WSFS FINANCIAL CORP
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 0-16668

WSFS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **Incorporation or organization)**	**22-2866913** **(I.R.S. Employer** **Identification Number)**
500 Delaware Avenue, Wilmington, Delaware **(Address of principal executive offices)**	**19801** **(Zip Code)**

(302) 792-6000

Registrant s telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files), Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 4, 2012:

Common Stock, par value $.01 per share **(Title of Class)**	**8,705,389** **(Shares Outstanding)**

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Interest income:		
Interest and fees on loans	**$ 33,395**	$ 31,956
Interest on mortgage-backed securities	**5,718**	7,026
Interest and dividends on investment securities	**101**	170
Other interest income	**9**	
	39,223	39,152
Interest expense:		
Interest on deposits	**4,015**	5,223
Interest on Federal Home Loan Bank advances	**1,937**	2,727
Interest on trust preferred borrowings	**375**	336
Interest on other borrowings	**366**	612
	6,693	8,898
Net interest income	**32,530**	30,254
Provision for loan losses	**8,245**	5,908
Net interest income after provision for loan losses	**24,285**	24,346
Noninterest income:		
Credit/debit card and ATM income	**5,422**	4,740
Deposit service charges	**4,014**	3,564
Fiduciary & investment management income	**3,031**	2,827
Security gains, net	**2,036**	415
Loan fee income	**610**	685
Mortgage banking activities, net	**516**	547
Bank owned life insurance income	**185**	179
Other income	**944**	682
	16,758	13,639
Noninterest expenses:		
Salaries, benefits and other compensation	**16,235**	14,816
Occupancy expense	**3,048**	2,838
Equipment expense	**1,667**	1,614
FDIC expenses	**1,437**	1,764
Data processing and operations expenses	**1,322**	1,417
Professional fees	**1,164**	1,123
Loan workout and OREO expenses	**836**	2,483
Marketing expense	**779**	951
Acquisition integration costs		334
Other operating expense	**4,501**	4,047

		30,989		31,387
Income before taxes		**10,054**		6,598
Income tax provision		**3,610**		2,392
Net income		**6,444**		4,206
Dividends on preferred stock and accretion of discount		**692**		692
Net income allocable to common stockholders	**$**	**5,752**	$	3,514
Earnings per share:				
Basic	**$**	**0.66**	$	0.41
Diluted	**$**	**0.66**	$	0.40

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31,	
	2012	2011
	(Unaudited) (In Thousands)	
Net Income	**$ 6,444**	$ 4,206
Other comprehensive income (loss):		
Unrealized gains on securities available for sale	**540**	142
Tax expense	**(224)**	(54)
Net of tax amount	**316**	88
Reclassification adjustment for gains included in net income	**(2,036)**	(415)
Tax expense	**774**	157
Net of tax amount	**(1,262)**	(258)
Total other comprehensive loss	**(946)**	(170)
Total comprehensive income	**$ 5,498**	$ 4,036

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CONSOLIDATED STATEMENTS OF CONDITION

	Mar 31, 2012	Dec 31, 2011
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	**$ 67,517**	$ 70,889
Cash in non-owned ATMs	**391,939**	397,119
Interest-bearing deposits in other banks	**239**	9
Total cash and cash equivalents	**459,695**	468,017
Investment securities, available-for-sale	**890,865**	859,362
Investment securities, trading	**12,465**	12,432
Loans held-for-sale	**8,173**	10,185
Loans, net of allowance for loan losses of $55,798 at March 31, 2012 and $53,080 at December 31, 2011	**2,723,863**	2,702,589
Bank owned life insurance	**63,577**	63,392
Stock in Federal Home Loan Bank of Pittsburgh, at cost	**33,968**	35,756
Assets acquired through foreclosure	**6,708**	11,695
Premises and equipment	**36,637**	35,964
Goodwill	**28,146**	28,146
Intangible assets	**5,932**	6,139
Accrued Interest receivable	**11,582**	11,743
Other assets	**45,543**	43,588
Total assets	**$ 4,327,154**	$ 4,289,008
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 542,176**	$ 525,444
Interest-bearing demand	**416,550**	389,495
Money market	**775,729**	805,570
Savings	**400,310**	368,390
Time	**395,768**	412,027
Jumbo certificates of deposit customer	**361,871**	346,568
Total customer deposits	**2,892,404**	2,847,494
Brokered deposits	**297,104**	287,810
Total deposits	**3,189,508**	3,135,304
Federal funds purchased and securities sold under agreements to repurchase	**75,000**	50,000
Federal Home Loan Bank advances	**527,973**	538,682
Trust preferred borrowings	**67,011**	67,011
Other borrowed funds	**33,113**	67,927
Accrued interest payable	**3,817**	1,910
Other liabilities	**34,194**	36,041
Total liabilities	**3,930,616**	3,896,875

