loans, the effect of which is to reduce the yield earned on loans, and deferred loan fees.
(B) Interest spread is defined as the average yield on interest-earnings assets less the average rate on interest bearing liabilities.
(C) Net interest margin is defined as Net interest income divided by interest earning assets.

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Net interest income was $4.8 million for the year ended December 31, 2010, compared to $4 million for the same period of 2009, an increase of $751 thousand, or 18.8%. Interest income on loans, investments and interest earning deposits was $6.8 million in 2010 compared to $6.9 million in 2009, a decrease of $147 thousand or 2.11%. Meanwhile, interest expense on deposits and borrowed funds was $2.1 million in 2010, down $898 thousand, or 30.4%, from $2.9 million in 2009. The decrease in interest income and interest expense reflects the declining market interest rates in 2009 and throughout 2010. Two benchmark rates, the prime rate and the Fed Funds rate, remained stable throughout 2009 and 2010. In addition to average interest rates decreasing in 2010 compared to 2009, BBI experienced an increase in non-accrual loans which also decreased yields on loans. Yield on assets decreased to 5.25% in 2010 from 5.49% in 2009 while the cost of funds decreased to 1.64% in 2010 from 2.46% in 2009. Average interest earning assets increased to $129.8 million in 2010 from $126.8 million in 2009.

The key measure of BBI's net interest income is its net interest margin. BBI's net interest margin increased to 3.67% in 2010 from 3.16% in 2009. This increase was primarily attributable to lower yields on loans due to the downward re-pricing of variable rate commercial loans in a falling rate environment being more profoundly offset by lower costs on time deposits and borrowings and to the mix of assets and liabilities. BBI was able to take higher costing deposits and reprice those downward, particularly time deposits as they came due. This resulted in an overall lower cost of funds which enhanced the improvement of the margin.

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate:

	2010 vs. 2009 Increase (decrease) due to change in			2009 vs. 2008 Increase (decrease) due to change in		
	Rate	Volume	Total	Rate	Volume	Total
Interest income						
Interest earning deposits	222	(189)	32	(715)	708	(7)
Federal funds sold	54	(47)	7	(5,278)	5,225	(53)
Investment securities	681	(881)	(199)	(483)	353	(130)
Loans	10,312	(10,299)	13	(77,669)	77,727	58
Restricted stock	-	-	-	(2,988)	2,958	(30)
Total interest income	11,269	(11,416)	(147)	(87,133)	86,971	(162)
Interest expense						
Interest checking accounts	(4,070)	4,009	(61)	(43,737)	43,252	(485)
Money market accounts	4,902	(4,185)	717	(9,735)	9,673	(62)
Other savings accounts	(41)	43	2	(533)	530	(3)
Certificates of deposit	(77,264)	76,025	(1,239)	(57,143)	57,079	(64)
Total interest bearing deposits	(76,473)	75,892	(581)	(111,148)	110,534	(614)
Other borrowings	9,123	(9,440)	(317)	(5,251)	5,148	(103)
Total interest expense	(67,350)	66,452	(898)	(116,399)	115,682	(717)
Net interest income	78,619	(77,868)	751	29,266	(28,711)	555

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Twelve months ended December 31, 2009 and 2008

BBI's net interest income was $4 million for the year ended December 31, 2009, compared to $3.4 million for the prior year, an increase of $555 thousand, or 16.1%. Interest income on loans, investments and interest earning deposits was $7 million in 2009 compared to $7.1 million in 2008, an increase of $162 thousand or 2.3%. Meanwhile, interest expense on deposits and borrowed funds was $3 million in 2009, down $717 thousand, or 19.5%, from $3.7 million in 2008. The decrease in interest income and interest expense reflects the declining market interest rates in 2009; however, BBI was able to mitigate the decrease in loan yield by making it up in volume. Two benchmark rates, the prime rate and the Fed Funds rate, remained stable during 2009. Yield on assets decreased to 5.49% in 2009 from 6.22% in 2008 while the cost of funds decreased to 2.46% in 2009 from 3.36% in 2008. Average interest earning assets increased to $126.8 million in 2009 from $114.5 million in 2008.

The key measure of BBI's net interest income is its net interest margin. BBI's net interest margin increased to 3.16% in 2009 from 3.01% in 2008. This increase is primarily attributable to lower yields on loans being offset by lower costs on time deposits and borrowings and to the mix of assets and liabilities.

PROVISION FOR LOAN LOSSES

Twelve months ended December 31, 2010 and 2009

During December 31, 2010, the provision for loan losses was $672 thousand, down $137 thousand from $809 thousand in 2009. This decrease was primarily due to a significant decrease in non-performing loans and charge-offs and the stabilizing value of real estate in our market area. Loan issues were related to the significant economic downturn faced by the national and regional economies in 2009 and also throughout 2010.

As is typical with community banks, BBI has a high concentration (93.7%) of its loans secured by real estate. Construction, commercial and residential, and commercial real estate represent 54.5% of the loan portfolio (by collateral type), although exposure in construction loans has been gradually winding down over the past several years and now represents 5.6% of the portfolio at December 31, 2010. It is in the construction and commercial real estate secured portion of the loan portfolio that BBI is experiencing the most difficulty with delinquent and non-accrual loans. Although management believes that they have identified and appropriately allocated reserves against the riskiest of BBI's loans in construction and commercial real estate, the possibility of further deterioration before the real estate market turns presents the potential for increased allocations of the ALLL in that area in the future.

BBI's loan portfolio is comprised of approximately 1,096 loans spread over approximately 700 relationships. The average size of loans tends to be larger because of the higher concentration of commercial vs. consumer loans. There are also several large relationships that represent a disproportionate percentage of the loan portfolio. This imbalance in the portfolio can be seen in the disproportionate impact that large borrowers have on the delinquent and non-accrual loan figures. Although the delinquent and non-accrual loan percentages of the portfolio have risen over the past four quarters, a relatively limited number of borrowers are driving those numbers rather than a broad trend of delinquency across our borrowers as a whole.