Stockholders Equity:		
Serial preferred stock $.01 par value, 7,500,000 shares authorized; issued 52,625 at March 31, 2012 and December 31, 2011	**1**	1
Common stock $.01 par value, 20,000,000 shares authorized; issued 18,285,720 at March 31, 2012 and 18,258,714 at December 31, 2011	**183**	182
Capital in excess of par value	**220,800**	220,163
Accumulated other comprehensive income	**10,256**	11,202
Retained earnings	**413,578**	408,865
Treasury stock at cost, 9,580,569 shares at March 31, 2012 and December 31, 2011	**(248,280)**	(248,280)
Total stockholders equity	**396,538**	392,133
Total liabilities and stockholders equity	**$ 4,327,154**	$ 4,289,008

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2012	2011
	(Unaudited) (In Thousands)	
Operating activities:		
Net Income	**$ 6,444**	$ 4,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**8,245**	5,908
Depreciation, accretion and amortization	**3,988**	2,349
Decrease in accrued interest receivable	**161**	284
(Increase) decrease in other assets	**(1,401)**	2,201
Origination of loans held-for-sale	**(30,406)**	(27,761)
Proceeds from sales of loans held-for-sale	**33,205**	40,817
Gain on mortgage banking activities, net	**(516)**	(547)
Security gains, net	**(2,036)**	(415)
Stock-based compensation expense	**608**	306
Excess tax benefits from share-based payment arrangements	**(7)**	(55)
Increase in accrued interest payable	**1,907**	1,979
Decrease in other liabilities	**(1,827)**	(2,513)
Loss on sale of assets acquired through foreclosure and valuation adjustments, net	**595**	2,100
Increase in value of bank-owned life insurance	**(185)**	(179)
(Increase) decrease in capitalized interest, net	**(165)**	44
Net cash provided by operating activities	**$ 18,610**	$ 28,724
Investing activities:		
Maturities of investment securities	**4,524**	7,557
Sale of investment securities available for sale	**84,808**	46,116
Purchase of investment securities available-for-sale	**(162,404)**	(72,789)
Repayments of investment securities available-for-sale	**40,376**	49,817
Disbursements for reverse mortgages	**(17)**	(43)
Net increase in loans	**(33,311)**	(38,481)
Net decrease in stock of Federal Home Loan Bank of Pittsburgh	**1,788**	1,877
Sales of assets acquired through foreclosure, net	**7,310**	2,253
Investment in premises and equipment, net	**(1,933)**	(1,884)
Net cash used for investing activities	**$ (58,859)**	$ (5,577)
Financing activities:		
Net increase in demand and saving deposits	**41,052**	76,688
Net decrease in time deposits	**(956)**	(5,567)
Net increase (decrease) in brokered deposits	**9,244**	(84,764)
Receipts from FHLB advances	**4,349,754**	4,500,000
Repayments of FHLB advances	**(4,360,463)**	(4,500,000)
Receipts from federal funds purchased and securities sold under agreement to repurchase	**3,765,000**	5,577,871
Repayments of federal funds purchased and securities sold under agreement to repurchase	**(3,740,000)**	(5,568,665)
Repayment of unsecured debt	**(30,000)**	

Dividends paid		**(1,700)**		(1,686)
Issuance of common stock and exercise of common stock options		**(11)**		435
Excess tax benefits from share-based payment arrangements		**7**		55
Net cash provided by (used for) financing activities	**$**	**31,927**	$	(5,633)
(Decrease) increase cash and cash equivalents		**(8,322)**		17,514
Cash and cash equivalents at beginning of period		**468,017**		376,759
Cash and cash equivalents at end of period	**$**	**459,695**	$	394,273
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest during the period	**$**	**4,786**	$	6,920
Cash paid for income taxes, net		**4,221**		214
Loans transferred to assets acquired through foreclosure		**2,918**		3,641
Net change in other comprehensive income		**(946)**		(170)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2012

(UNAUDITED)

1. BASIS OF PRESENTATION

Our Consolidated Financial Statements include the accounts of WSFS Financial Corporation (the Company , our Company , we , our or us), Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank) and Montchanin Capital Management, Inc. (Montchanin). We also have one unconsolidated affiliate, WSFS Capital Trust III (the Trust). WSFS Bank has two wholly owned subsidiaries, WSFS Investment Group, Inc. (WIG) and Monarch Entity Services LLC (Monarch) and Montchanin has one wholly owned subsidiary, Cypress Capital Management, LLC (Cypress).

Founded in 1832, we are the seventh oldest bank and trust company in the United States continuously operating under the same name. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our Trust and Wealth Management division. Lending activities are funded primarily with customer deposits and borrowings. The Federal Deposit Insurance Corporation (FDIC) insures our customers deposits to their legal maximums. We serve our customers primarily from our 49 offices located in Delaware (39), Pennsylvania (8), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com.

Amounts subject to significant estimates are items such as the allowance for loan losses and reserves for lending related commitments, goodwill, intangible assets, post-retirement benefit obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, changes to such estimates could result in future reserves for impairments of investment securities, goodwill and intangible assets and increases of allowances for loan losses and lending related commitments as well as increased post-retirement benefits expense.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of the Securities and Exchange Commission (SEC) Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2012. For further information, refer to the consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC.

Whenever necessary, reclassifications have been made to prior period Consolidated Financial Statements to conform to the current period s presentation. All significant intercompany transactions were eliminated in consolidation.

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Accounting for Stock-Based Compensation

Stock-based compensation is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, *Stock Compensation*. After shareholder approval in 2005, the 1997 Stock Option Plan (1997 Plan) was replaced by the 2005 Incentive Plan (2005 Plan). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. We have stock options outstanding under both plans (collectively, Stock Incentive Plans). The number of shares reserved for issuance under the 2005 Plan is 1,197,000. At March 31, 2012, there were 194,579 shares available for future grants under the 2005 Plan.

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as non-incentive stock options (collectively, Stock Options). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of our Company s common stock on the date of the grant. All Stock Options granted during 2012 and 2011 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire five years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans. In addition, the Black-Scholes option-pricing model is used to determine the grant date fair value of stock options.

Stock Options

The following table provides information about our stock options outstanding for the three months ended March 31, 2012 and 2011:

	March 31, 2012		March 31, 2011	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	**416,886**	**$ 43.52**	566,323	$ 42.84
Granted (1)	**32,830**	**40.89**	50,723	44.91
Exercised	**(1,815)**	**24.94**	(7,161)	22.34
Forfeited			(14,348)	46.13
Outstanding at end of period	**447,901**	**43.41**	595,537	43.18
Exercisable at end of period	**337,764**	**$ 45.00**	454,294	$ 44.28
Weighted-average fair value of awards granted	**$ 12.38**		$ 14.29	

(1) Options granted in the first quarter of 2012 are less than the first quarter of 2011 due to additional 2012 awards being granted in the second quarter of 2012.

The following table provides vesting information about our stock options outstanding for the three months ended March 31, 2012 and 2011:

	March 31, 2012		March 31, 2011	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price
Stock Options:				
Unvested at beginning of period	**112,258**	**$ 36.08**	123,486	$ 45.04
Granted	**32,830**	**40.89**	50,723	44.91
Vested	**(34,951)**	**32.89**	(24,977)	26.96

Forfeited				(7,989)		39.70
Unvested at end of period	**110,137**	**$**	**38.53**	141,243	$	39.66

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The total amount of compensation cost to be recognized relating to non-vested stock options as of March 31, 2012 was $781,000. The weighted-average period over which it is expected to be recognized is 2.5 years. We issue new shares upon the exercise of options.

Restricted Stock

We issued 24,442 restricted stock units and awards during the first quarter of 2012 compared to 39,383 during the first quarter of 2011. These awards vest over a four year period. These stock awards were made to certain executive officers. The total amount of compensation cost to be recognized relating to non-vested restricted stock as of March 31, 2012, was $1.8 million. The weighted-average period over which it is expected to be recognized is 2.2 years.

Performance Stock Awards

The Board approved a plan in which Marvin N. Schoenhals, Chairman of the Board, was granted 22,250 shares of restricted stock effective January 3, 2011, with a five-year performance vesting schedule starting at the end of the second year. These shares are subject to vesting in whole or in part based on whether Mr. Schoenhals plays a meaningful role in establishing new business relationships that, over a two year period of time achieve at least a 50% return on the investment of restricted stock cost.

For the three months ended March 31, 2012, the effect of stock-based compensation, including stock options, restricted stock, and performance stock, on salaries, benefits and other compensation was $711,000 pre-tax ($545,000 after tax) or $0.06 per share. This compares to $525,000 pre-tax ($437,000 after tax) or $0.05 per share during the three months ended March 31, 2011. The increase was mainly due to additional expense related to the performance stock awards.

2. EARNINGS PER SHARE

The following table shows the computation of basic and diluted earnings per share:

	For the three months ended March 31, (In Thousands, Except Per Share Data)	
	2012	2011
Numerator:		
Net income allocable to common stockholders	**$ 5,752**	$ 3,514
Denominator:		
Denominator for basic earnings per share weighted average shares	**8,687**	8,576
Effect of dilutive employee stock options and warrants	**73**	154
Denominator for diluted earnings per share adjusted weighted average shares and assumed exercise	**8,760**	8,730
Earnings per share:		
Basic:		
Net income allocable to common shareholders	**$ 0.66**	$ 0.41
Diluted:		
Net income allocable to common shareholders	**$ 0.66**	$ 0.40
Outstanding common stock equivalents having no dilutive effect	**480**	304