For the year ended December 31, 2010, BBI had twenty five (25) significant credit relationships with outstanding balances of approximately $33.6 million or 31.7% of the total loan portfolio. In addition, only one of these significant credit relationships for $1.3 million was classified as Substandard at December 31, 2010 but had no specific reserve allocation. Approximately 235 loans had outstanding balances of approximately $59.3 million or 55% of the total loan portfolio where the primary or secondary collateral is commercial real estate at December 31, 2010. The concentration of these credit relationships causes the imbalance of the loan portfolio; however, no individual credit relationship concentration was greater than 3% of total loans at December 31, 2010. Management monitors these credit relationships on an ongoing basis to evaluate that the collateral and the cash flow estimates used to determine that specific reserves are appropriate and reflect the current circumstances of the borrowers. These ongoing monitoring activities include obtaining updated financial information on a more frequent and formalized basis, evaluation of the underlying collateral to determine if the assumptions used to determine the valuation are appropriate, site visits to properties, if determined to be necessary and other factors significant to the underlying collateral of these loans.

The majority of BBI's borrowers are small, local businesses and individuals with investments in residential or commercial real estate. The typical borrower provides self-prepared or accountant assisted financial statements and tax returns that are not audited and therefore are less reliable than information that would be obtained from more sophisticated borrowers. The cost of audited financial statements would be prohibitive for many of our small borrowers. The absence of objectively verified financial information is a challenge to all community banks and represents a layer of risk that must be considered in judging the adequacy of the ALLL.

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BBI believes that the allowance for loan losses is at a level considered adequate to provide for losses that can be reasonably anticipated. Net charge-offs were $734 thousand and $421 thousand, respectively, for the years ended December 31, 2010 and 2009.

Twelve months ended December 31, 2009 and 2008

In 2009, the provision for loan losses, at $809 thousand, was up 104.8%, or $414 thousand, from $395 thousand in 2008. This increase was primarily due to an increase in non-performing loans and increased charge-offs, each related to the deterioration of the economy.

See "Credit Risk" and "Asset Quality" beginning on pages 202 and 206, respectively, of this Joint Proxy Statement - Prospectus for further information regarding BBI's provision for loan losses, allowance for loan losses and net charge-offs generally, and additional discussion of BBI's non-performing loans.

NON-INTEREST INCOME

The below chart shows BBI's results in the various components of non-interest income for each of the years ended December 31, 2010, 2009 and 2008.

	Years ended December 31,		
	2010	2009 (dollars in thousands)	2008
Gain on the sale of loans	$570	$365	$202
Gain (loss) on the sale of available for sale securities	62	(10)	2
Gain (loss) on the sale of OREO	(60)	103	1
Gain on the disposition of assets, net	-	2	-
Other	345	270	253
Total non-interest income (loss)	$917	$730	$458

Twelve months ended December 31, 2010 and 2009

In 2010, non-interest income was $917 thousand, up $187 thousand from $730 thousand in 2009. This change is largely due to a gain of $570 thousand on the sale of loans in 2010, compared to a gain of $365 thousand on the sale of loans in 2009. This was offset by a loss on the sale of other real estate owned in 2010 of $60 thousand compared to a gain on the sale of other real estate owned of in 2009 of $103 thousand. In addition, other income increased during 2010 to $345 thousand from $270 thousand in 2009.

BBI purchased $2 million of BOLI in August of 2006. Income from this increased to $127 thousand in 2010 compared to $101 thousand during 2009.

BBI sold investments in 2010 for a gain of $62 thousand, compared to a loss of $10 thousand in 2009. The gain in 2010 was primarily due to the sale of mortgage backed securities of $1.6 million.

BBI had a loss of $60 thousand on the sale of other real estate owned in 2010 and a gain of $103 thousand in 2009.

In 2010, other non-interest income was $345 thousand, up $75 thousand from $270 thousand in 2009.

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Twelve months ended December 31, 2009 and 2008

In 2009, non-interest income was $730 thousand, up $272 thousand from $458 thousand in 2008. This change is partially due to a gain of $365 thousand on the sale of loans in 2009, compared to a gain of $202 thousand on the sale of loans in 2008. In addition, other income increased from $253 thousand in 2008 to $270 thousand in 2009 which was primarily driven by deposit service charges which were $148 thousand in 2009 compared to $142 thousand in 2008.

BOLI is carried at its cash surrender value. BBI recognizes tax-free income from the periodic increases in the cash surrender value of these policies and from death benefits. BBI purchased $2 million in BOLI in August of 2006. Income from this was steady for 2009 and 2008 at $101 thousand and was included in other income.

NON-INTEREST EXPENSE

The chart below shows BBI's results in the various components of non-interest expense for each of the years ended December 31, 2010, 2009 and 2008.

	Years Ended December 31		
	2010	2009 (dollars in thousands)	2008
Compensation and benefits, net	$2,248	$2,141	$2,263
Occupancy and data processing	1,595	1,525	1,364
Marketing and business development	28	46	77
Professional services	281	321	248
FDIC assessments, taxes, and regulatory fees	270	237	82
Impairment charge on goodwill	418	-	-
Impairment charge on foreclosed assets	104	80	-
Costs related to other real estate owned	339	106	24
Costs related to non-performing loans	107	118	6
Merger related expenses	243	-	-
Other	640	602	601
Total non-interest expenses	$6,273	$5,176	$4,665

Twelve months ended December 31, 2010 and 2009

The 21.2% or $1.1 million increase in total non-interest expense, from $5.2 million in 2009 to $6.3 million in 2010, was largely due merger related expenses of $243 thousand during 2010, an impairment charge of $418 thousand related to goodwill, an increase in FDIC assessments, other real estate owned expenses which included necessary write-downs based upon current market appraisals and nonperforming loan expenses incurred in 2010.