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3. INVESTMENT SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company s investment securities held-to-maturity and securities available-for-sale (which include reverse mortgages):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available-for-sale securities:				
March 31, 2012:				
Reverse mortgages	**$ (630)**	**$**	**$**	**$ (630)**
U.S. Government and government sponsored enterprises (GSE)	**44,791**	**249**	**(29)**	**45,011**
State and political subdivisions	**3,635**	**39**	**(1)**	**3,673**
Collateralized Mortgage Obligation (CMO) (1)	**312,212**	**6,142**	**(2,261)**	**316,093**
Federal National Mortgage Association (FNMA)	**363,949**	**8,905**	**(361)**	**372,493**
Federal Home Loan Mortgage Corporation (FHLMC)	**92,485**	**1,711**	**(80)**	**94,116**
Government National Mortgage Association (GNMA)	**57,141**	**3,047**	**(79)**	**60,109**
	$ 873,583	**$ 20,093**	**$ (2,811)**	**$ 890,865**
December 31, 2011:				
Reverse mortgages	$ (646)	$	$	$ (646)
GSE	38,776	262	(13)	39,025
State and political subdivisions	4,159	39	(8)	4,190
CMO (1)	323,980	6,933	(2,527)	328,386
FNMA	320,019	9,379	(44)	329,354
FHLMC	93,305	1,781		95,086
GNMA	60,991	3,033	(57)	63,967
	$ 840,584	$ 21,427	$ (2,649)	$ 859,362
Trading securities				
March 31, 2012:				
CMO	**$ 12,465**	**$**	**$**	**$ 12,465**
December 31, 2011:				
CMO	$ 12,432	$	$	$ 12,432

(1) Includes agency CMO and SASCO 2002 RM-1 Class O securities classified as available-for-sale

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The scheduled maturities of investment securities available-for-sale at March 31, 2012 and December 31, 2011 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
March 31, 2012		
Within one year (1)	**$ 3,765**	**$ 3,795**
After one year but within five years	**42,274**	**42,503**
After five years but within ten years	**157,852**	**162,992**
After ten years	**669,692**	**681,575**
	$ 873,583	**$ 890,865**
December 31, 2011		
Within one year (1)	$ 7,916	$ 7,966
After one year but within five years	32,225	32,465
After five years but within ten years	129,597	135,649
After ten years	670,846	683,282
	$ 840,584	$ 859,362

(1) Reverse mortgages do not have contractual maturities. We have included reverse mortgages in maturities within one year.

The portfolio of available-for-sale mortgage-backed securities includes 236 securities with an amortized cost of $825.8 million comprised of $513.6 million of GSE and $312.2 million of non-GSE securities. All securities were AAA-rated at the time of purchase; only one security with an amortized cost of $10.0 million was rated below AAA at March 31, 2012. All securities were re-evaluated for OTTI at March 31, 2012. The result of this evaluation showed no other-than-temporary impairment for the first quarter of 2012. The weighted average duration of the mortgage-backed securities was 3.3 years at March 31, 2012.

At March 31, 2012, investment securities with market values aggregating $397.3 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations. From time to time, investment securities are also pledged as collateral for FHLB borrowings. There were no FHLB pledged investment securities at March 31, 2012.

During the first three months of 2012, we sold $84.8 million of investment securities categorized as available-for-sale for net gains of $2.0 million. In the first quarter of 2011, proceeds from the sale of investment securities available-for-sale were $46.1 million and resulted in net gains of $415,000. These sales were the result of ongoing portfolio management aimed at minimizing credit risk and decreasing prepayment/premium risk due to faster prepayments caused by declining mortgage interest rates in this historically-low rate environment. The cost basis of all mortgage-backed securities sales are based on the specific identification method.

MBS have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty.

At March 31, 2012, we owned investment securities totaling $205.4 million in which the amortized cost basis exceeded fair value. Total unrealized losses on those securities were $2.8 million at March 31, 2012. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Securities with a fair value of $24.8 million have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. Our investment portfolio is reviewed each quarter for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

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The table below shows our investment securities gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In Thousands)			
Available-for-sale						
U.S Government and GSE	**$ 12,051**	**$ 29**	**$**	**$**	**$ 12,051**	**$ 29**
State and political subdivisions			**135**	**1**	**135**	**1**
CMO	**92,728**	**1,468**	**24,665**	**793**	**117,393**	**2,261**
FNMA	**59,304**	**361**			**59,304**	**361**
FHLMC	**11,206**	**80**			**11,206**	**80**
GNMA	**5,316**	**79**			**5,316**	**79**
Total temporarily impaired investments	**$ 180,605**	**$ 2,017**	**$ 24,800**	**$ 794**	**$ 205,405**	**$ 2,811**

The table below shows our investment securities gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2011.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In Thousands)			
Available-for-sale						
U.S Government and GSE	$ 5,047	$ 13	$	$	$ 5,047	$ 13
State and political subdivisions			440	8	440	8
CMO	78,955	2,194	9,933	333	88,888	2,527
FNMA	6,959	44			6,959	44
FHLMC						
GNMA	5,420	57			5,420	57
Total temporarily impaired investments	$ 96,381	$ 2,308	$ 10,373	$ 341	$ 106,754	$ 2,649

We own $12.5 million par value of SASCO RM-1 2002 class B securities which are classified as trading, of which, $1.4 million is interest paid in kind. We expect to recover all principal and interest due to seasoning and excess collateral. Based on FASB ASC 320, *Investments Debt and Equity Securities* (ASC 320) (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*) when these securities were acquired they were classified as trading because it was our intent to sell them in the near term. We use the guidance under ASC 320 to provide a reasonable estimate of fair value. We estimated the value of these securities based on the pricing of BBB+ securities that have an active market through a technique which estimates the fair value of this asset using the income approach as of March 31, 2012.

During 2011, we purchased 100% of SASCO 2002-RM1 Class O certificates for $2.5 million. The transaction closed on July 15, 2011. As of March 31, 2012, the market value of the SASCO 2002-RM1 O securities was determined in accordance with FASB ASC 820-10 (ASC 820), to be $3.5 million. These securities have been included in CMO since their purchase.

4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

We maintain allowances for loan losses and charge losses to these allowances when such losses are identified. The determination of the allowance for loan losses requires significant judgment reflecting our best estimate of probable loan losses related to specifically identified loans as well as probable loan losses in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios.

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We established our loan loss allowance in accordance with guidance provided in the Securities and Exchange Commission s Staff Accounting Bulletin 102 (SAB 102). Its methodology for assessing the appropriateness of the allowance consists of several key elements which include: specific allowances for identified problem loans; formula allowances for commercial and commercial real estate loans; and allowances for pooled homogeneous loans.

Specific reserves are established for certain impaired loans in cases where we have identified significant conditions or circumstances related to a specific credit that indicate the probability that a loss has been incurred.

The formula allowances for commercial, commercial real estate and construction loans are calculated by applying estimates of default and loss severity to outstanding loans based on the risk grade of loans. Default rates are determined through a past twelve quarter migration analysis. Loss severity is based on a three year historical analysis. As a result, changes in risk grades affect the amount of the formula allowance.

Pooled loans are usually smaller, not-individually-graded and homogeneous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are first based on a five-year net charge-off history. The average loss allowance per homogeneous pool is based on the product of average annual historical loss rate and the homogeneous pool balances. These separate risk pools are then assigned a reserve for losses based upon this historical loss information.

Qualitative and environmental adjustment factors are taken into consideration when determining the above described reserve estimates. These adjustment factors are based upon our evaluation of various current conditions, including those listed below.

- General economic and business conditions affecting the Bank s key lending areas,
- Credit quality trends,
- Recent loss experience in particular segments of the portfolio,
- Collateral values and loan-to-value ratios,
- Loan volumes and concentrations, including changes in mix,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Bank regulatory examination results, and
- Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions and risks associated with individual problem loans. In addition, various regulatory agencies and loan review consultants periodically review our loan ratings and allowance for loan losses.

During the first quarter of 2012, we made certain improvements to the method in which we determine the allowance for loan loss. These improvements include:

- Used a three year loss migration analysis to determine the probability of default,
- Segregated the commercial loan segment to more specifically analyze the risks associated with business, owner-occupied CRE, investor CRE and construction loan portfolios,
- Improved the data used to determine qualitative adjustment factors,
- Established a portion of the allowance for loan losses related to model and complexity risk,
- Established a reserve for unfunded commitments (reflected in other liabilities on the Consolidated Statements of Condition), and
- Revised our loan risk rating system based on recommendations from industry experts.

The above changes to the calculation of the allowance for loan losses did not have a material impact on the allowance for loan loss at March 31, 2012 or the amount of provision for loan losses recorded during the period.

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The following table provides the activity of the allowance for loan losses and loan balances for the three months ended March 31, 2012:

	Commercial	Owner Occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk (1)	Total
				(In Thousands)				
Three months ended March 31, 2012								
Allowance for loan losses								
Beginning balance	$ 15,067	$ 9,235	$ 7,556	$ 4,074	$ 6,544	$ 10,604	$	$ 53,080
Charge-offs	(2,331)	(502)	(190)	(1,506)	(324)	(1,229)		(6,082)
Recoveries	53	6	313	28	25	130		555
Provision	(1,164)	(1,734)	2,851	6,321	155	748	1,068	8,245
Ending balance	$ 11,625	$ 7,005	$ 10,530	$ 8,917	$ 6,400	$ 10,253	$ 1,068	$ 55,798
Period-end allowance allocated to:								
Loans individually evaluated for impairment	$ 1,615	$ 2,191	$ 1,156	$ 2,750	$ 869	$ 96	$	$ 8,677
Loans collectively evaluated for impairment	10,010	4,814	9,374	6,167	5,531	10,157	1,068	47,121
Ending balance	$ 11,625	$ 7,005	$ 10,530	$ 8,917	$ 6,400	$ 10,253	$ 1,068	$ 55,798
Period-end loan balances evaluated for:								
Loans individually evaluated for impairment	$ 6,526	$ 21,760	$ 11,625	$ 24,246	$ 15,723	$ 2,912	$	$ 82,792(2)
Loans collectively evaluated for impairment	792,293	$ 665,180	605,601	99,937	251,310	282,548		2,696,869
Ending balance	$ 798,819	$ 686,940	$ 617,226	$ 124,183	$ 267,033	$ 285,460	$	$ 2,779,661

(1) Represents the portion of the allowance for loan losses established to account for the inherent complexity and uncertainty of estimates.
(2) The difference between this amount and nonaccruing loans at March 31, 2012, represents accruing troubled debt restructured loans.