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Compensation and benefits, net represent the largest component of non-interest expense, and were $2.2 million in 2010 compared to $2.1 million in 2009, an increase of 5% or $107 thousand. Unearned loan costs and fees were $196 thousand and $311 thousand for the years ended December 31, 2010 and 2009, respectively, which accounts for a majority of the difference in the compensation and benefits, net between the two periods since these costs are deferred and directly affect the compensation and benefit expense.

BBI's occupancy and data processing expenses increased 4.6% or $70 thousand to $1.6 million from $1.5 million in 2009. A portion of this increase is the result of increased maintenance and utilities costs on facilities in the amount of $36 thousand. Increased data processing costs based upon increased deposit account volume in addition to cost escalation in accordance with data processing contracts were also contributing factors resulting in increased expenses in the amount of $34 thousand or a 7.5% increase.

BBI's 2010 marketing and business development expense of $28 thousand was down $18 thousand or 39.1% compared to 2009 level of $46 thousand.

Expenses related to professional services decreased 12.46% or $40 thousand to $281 thousand from $321 thousand in 2009.

FDIC assessments, taxes and regulatory fees increased 13.9% or $33 thousand to $270 thousand in 2010 from $237 thousand in 2009. This increase is attributable to the FDIC increases in premiums. Due to recent changes in deposit premium assessments by the FDIC, FDIC insurance assessments increased significantly from prior years. With regard to the FDIC premium, on November 12, 2009, the Board of Directors of the FDIC adopted a final rulemaking requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011. Each institution recorded the entire amount of its prepaid assessment as a prepaid expense (asset) as of December 31, 2009. As of December 31, 2009, and each quarter thereafter, each institution will record an expense (charge to earnings) for its regular quarterly assessment for the quarter and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, the institution will record an accrued expense payable each quarter for the assessment payment, which would be paid in arrears to the FDIC at the end of the following quarter. If the prepaid assessment is not exhausted by December 31, 2014, any remaining amount would be returned to the depository institution.

Impairment charges on foreclosed assets increased 30% from $80 in 2009 to $104 thousand in 2010. This increase is primarily attributable to deteriorating market values on real estate.

Other real estate owned expenses increased 220% or $223 thousand to $339 thousand in 2010 from $106 thousand in 2009. This increase is attributable to an increase of expenses related to preparing properties for sale and costs associated with holding these properties, such as payment of real estate taxes and other maintenance related costs.

Merger related expenses in the amount of $243 thousand included legal expenses, accounting related services and the cost of the fairness opinion for the merger.

Other expenses increased 6.3% or $38 thousand to $640 thousand in 2010 from $602 thousand in 2009. This increase was primarily attributable to increases in other miscellaneous expenses.

Twelve months ended December 31, 2009 and 2008

Total non-interest expense increased 10.9% or $511 thousand to $5.2 thousand in 2009 from $4.7 million in 2008.

Compensation and benefits, net represent the largest component of non-interest expenses, and were $2.1 million in 2009 compared to $2.3 million in 2008, a decrease of 5.4% or $122 thousand. This decrease was primarily driven by the reduction of personnel directly related to the cutback in branch hours at various locations

BBI's occupancy expense and data processing increased 11.8% or $161 thousand to $1.5 million in 2009 from $1.4 million in 2008, primarily due to the added expense of the three new branch offices.

Marketing and business development expense decreased 40.3%, or $31 thousand, to $46 thousand in 2009 from $77 thousand in 2008, primarily due to the ability to attract deposits and loans in the branch offices without substantial advertising dollars.

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Professional service fees increased to $321 thousand in 2009 from $248 thousand in 2008. This increase is primarily attributable to the costs associated with outsourcing both loan review and both internal and external audit services. FDIC assessments, taxes, and regulatory fees increased to $237 thousand in 2009 from $82 thousand in 2008. This increase is primarily attributable to higher FDIC insurance premiums.

Other real estate owned expenses increased to $126 thousand in 2009 from $24 in 2008.

Other expenses decreased $19 thousand or 3.2% to $582 thousand at 2009 in comparison to $601 thousand at 2008 due to a decrease in dues and membership expense which decreased $11 thousand from December 31, 2009 when compared to the same period ended December 31, 2008.

INCOME TAXES

Twelve months ended December 31, 2010 and 2009

BBI had incurred cumulative net losses for several years since its inception through the year ended December 31, 2010. This has resulted in no provision for income taxes, deferred taxes and income taxes payable for the year ended December 31, 2010 and for the same period in 2009.

Twelve months ended December 31, 2009 and 2008

BBI had incurred cumulative net losses for several years since its inception through the year ended December 31, 2009. This has resulted in no provision for income taxes, deferred taxes and income taxes payable for the year ended December 31, 2009 and for the same period in 2008.

FINANCIAL CONDITION

GENERAL

BBI's total assets were $135.3 million at December 31, 2010. This represents a 6.3% decrease from $144.4 million at December 31, 2009. The main components of this change were an increase in cash and cash equivalents, and loans offset by a decrease in investment securities. BBI's total liabilities were $124.7 million at December 31, 2010, down 6.2% from $132.9 million at December 31, 2009. The main component of this change was due to decreased deposits and borrowings.

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

	Years Ended December 31,	
	2010	2009
	(dollars in thousands)	
Cash and cash equivalents	$13,508	$11,552
Total investments	1,657	11,845
Total loans	107,374	110,215
Loans held for sale	574	978
Total assets	135,281	144,350
Earning assets	117,581	133,163
Total deposits	123,253	128,078

Total other borrowings	764	4,304
Total liabilities	124,749	132,944
Total stockholders’ equity	10,532	11,406

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CASH AND DUE FROM BANKS

Cash and due from banks consists mainly of vault cash and cash items in the process of collection, interest bearing deposits with other banks and Federal funds sold. These balances totaled $13.5 million at December 31, 2010. This represents a $1.9 million increase from $11.6 million at December 31, 2009. These balances vary from day to day, primarily due to variations in customers' deposits with BBI. The increase was driven by an increase in interest-bearing deposits with other banks which were $4.4 million at 2010 compared to $500 thousand at 2009. This was offset by a decrease in federal funds sold from a level of $9.3 million in 2009 versus $7.2 million at 2010.

INTEREST-EARNING DEPOSITS WITH BANKS

BBI's interest earning deposits consist mainly of deposits at the FHLB-P and certificates of deposit held through other banks. These deposits totaled $4.4 million at December 31, 2010, which was a $3.9 million increase from $506 thousand at December 31, 2009. This balance varies from day to day, depending on several factors, such as variations in customers' deposits with BBI and the payment of checks drawn on customers' accounts.

FEDERAL FUNDS SOLD

Federal funds sold consist of overnight interbank lending through Atlantic Central Bankers Bank. These funds totaled $7.2 million at December 31, 2010, representing a decrease of 22.6% from $9.3 million at December 31, 2009. This balance varies day-to-day, based upon the short-term fluctuations in the net cash position of BBI.

INVESTMENT SECURITIES

BBI's investment securities portfolio is an important source of interest income and liquidity. It consists of government agency and mortgage-backed securities (guaranteed by an agency of the United States government). In addition to generating revenue, BBI maintains the investment portfolio to manage interest rate risk, provide liquidity, provide collateral for other borrowings and diversify the credit risk of earning assets. The portfolio is structured to maximize net interest income, given changes in the economic environment, liquidity position and balance sheet mix.

Management determines the appropriate classification of securities at the time of purchase. In accordance with ASC 320 "Investments—Debt and Equity Securities," securities are classified as: (a) securities held to maturity ("HTM"), which are classified as such based on management's intent and ability to hold the securities to maturity; (b) trading account securities, which are bought and held principally for the purpose of selling them in the near term; and (c) securities available for sale ("AFS"), which include those securities that may be sold in response to changes in interest rates, changes in pre-payment assumptions, the need to increase regulatory capital or other similar requirements. BBI does not necessarily intend to sell its AFS securities, but has classified them as AFS to provide flexibility to respond to liquidity needs.

At December 31, 2010, all of BBI's $1.7 million in investment securities were classified as AFS. This represents a decrease of 86% from $11.8 million at December 31, 2009. The decrease was largely due to several security calls, in addition to normal maturities, principal repayments, and sales. Unrealized gains and losses on AFS securities, although excluded from the results of operations, are reported as a separate component of shareholders' equity, net of the related tax effect.

At December 31, 2010, BBI held no investment securities that were classified as HTM. BBI does not intend to purchase any HTM securities in the foreseeable future. As of December 31, 2010 and 2009, BBI held no trading account securities.

The investment securities portfolio's composition changes periodically as a result of restructuring transactions, taken primarily to manage liquidity, capital and interest rate risk.

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The following two tables set forth information regarding the stated maturity, average yield, and compositions, of our investment securities portfolio as of the dates indicated. The first two tables do not include amortization or anticipated prepayments on mortgage-backed securities; callable securities are included at their stated maturity dates.

	December 31, 2010			December 31, 2009		
		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield
		(dollars in thousands)				
Due after one year through five years	$	-	-%	$	-	-%
Due after five years through ten years		-	-%		-	-%
Due after ten years		1,512	5.00%		9,516	5.07%
		1,512	5.00%		9,516	5.07%
Mortgage-backed securities		145	3.13%		2,329	3.65%
	$	1,657	4.84%	$	11,845	4.79%

	December 31,			
		2010		2009
	(dollars in thousands)			
	Composition of AFS Securities			
U.S. Treasury and government agency	$	1,512	$	9,516
Mortgage-backed securities		145		2,329
	$	1,657	$	11,845

At December 31, 2010, BBI held no securities that were impaired based on having a fair value lower than amortized cost for at least twelve consecutive months. At December 31, 2010 and 2009, respectively, BBI did have $0 and $8.5 million in securities, which consisted of 0 and 12 securities, with continuous losses for less than twelve months that it considers to be temporarily impaired primarily due to interest rate changes and a lack of liquidity in the market. BBI does not intend to sell and it is not more likely than not that BBI will be required to sell the securities prior to maturity or market price recovery. Management believes that there is no other than temporary impairment of these securities as of December 31, 2010. Securities with a carrying value of $448 thousand and $7.7 million of investment securities were pledged as collateral at December 31, 2010 and 2009, respectfully. Securities are pledged to the FHLB-P to be used as collateral for borrowing purposes and to provide collateral for municipal deposit customers.

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LOANS

The composition of net loans receivable at December 31, 2010, 2009, 2008, 2007 and 2006 is as follows:

	December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
Commercial construction	$2,473	$4,645	$-	$-	$-
Commercial real estate	57,937	57,847	53,500	44,992	35,340
Commercial and industrial	25,666	24,705	26,529	21,943	17,951
Residential construction	1,089	1,119	379	467	1,880
Consumer residential	17,110	18,051	19,601	16,542	12,561
Consumer and other	2,690	3,397	4,279	5,616	2,497
Total loans	106,965	109,764	104,288	89,560	70,229
Net deferred loan costs	409	451	479	415	178
Allowance for loan losses	(1,593)	(1,655)	(1,267)	(1,087)	(811)
Net loans receivable	$105,781	$108,560	$103,500	$88,888	$69,596

BBI engages in the general business of commercial and consumer banking primarily in the market area of Berks County, Pennsylvania. BBI has been locally managed to serve the needs of individuals, small and medium size businesses and professionals, as it has a community focus with an emphasis on personal service, flexibility and responsiveness to customers' needs.

BBI operates five banking locations and an operation center. The retail banking offices are in Bern Township, Exeter Township, Muhlenberg Township, West Reading and Wyomissing. The operation center is in Shillington. In addition, BBI has one remote ATM on Tuckerton Road in Muhlenberg Township.