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Non-Accrual and Past Due Loans

The following tables show our nonaccrual and past due loans at the dates indicated:

March 31, 2012 (In Thousands)	Still Accruing 30 59 Days Past Due and Still Accruing	Still Accruing 60 89 Days Past Due and Still Accruing	Still Accruing Greater Than 90 Days Past Due and Still Accruing	Still Accruing Total Past Due And Still Accruing	Still Accruing Accruing Current Balances	Still Accruing Nonaccrual Loans	Still Accruing Total Loans
Commercial	**$ 14,209**	**$ 65**	**$ 614**	**$ 14,888**	**$ 777,405**	**$ 6,526**	**$ 798,819**
Owner-occupied commercial	**638**	**164**		**802**	**664,378**	**21,760**	**686,940**
Commercial mortgages			**240**	**240**	**605,361**	**11,625**	**617,226**
Construction	**850**			**850**	**99,087**	**24,246**	**124,183**
Residential	**5,830**	**655**	**111**	**6,596**	**251,850**	**8,587**	**267,033**
Consumer	**1,993**	**597**		**2,590**	**281,549**	**1,321**	**285,460**
Total	**$ 23,520**	**$ 1,481**	**$ 965**	**$ 25,966**	**$ 2,679,630**	**$ 74,065**	**$ 2,779,661**
% of Total Loans	**0.85%**	**0.05%**	**0.03%**	**0.93%**	**96.40%**	**2.67%**	**100%**

December 31, 2011 (In Thousands)	Still Accruing 30 59 Days Past Due and Still Accruing	Still Accruing 60 89 Days Past Due and Still Accruing	Still Accruing Greater Than 90 Days Past Due and Still Accruing	Still Accruing Total Past Due And Still Accruing	Still Accruing Accruing Current Balances	Still Accruing Nonaccrual Loans	Still Accruing Total Loans
Commercial	$ 1,087	$ 63	$ 78	$ 1,228	$ 1,435,876	$ 23,080	$ 1,460,184
Commercial mortgages	479	243		722	605,764	15,814	622,300
Construction	3,727			3,727	80,074	22,124	105,925
Residential	5,501	1,238	887	7,626	258,820	9,057	275,503
Consumer	2,783	709		3,492	287,247	1,018	291,757
Total	$ 13,577	$ 2,253	$ 965	$ 16,795	$ 2,667,781	$ 71,093	$ 2,755,669
% of Total Loans	0.49%	0.08%	0.04%	0.61%	96.81%	2.58%	100%

Impaired Loans

The following tables provide an analysis of our impaired loans at March 31, 2012 and December 31, 2011:

March 31, 2012 **(In Thousands)**	**Ending Loan Balances**	**Loans with No Specific Reserve (1)**	**Loans with Specific Reserve**	**Related Specific Reserve**	Contractual Principal Balances	Average Loan Balances

Commercial	**$ 6,526**	**$ 4,291**	**$ 2,235**	**$ 1,615**	$ 8,581	$ 9,013
Owner-occupied commercial	**21,760**	**14,071**	**7,689**	**2,191**	23,736	14,705
Commercial mortgages	**11,625**	**5,857**	**5,768**	**1,156**	15,871	16,479
Construction	**24,246**	**13,395**	**10,851**	**2,750**	40,080	26,120
Residential	**15,723**	**9,176**	**6,547**	**869**	18,302	17,159
Consumer	**2,912**	**1,674**	**1,238**	**96**	3,343	3,477
Total	**$ 82,792**	**$ 48,464**	**$ 34,328**	**$ 8,677**	$ 109,913	$ 104,361

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December 31, 2011 (In Thousands)	Ending Loan Balances	Loans with No Specific Reserve (1)	Loans with Specific Reserve	Related Specific Reserve	Contractual Principal Balances	Average Loan Balances
Commercial	$ 23,193	$ 19,353	$ 3,840	$ 2,630	$ 26,815	$ 22,396
Commercial mortgages	15,814	13,602	2,212	295	21,278	16,237
Construction	22,124	14,166	7,958	723	34,862	27,323
Residential	16,227	9,649	6,578	964	19,312	17,480
Consumer	2,621	1,336	1,285	101	2,788	3,916
Total	$ 79,979	$ 58,106	$ 21,873	$ 4,713	$ 105,055	$ 87,352

(1) Reflects loan balances at their remaining book balance.

Interest income of $93,000 was recognized on impaired loans during the three months ended March 31, 2012.

Credit Quality Indicators

Below is a description of each of our risk ratings for all commercial loans:

Pass. These borrowers presently show no current or potential problems and their loans are considered fully collectible.

Special Mention. Borrowers have potential weaknesses that deserve management s close attention. Borrowers in this category may be experiencing adverse operating trends, e.g.; declining revenues or margins, high leverage, tight liquidity, or increasing inventory without increasing sales. These adverse trends can have a potential negative effect on the borrower s repayment capacity. These assets are not adversely classified and do not expose the Bank to significant risk that would warrant a more severe rating. Borrowers in this category may also be experiencing significant management problems, pending litigation, or other structural credit weaknesses.

Substandard. Borrowers have well-defined weaknesses that require extensive oversight by management. Borrowers in this category may exhibit one or more of the following: inadequate debt service coverage, unprofitable operations, insufficient liquidity, high leverage, and weak or inadequate capitalization. Relationships in this category are not adequately protected by the sound financial net worth and paying capacity of the obligor or the collateral pledged on the loan, if any. The distinct possibility exists that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Borrowers have well-defined weaknesses inherent in the Substandard category with the added characteristic that the possibility of loss is extremely high. Current circumstances in the credit relationship make collection or liquidation in full highly questionable. A doubtful asset has some pending event that may strengthen the asset that defers the loss classification. Such impending events include: perfecting liens on additional collateral, obtaining collateral valuations, an acquisition or liquidation preceding, proposed merger, or refinancing plan.

Loss. Borrowers are uncollectible or of such negligible value that continuance as a bankable asset is not supportable. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical to defer writing off this asset even though partial recovery may be recognized sometime in the future.

Residential and Consumer Loans

The residential and consumer loan portfolios are monitored on an ongoing basis using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed in the aggregate in these relatively homogeneous portfolios. Loans that are greater than 90 days past due are generally considered nonperforming and placed in nonaccrual status.

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The following tables provide an analysis of problem loans as of March 31, 2012 and December 31, 2011:

Commercial credit exposure credit risk profile by internally assigned risk rating (in thousands):

	Commercial(1)		Owner-Occupied Commercial(1)		Commercial Mortgages		Construction		Total Commercial			
									March 31, 2012		December 31, 2011	
	Mar 31, 2012	Dec. 31, 2011	**Mar 31, 2012**	Dec. 31, 2011	**Mar 31, 2012**	Dec. 31, 2011	**Mar 31, 2012**	Dec. 31, 2011	Amount	Percent	Amount	Percent
Risk Rating:												
Special mention	**$ 20,328**	$ 85,848	**$ 5,446**	$	**$ 33,524**	$ 50,044	**$ 2,963**	$ 9,747	**$ 62,261**		$ 145,639	
Substandard:												
Accrual	**102,211**	107,896	**79,906**		**26,345**	13,664	**19,453**	19,039	**227,915**		140,599	
Nonaccrual	**6,526**	23,193	**21,760**		**11,625**	15,814	**24,246**	22,124	**64,157**		61,131	
Total Special Mention and Substandard	**129,065**	216,937	**107,112**		**71,494**	79,522	**46,662**	50,910	**354,333**	**16%**	347,369	16%
Pass	**669,754**	1,242,519	**579,828**		**545,732**	543,277	**77,521**	55,244	**1,872,835**	**84**	1,841,040	84
Total Commercial Loans	**$ 798,819**	$ 1,459,456	**$ 686,940**	$	**$ 617,226**	$ 622,799	**$ 124,183**	$ 106,154	**$ 2,227,168**	**100%**	$ 2,188,409	100%

Consumer credit exposure credit risk profile based on payment activity (in thousands):

	Residential		Consumer		Total Residential and Consumer			
					March 31, 2012		December 31, 2011	
	Mar 31, 2012	Dec. 31, 2011	**Mar 31, 2012**	Dec. 31, 2011	Amount	Percent	Amount	Percent
Nonperforming	**$ 15,723**(2)	$ 16,227	**$ 2,912**(2)	$ 2,621	**$ 18,635**	**3%**	$ 18,848	3%
Performing	**251,310**	259,276	**282,548**	289,136	**533,858**	**97**	548,412	97
Total	**$ 267,033**	$ 275,503	**$ 285,460**	$ 291,757	**$ 552,493**	**100%**	$ 567,260	100%

(1) Prior to 2012, owner-occupied commercial loans were included in commercial loan balances.
(2) Includes $8.7 million of troubled debt restructured mortgages and home equity installment loans performing in accordance with modified terms and are accruing interest.

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Troubled Debt Restructurings (TDRs)

Effective July 1, 2011, we adopted the provisions of Accounting Standards Update No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* In doing so, we reassessed all loan modifications occurring since January 1, 2011 for identification as TDRs, resulting in no newly identified TDRs.

The book balance of TDRs at March 31, 2012 and December 31, 2011 was $32.0 million and $27.7 million, respectively. The balances at March 31, 2012 include approximately $23.1 million of TDRs in nonaccrual status and $8.9 million of TDRs in accrual status compared to $18.8 million of TDRs in nonaccrual status and $8.9 million of TDRs in accrual status at December 31, 2011. Approximately $1.4 million and $1.2 million in specific reserves have been established for these loans as of March 31, 2012 and December 31, 2011, respectively.

During the three months ending March 31, 2012, the terms of 13 loans were modified in troubled debt restructurings, of which 11 were related to commercial loans that were already placed on nonaccrual. Nonaccruing restructured loans remain in nonaccrual status until there has been a period of sustained repayment performance for a reasonable period, usually six months. The remaining two loans represented residential loans. Our concessions on restructured loans consisted mainly of forbearance agreements, reduction in interest rates or extensions of maturities. Principal balances are generally not forgiven by us when a loan is modified as a TDR.