BBI offers a full range of banking products and services including: personal and business checking accounts, time, demand and savings accounts, money market accounts, safe deposit box services, retirement accounts and online banking/bill pay. Loan products include commercial and consumer installment loans, commercial and residential mortgages, SBA lending, construction loans and lines of credit. The majority of residential mortgage loans are sold in the secondary market. The majority of commercial loans are retained.

BBI's relationship managers originate loan requests through a variety of sources which include BBI's existing customer base, referrals from directors and various networking sources (accountants, attorneys, and realtors), and market presence. Over the past several years, BBI's relationship managers have expanded their local presence by BBI's continued participation in community and civic events and strong networking efforts. In addition, the consolidation and other changes which are occurring in the market have allowed BBI to increase market share.

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Commercial Lending/SBA Lending

The Small Business Banking platform originates loans, including Small Business Administration (SBA) loans, through a team of dedicated and experienced Small Business relationship managers. This ensures BBI has small business experts in place providing appropriate financial solutions to the small business owners in our communities. The focus of the group are companies located in Berks County with annual revenues of less than $5 million, which typically have credit needs of less than $2 million. BBI lends to a wide range of businesses in the market to diversify risk. Much of the commercial loan portfolio is secured by owner occupied real estate and hard business assets. BBI does very little lending on an unsecured basis or where the receivables are the primary collateral. The support administration of the platform for this group is centralized and includes risk management, product management, marketing, performance tracking and overall strategy.

Consumer Lending

BBI's product offerings include real estate secured consumer lending, but BBI does not offer indirect automobile loans, and does very little unsecured loans or credit cards. BBI provides home equity and residential mortgage loans to customers. Underwriting standards for home equity lending is conservative. Lending helps to solidify customer relationships and grow relationship revenues. Residential loans which are originated for sale in the normal course of business is a source of fee revenue for BBI.

Loans outstanding (net of the allowance for loan losses) were $105.8 million at December 31, 2010, a decrease of $2.8 million, or 2.6%, from $108.6 million at December 31, 2009. The loan portfolio was generally diversified among commercial and consumer borrowers. For further information on our loans, see Note 6 of BBI's 2010 Audited Financial Statements on page BBI F-16 of this Joint Proxy Statement - Prospectus.

The following table sets forth information concerning the contractual maturities of the loan portfolio, net of unearned costs and fees. For amortizing loans, scheduled repayments for the maturity category in which the payment is due are not reflected below, because such information is not readily available.

	December 31,			
Loan Maturities		2010		2009
	(dollars in thousands)			
Within 1 year	$	38,269	$	41,572
After 1 year but within 5 yrs		9,518		11,823
After 5 yrs but within 15 yrs		16,435		12,964
Over 15 years		43,152		43,856
	$	107,374	$	110,215
Fixed Rate:				
Within 1 year	$	15,234	$	13,802
After 1 year but within 5 yrs		7,774		9,967
After 5 yrs but within 15 yrs		16,311		12,872
Over 15 years		43,153		43,857
		82,472		80,498
Variable Rate:				
Within 1 year	$	23,036	$	27,769
After 1 year but within 5 yrs		1,743		1,856
After 5 yrs but within 15 yrs		123		92
Over 15 years		-		-

		24,902		29,717
Total	$	107,374	$	110,215

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CREDIT RISK

BBI manages credit risk by maintaining diversification in its loan portfolio, by establishing and enforcing rigorous underwriting standards, by intensive collection efforts, and by establishing and performing periodic loan classification reviews by management as well as external loan review. Management also attempts to anticipate and allow for credit risks by maintaining an adequate allowance for loan losses, to which credit losses are charged as they are incurred, and to which provisions are added periodically as Management and the board of directors deem appropriate.

The provision for loan losses was $672 thousand, $809 thousand, and $395 thousand for the years ended December 31, 2010, 2009, and 2008, respectively. The allowance for loan losses was $1.5 million, or 1.48% of total loans, at December 31, 2010 and $1.7 million, or 1.50%, of total loans at December 31, 2009. Net charge-offs were $734 thousand for the year ended December 31, 2010, an increase of $313 thousand compared to the $421 thousand for the fiscal year ending December 31, 2009.

The $137 thousand decrease in the provision for loan losses for 2010 was primarily attributable to decreased delinquent, non-performing and impaired loans and a stabilization of the real estate market. During 2009, BBI changed the methodology for estimating the allowance for loan loss. The standardized methodology used to assess the adequacy of the allowance includes the allocation of specific and general reserves. Specific reserves are made to individual impaired loans, which have been defined to include all nonperforming loans and troubled debt restructurings. The general reserve is set based upon a representative average historical net charge-off and recovery trends, volume and loan term trends, risk and underwriting policies trends, staffing and experience changes, national and local economic trends, industry conditions and credit concentration changes. Beginning in the second quarter of 2010, BBI began to use the three previous year’s historical net charge-off rate as opposed to a six year net charge-off base. This resulted in an overall increase of approximately $150 thousand in the required reserve. In addition, all of the environmental factors are ranked and assigned a basis point value based on the following scale: low, low moderate, moderate, high moderate and high risk. The factors are evaluated separately for each type of loan. For example, commercial loans are broken further into commercial mortgages, commercial lines of credit, etc. Each loan type is risk weighted for environmental factors based on its individual characteristics.

According BBI’s policy, a loss (“charge-off”) is to be recognized and charged to the allowance for loan losses as soon as a loan is recognized as uncollectible. All credits which are 90 days past due must be analyzed for BBI’s ability to collect on the credit. Once a loss is known to exist, the charge-off approval process is immediately expedited. Beginning in 2010, BBI decreased its loan loss provision in response to the improvement in inherent credit risk within its loan portfolio and changes to some of the environmental factors noted above. The inherent credit risk was evidenced by the decrease in delinquent and non-performing loans from previous quarters, as the downturn in the economy leveled off which had impacted borrowers’ ability to pay. However, factors such as a weakened housing market continued to erode the value of underlying collateral, which resulted in a higher level of net charge-offs during 2010. In addition, net charge-offs of $734 thousand as of December 31, 2010 are higher than normal from previous levels of net charge-offs of $421 thousand and $215 thousand for the years ended December 31, 2009 and 2008, respectively. BBI is proactively addressing these issues.