The following table presents loans identified as TDRs during the three months ended March 31, 2012:

(In Thousands)	Three Months Ended March 31, 2012
Commercial	$ 9,276
Construction	378
Residential	451
Total	$ 10,105

The troubled debt restructurings described above increased the allowance for loan losses by $38,000 through allocation of a specific reserve, and resulted in charge offs of $759,000 during the three months ending March 30, 2012, most of which had been previously identified and reserved for in prior periods.

There were no TDRs which defaulted (defined as past due 90 days) during the three months ended March 31, 2012 that were restructured within the last twelve months prior to December 31, 2011.

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5. TAXES ON INCOME

We account for income taxes in accordance with FASB ASC 740, *Income Taxes* (ASC 740) (Formerly SFAS No. 109, *Accounting for Income Taxes* and FASB Interpretation No. 48, *Accounting for Uncertainty In Income Taxes, an Interpretation of FASB Statement 109*). ASC 740 requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. No valuation allowance has been recorded on our deferred tax assets due to our history of prior earnings along with our expectations of future income. ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. We recognize, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the financial statements. Assessment of uncertain tax positions under ASC 740 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations.

The total amount of unrecognized tax benefits as of March 31, 2012 and December 31, 2011 were both $88,000, all of which would affect our March 31, 2012 effective tax rate if recognized. As of March 31, 2012 and December 31, 2011, the total amount of accrued interest included in such unrecognized tax benefits were both $15,000. Penalties of $6,000 are included in such unrecognized tax benefits. We record interest and penalties on potential income tax deficiencies as income tax expense. Our Federal and state tax returns for the 2008 through 2011 tax years are subject to examination as of March 31, 2012. There are currently no income tax audits in process.

6. SEGMENT INFORMATION

Under the definition of FASB ASC 280, *Segment Reporting* (ASC 280) (Formerly SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*) we discuss our business in three segments. There is one segment for each of WSFS Bank, Cash Connect, (the ATM division of WSFS Bank), and Trust and Wealth Management. Trust and Wealth Management is comprised of Montchanin, Christiana Trust, Private Banking and WSFS Investment Group, Inc. in a single reportable segment because each has similar economic characteristics, products, customers and distribution methods. As required by ASC 280, all prior years information has been updated to reflect this presentation.

The WSFS Bank segment provides financial products to commercial and retail customers through its 49 offices located in Delaware (39), Pennsylvania (8) and Virginia (1) and Nevada (1). Retail and Commercial Banking, Commercial Real Estate Lending and other banking business units are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Bank. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment in accordance with ASC 280.

Cash Connect provides turnkey ATM services through strategic partnerships with several of the largest networks, manufacturers and service providers in the ATM industry. The balance sheet category Cash in non-owned ATMs includes cash from which fee income is earned through bailment arrangements with customers of Cash Connect.

The Trust and Wealth Management segment is comprised of Christiana Trust, Montchanin, Private Banking and WSFS Investment Group, Inc. Christiana Trust was acquired in December 2010 and WSFS Trust business was consolidated into Christiana Trust. Christiana Trust provides investment, fiduciary, agency and commercial domicile services from locations in Delaware and Nevada. These services are provided to individuals and families as well as corporations and institutions. Montchanin has one consolidated wholly owned subsidiary, Cypress Capital Management, LLC (Cypress). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. WSFS Investment Group, Inc. markets various third-party insurance products and securities and Private Banking which specializes in meeting the needs of professionals and their practices, including deposit services and credit needs of existing and start-up practices.

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An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise s chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the three months ended March 31, 2012 and 2011 follows:

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For the three months ended March 31, 2012

	WSFS Bank	Cash Connect	Trust & Wealth Management	Total
		(In Thousands)		
External customer revenues:				
Interest income	**$ 37,036**	**$**	**$ 2,187**	**$ 39,223**
Noninterest income	**9,528**	**4,074**	**3,156**	**16,758**
Total external customer revenues	**46,564**	**4,074**	**5,343**	**55,981**
Inter-segment revenues:				
Interest income	**960**		**1,227**	**2,187**
Noninterest income	**2,061**	**173**		**2,234**
Total inter-segment revenues	**3,021**	**173**	**1,227**	**4,421**
Total revenue	**49,585**	**4,247**	**6,570**	**60,402**
External customer expenses:				
Interest expense	**6,475**		**218**	**6,693**
Noninterest expenses	**26,338**	**1,972**	**2,679**	**30,989**
Provision for loan loss	**8,296**		**(51)**	**8,245**
Total external customer expenses	**41,109**	**1,972**	**2,846**	**45,927**
Inter-segment expenses				
Interest expense	**1,227**	**334**	**626**	**2,187**
Noninterest expenses	**173**	**525**	**1,536**	**2,234**
Total inter-segment expenses	**1,400**	**859**	**2,162**	**4,421**
Total expenses	**42,509**	**2,831**	**5,008**	**50,348**
Income before taxes	**$ 7,076**	**$ 1,416**	**$ 1,562**	**$ 10,054**
Provision for income taxes				**3,610**
Consolidated net income				**$ 6,444**
Capital expenditures	**$ 1,713**	**$ 156**	**$ 64**	**$ 1,933**