BBI has implemented the methodology described in ASC 450 “Contingencies” and ASC 310-10-35 “Troubled Debt Restructurings by Creditors”. This methodology provides guidance in determining the fair value on impaired loans and utilizes BBI’s historical loss experience to consider inherent losses for performing loans. See “Asset Quality” beginning on page 206 in this Joint Proxy Statement - Prospectus.

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The below chart depicts BBI's allowance for loan losses for the periods indicated.

	December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands)				
Balance of the allowance at the beginning of the year	$1,655	$1,267	$1,087	$811	$587
Loan charge-offs:					
Commercial construction	49	-	-	-	-
Commercial real estate	145	83	-	-	-
Commercial and industrial	239	206	198	-	-
Residential construction	-	-	-	-	-
Consumer residential	283	-	-	-	-
Consumer and other	48	142	17	5	12
Total Charge-offs	764	431	215	5	12
Loan recoveries:					
Commercial construction	-	-	-	-	-
Commercial real estate	-	3	-	-	-
Commercial and industrial	-	-	-	-	-
Residential construction	-	-	-	-	-
Consumer residential	26	-	-	-	-
Consumer and other	4	7	-	-	-
Total Recoveries	30	10	-	-	-
Total net charge-offs	734	421	215	5	12
Provision for loan losses	672	809	395	281	236
Balance of the allowance for loan losses at the end of the year	$1,593	$1,655	$1,267	$1,087	$811

The allowance for loan losses is based on a periodic evaluation of the loan portfolio and is maintained at a level that management considers adequate to absorb inherent losses. All loans are assigned risk ratings, based on an assessment of the borrower, the structure of the transaction and the available collateral and/or guarantees. All loans are monitored regularly and the risk ratings are adjusted when appropriate. This process allows BBI to take corrective actions on a timely basis. Management considers a variety of factors, and recognizes the inherent risk of loss that always exists in the lending process. Management uses a disciplined methodology to estimate the appropriate level of allowance for loan losses. This methodology includes an evaluation of loss potential from individual problem credits, as well as anticipated specific and general economic factors that may adversely affect collectability. This assessment includes a review of changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions that may affect borrowers' ability to repay, and other factors that may warrant current recognition. In addition, BBI's outsourced internal auditors, outsourced loan review function and various regulatory agencies periodically access the adequacy of the allowance as an integral part of their examination process. Such agencies may require BBI to recognize additions or reductions to the allowance based on their judgments of information available at the time of their examination.

A substantial portion, approximately 94%, of BBI's commercial real estate, commercial and residential construction, consumer residential and commercial and industrial loan types have real estate as collateral (collectively, the real estate portfolio). BBI's lien position on the real estate collateral will vary on a loan by loan basis. BBI's credit group assesses whether the facts and circumstances have significantly changed since the date of the last appraisal or the geographical real estate values have deteriorated. The credit committee and loan officers review loans that are fifteen or more days delinquent or have issues that warrant additional attention and all nonaccrual loans on a periodic basis. In addition, loans where the loan officers have identified a "borrower of interest" are discussed to determine if additional analysis is necessary to apply the risk rating criteria properly. The risk ratings for the real estate loan portfolio are determined based upon the current information available, including but not limited to discussions with the borrower, updated financial information, economic conditions within the geographical area and other factors that may affect the cash flow of the loan. On a quarterly basis, if necessary, the collateral values or discounted cash flow models are used to determine the estimated fair value of the underlying collateral for the quantification of a specific reserve for impaired loans. Appraisals used within this evaluation process do not typically age more than twelve to eighteen months before a new appraisal is obtained. For loans where real estate is not the primary source of collateral, updated financial information is obtained, including accounts receivable and inventory aging reports and relevant supplemental financial data to determine the fair value of the underlying collateral.

These evaluations, however, are inherently subjective as they require material estimates, including, among others, the amounts and timing of expected future cash flows on impaired loans, estimated losses in the loan portfolio, and general amounts for historical loss experience, economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios, all of which may be susceptible to significant change. Pursuant to ASC 450 "Contingencies" and ASC 310-10-35 "Troubled Debt Restructurings by Creditors" impaired loans, consisting of non-accrual and restructured loans, are considered in the methodology for determining the allowance for credit losses. Impaired loans are generally evaluated based on the expected future cash flows or the fair value of the underlying collateral if principal repayment is expected to come from the sale or operation of such collateral.

The following table shows how the allowance for loan losses is allocated among the various loan portfolios that BBI has outstanding. This allocation is based on management's specific review of the credit risk of the outstanding loan portfolios in each category as well as historical trends.

	December 31,								
	2010			2009			2008		
	Amount	Percent of Loans in each category to total loans		Amount	Percent of Loans in each category to total loans		Amount	Percent of Loans in each category to total loans	
	(dollars in thousands)								
Commercial construction	$49	2.31	%	$13	4.23	%	$21	-	%
Commercial real estate	831	54.16	%	609	52.70	%	613	51.30	%
Commercial and industrial	437	23.99	%	370	22.51	%	49	25.44	%
Residential construction	7	1.02	%	93	1.02	%	51	0.36	%
Consumer residential	212	16.00	%	554	16.45	%	450	18.80	%
Consumer and other	57	2.52	%	-	3.09	%	70	4.10	%
Unallocated	-	-	%	16	-	%	13	-	%
	$1,593	100.00	%	$1,655	100.00	%	$1,267	100.00	%

	December 31,					
	2007			2006		
	Amount	Percent of Loans in each category to total loans		Amount	Percent of Loans in each category to total loans	
	(dollars in thousands)					
Commercial construction	$4	-	%	$-	-	%
Commercial real estate	191	50.24	%	304	50.32	%
Commercial and industrial	25	24.50	%	50	25.56	%
Residential construction	412	0.52	%	175	2.68	%
Consumer residential	417	18.47	%	266	17.88	%
Consumer and other	27	6.27	%	8	3.56	%
Unallocated	11	-	%	8	-	%
	$1,087	100.00	%	$811	100.00	%

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ASSET QUALITY

BBI had non-performing loans totaling $2.2 million at December 31, 2010, compared to $5.5 million at December 31, 2009. Impaired loans, which included a troubled debt restructured loan in the amount of $1.4 million, totaled $3.5 million at December 31, 2010, down from $4.4 million at December 31, 2009. BBI had charge-offs of $764 thousand in 2010, compared with $431 thousand in 2009. BBI had recoveries of $30 thousand in 2010, compared with $10 thousand in 2009. There was $4.9 million and $1.8 million of other real estate owned as a result of foreclosure or voluntary transfer to BBI at December 31, 2010 and 2009, respectively.

The tables below set forth non-performing loans and non-performing assets and asset quality ratios at December 31, 2010, 2009, 2008, 2007 and 2006.

	December 31, 2010	2009	2008	2007	2006
			(dollars in thousands)		
Non-accrual loans	$2,218	$5,412	$1,612	$1,137	$147
Loans 90+ days delinquent still accruing	-	87	105	-	-
Non-performing loans	2,218	5,499	1,717	1,137	147
OREO	4,936	1,765	1,280	-	-
Non-performing assets	$7,154	$7,264	$2,997	$1,137	$147

Troubled debt restructurings (“TDRs”) occur when a creditor, for economic or legal reasons related to a debtor’s financial condition, grants a concession to the debtor that it would not otherwise consider, such as a below market interest rate, extending the maturity of a loan, or a combination of both. At December 31, 2010, there was one loan, which is a participation loan with another bank, in the amount of $1.4 million that was classified as a TDR by the Company and the lead bank and was deemed impaired, compared to $0 loans at December 31, 2009. The TDR loan is not included in non-accrual loans, as this loan continues to perform under its modified terms.

	December 31, 2010		2009		2008		2007		2006	
Non-accrual loans to total loans	2.07	%	4.91	%	1.54	%	1.26	%	0.21	%
Non-performing loans to total loans	2.07	%	4.99	%	1.64	%	1.26	%	0.21	%
Non-performing assets to total assets	5.29	%	5.03	%	2.29	%	0.95	%	0.14	%
Non-accrual loans and 90+ days delinquent to total assets	1.64	%	3.81	%	1.31	%	0.95	%	0.14	%
Allowance for loan losses to:										
Total loans	1.48	%	1.50	%	1.21	%	1.21	%	1.15	%
Non-performing loans	71.82	%	30.10	%	73.79	%	95.60	%	551.70	%
Non-performing assets	22.27	%	22.78	%	42.28	%	95.60	%	551.70	%

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

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

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

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

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

PREMISES AND EQUIPMENT AND OTHER ASSETS

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

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

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

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

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

DEPOSITS

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

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

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

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

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

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

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

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

OTHER BORROWINGS

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

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

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

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

	December 31, 2009			
	Ending	Average	Maximum	Average

	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	%

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

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

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

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

PREFERRED STOCK

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

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

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

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

SHAREHOLDERS' EQUITY

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

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

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

STOCK WARRANT PLAN

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

CAPITAL ADEQUACY

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

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

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

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

In general, BBI's capital increased with the addition of TARP in the amount of $2,892 thousand received June 12, 2009. Conversely, as BBI's assets grow, its capital ratios decrease. During 2010, the balance sheet was reduced in an effort to manage the risk-based capital ratios to ensure that the Bank was adequately capitalized.
In general, in the past few years, balance sheet growth has been offset by decreases in capital through losses and increases in capital from sales of common stock and growth of the allowance for loan losses.

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

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

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MARKET FOR COMMON STOCK

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

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

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

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

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

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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

		Payments due by period			
Contractual obligations	Total	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.

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WHERE YOU CAN FIND MORE INFORMATION

Neither Customers Bank's nor CBI's Voting Common Stock is registered with any federal or state securities or banking regulator, and neither entity currently makes periodic securities filings with any regulator. Upon effectiveness of the registration statement of which this Joint Proxy Statement-Prospectus forms a part, CBI will become subject to the reporting requirements of Section 15(a) of the Securities Act, and will begin filing periodic reports, proxy statements, and other information required by the Exchange Act. See "Additional Information" on page 218 of this Joint Proxy Statement-Prospectus for additional information on where you may read and copy materials filed with the SEC.

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

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

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

ADDITIONAL INFORMATION

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

PROPOSAL C3 AND B2
TO ADJOURN THE SPECIAL MEETING IF NECESSARY TO SOLICIT OR RECEIVE ADDITIONAL PROXIES

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

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

SHAREHOLDER PROPOSALS FOR 2011

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

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

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

LEGAL MATTERS

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

EXPERTS

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

ACCOUNTANTS

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

OTHER BUSINESS

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

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

INDEX TO CUSTOMERS BANK FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Customers Bank

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

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

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

/s/ ParenteBeard LLC

Reading, Pennsylvania
April 15, 2011

CUSTOMERS BANK
BALANCE SHEETS

	December 31, 2010	December 31, 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
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 BANK
STATEMENTS OF OPERATIONS

Years Ended December 31,	2010	2009	2008
	(dollar amounts in thousands, except per share data)		
Interest income:			
Loans receivable, including fees	$ 29,021	$ 12,142	$ 13,644
Investment securities, taxable	1,382	1,140	1,419
Investment securities, non-taxable	110	191	413
Other	394	13	26
Total interest income	30,907	13,486	15,502
Interest expense:			
Deposits	11,112	5,729	6,832
Borrowed funds	366	461	1,112
Subordinated debt	68	146	194
Total interest expense	11,546	6,336	8,138
Net interest income	19,361	7,150	7,364
Provision for loan losses	10,397	11,778	611
Net interest income (loss) after provision for loan losses	8,964	(4,628)	6,753
Non-interest income:			
Service fees	643	458	637
Mortgage warehouse transaction fees	2,631	70	—
Bank owned life insurance	228	229	218
Gains (losses) on sales of investment securities	1,114	236	(361)
Impairment charges on investment securities	—	(15)	(940)
Bargain purchase gain on bank acquisitions	40,254	—	—
Other	800	96	96
Total non-interest income (loss)	45,670	1,074	(350)
Non-interest expense:			
Salaries and employee benefits	14,031	4,267	3,651
Occupancy	1,897	1,261	1,280
Technology, communication and bank operations	2,431	1,000	901
Advertising and promotion	1,007	191	231
Professional services	2,833	510	365
FDIC assessments, taxes, and regulatory fees	1,613	892	445
Impairment and losses on other real estate owned	702	381	100
Loan workout and other real estate owned	682	531	152
Other	972	648	529
Total non-interest expense	26,168	9,681	7,654
Income (loss) before taxes	28,466	(13,235)	(1,251)
Income taxes (benefit)	4,731	—	(426)
Net income (loss)	$ 23,735	$ (13,235)	$ (825)
Basic income (loss) per share	$ 1.26	$ (3.66)	$ (0.41)
Diluted income (loss) per share	$ 1.23	$ (3.66)	$ (0.41)

See accompanying notes to financial statements.

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CUSTOMERS BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

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

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 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)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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

Business Combinations

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

Cash and Cash Equivalents

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

Supplementary Cash Flows Information

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

Supplemental Schedule of Noncash Investing and Financing Activities						
Other real estate acquired in settlement of loans	$	4,786	$	3,088	$	1,619
Exchange of preferred shares to common stock	$	—	$	980	$	—
Conversion of subordinated term note to common stock	$	—	$	1,000	$	—

Restrictions on Cash and Amounts due from Banks

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

Investment Securities

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities (continued)

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

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

Loans Held for Sale

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

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

Loans Receivable

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

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

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable (continued)

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

Allowance for Loan Losses

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

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

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

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

Credit Quality Factors

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

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

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

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

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

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

Impaired loans

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

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable Covered Under Loss Sharing Agreements

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

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

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

Restricted Stock

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

Other Real Estate Owned

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

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FDIC Loss Sharing Receivable

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

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

Bank Owned Life Insurance

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

Bank Premises and Equipment

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

Income Taxes

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

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

Stock Based Compensation

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

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

Comprehensive Income

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

Earnings per Share

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

(dollars in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Information

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

Reclassifications

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

Change in Accounting Estimates

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

New Accounting Pronouncements

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

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

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

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

(dollars in thousands, except per share data)

NOTE 2 – ACQUISITION ACTIVITY

Berkshire Bancorp, Inc. Acquisition

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

FDIC Assisted Acquisitions

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

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

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

The acquired assets and liabilities, as well as the adjustments to record the assets and liabilities at fair value, are presented in the following table. Cash received from the FDIC is included in the fair value adjustments to arrive at the total assets acquired. Because the consideration paid to the FDIC was less than the net fair value of the acquired assets and liabilities, the Bank recorded a bargain purchase gain as part of the acquisitions.

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(dollars in thousands, except per share data)

NOTE 2 – ACQUISITION ACTIVITY (continued)

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

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

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

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

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

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

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

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(dollars in thousands, except per share data)

NOTE 3 – EARNINGS PER SHARE

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

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

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

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

NOTE 4 – INVESTMENT SECURITIES

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

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

Municipal securities	2,088	—	(237)	1,851
	$ 208,700	$ 564	$ (3,436)	$ 205,828

(dollars in thousands, except per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
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:

	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)

(dollars in thousands, except per share data)

NOTE 4 – INVESTMENT SECURITIES (continued)

	December 31, 2009					
	Less than 12 months		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
Commercial construction	$ 38,280	$
Commercial real estate	75,245	—
Commercial and industrial	22,876	—
Residential real estate	23,822	—
Manufactured housing	4,662	—
Total loans receivable covered under FDIC loss sharing agreements	164,885	—
Commercial construction	13,387	21,742
Commercial real estate	144,849	133,433
Commercial and industrial	35,942	25,290

Mortgage warehouse		186,113		16,435
Manufactured housing		102,924		—
Residential real estate		28,964		27,422
Consumer		1,581		5,524
Total loans receivable 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

(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)	Non-Accrual	Current(1)	Total Loans
			December 31, 2010			
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	20,734	21,601
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	—	—	—	—	—

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

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 year 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.

(dollars in thousands, except per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

The following table 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.

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	Greater Than	Total Past Due(1)	Non-Accrual	Current(1)	Total Loans

	Past Due(1)	90 Days(1)				
			December 31, 2010			
Commercial and industrial	$ 521	$ —	$ 521	$ 6,364	$ 15,991	$ 22,876
Commercial real estate	2,010	—	2,010	10,146	63,089	75,245
Construction	3,884	—	3,884	19,880	14,516	38,280
Residential real estate						
First mortgages	—	—	—	1,265	11,460	12,725
Home equity	253	—	253	2,752	8,092	11,097
Consumer	—	—	—	—	—	—
Manufactured housing	190	—	190	191	4,281	4,662
Total	$ 6,858	$ —	$ 6,858	$ 40,598	$ 117,429	$ 164,885

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

(dollars in thousands, except per share data)

NOTE 5 – LOANS RECEIVABLE (continued)

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

	December 31, 2010
Balance, beginning of period	$ —
Additions resulting from acquisition	907
Accretion to interest income	(417)
Disposals	—
Reclassification (to)/from nonaccretable difference	—
Balance, end of period	$ 490

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 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 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 life of the remaining loan. The outstanding balance of covered loans is $50,368 at December 31, 2010 and were deemed impaired under ASC 310-30 on the acquisition date.

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:

	December 31, 2010
Balance, beginning of period	$ —
Acquisition	4,640
Additions to covered OREO	