WSFS FINANCIAL CORP
Form 10-Q
November 09, 2011

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 September 30, 2011

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),
__X__ Yes_____ No

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

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ] Smaller reporting company [ ]
(Do not check if 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 November 2, 2011:

Common Stock, par value $.01 per share	8,612,876
(Title of Class)	(Shares Outstanding)

WSFS FINANCIAL CORPORATION

FORM 10-Q

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PART I. Financial Information

PART II. Other Information

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited) (In Thousands, Except Per Share Data)			
Interest income:				
Interest and fees on loans	$32,940	$31,664	$97,699	$94,497
Interest on mortgage-backed securities	7,052	8,699	20,962	27,370
Interest and dividends on investment securities	99	216	396	718
Other interest income	-	-	-	6
	40,091	40,579	119,057	122,591
Interest expense:				
Interest on deposits	4,619	5,590	14,876	17,655
Interest on Federal Home Loan Bank advances	2,484	3,818	7,866	11,812
Interest on trust preferred borrowings	340	370	1,015	1,047
Interest on other borrowings	468	624	1,679	1,859
	7,911	10,402	25,436	32,373
Net interest income	32,180	30,177	93,621	90,218
Provision for loan losses	6,558	9,976	21,048	31,980
Net interest income after provision for loan losses	25,622	20,201	72,573	58,238
Noninterest income:				
Credit/debit card and ATM income	5,523	4,984	15,549	14,171
Deposit service charges	4,385	4,153	11,975	12,381
Fiduciary & investment management income	2,982	1,016	8,877	3,169
Security gains, net	1,935	1,756	2,953	2,024
Loan fee income	610	626	1,871	2,015
Mortgage banking activities, net	257	646	1,035	1,145
Bank owned life insurance income	197	181	1,795	596
Other income	1,035	1,063	2,537	2,501
	16,924	14,425	46,592	38,002
Noninterest expenses:				
Salaries, benefits and other compensation	15,337	12,237	44,566	36,334
Occupancy expense	3,171	2,402	8,944	7,235
Loan workout and OREO expenses	1,864	908	5,989	4,877
Equipment expense	1,666	1,648	5,195	4,762
Marketing Expense	1,597	703	3,446	2,312
FDIC expenses	1,436	1,829	4,478	5,234
Data processing and operations expenses	1,325	1,096	4,026	3,541
Professional Fees	1,267	1,609	3,974	3,899
Acquisition integration costs	-	143	780	311
Non-routine ATM loss	-	(4,491)	-	-
Other operating expense	4,749	4,008	13,053	10,959
	32,412	22,092	94,451	79,464
Income before taxes	10,134	12,534	24,714	16,776
Income tax provision	3,348	4,312	8,199	4,739

Net income	6,786	8,222	16,515	12,037
Dividends on preferred stock and accretion of discount	692	692	2,077	2,076
Net income allocable to common stockholders	$6,094	$7,530	$14,438	$9,961
Earnings per share:				
Basic	$0.71	0.95	$1.68	$1.35
Diluted	$0.70	0.94	$1.66	$1.33

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

	Sept 30, 2011	Dec 31, 2010
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	$80,021	$49,932
Cash in non-owned ATMs	383,358	326,573
Interest-bearing deposits in other banks	174	254
Total cash and cash equivalents	463,553	376,759
Investment securities, held-to-maturity	219	219
Investment securities, available-for-sale including reverse mortgages	47,873	52,232
Mortgage-backed securities, available-for-sale	772,508	700,926
Mortgages-backed securities, trading	12,432	12,432
Loans held-for-sale	7,776	14,522
Loans, net of allowance for loan losses of $53,188 at September 30, 2011 and $60,339 at December 31, 2010	2,642,229	2,561,368
Accrued Interest receivable	11,326	11,765
Bank owned life insurance	63,153	64,243
Stock in Federal Home Loan Bank of Pittsburgh, at cost	37,638	37,536
Assets acquired through foreclosure	11,880	9,024
Premises and equipment	35,686	31,870
Goodwill	28,146	26,745
Intangible assets	6,404	7,307
Other assets	47,917	46,570
Total assets	$4,188,740	$3,953,518
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$492,685	$468,098
Interest-bearing demand	358,322	312,546
Money market	737,706	743,808
Savings	375,528	255,340
Time	442,960	484,864
Jumbo certificates of deposit – customer	324,041	297,112
Total customer deposits	2,731,242	2,561,768
Brokered deposits	220,811	249,006
Total deposits	2,952,053	2,810,774
Federal funds purchased and securities sold under agreements to repurchase	100,000	100,000
Federal Home Loan Bank advances	568,776	488,959
Trust preferred borrowings	67,011	67,011
Other borrowed funds	69,283	91,636

Accrued interest payable	8,533	3,317
Other liabilities	35,876	23,999
Total liabilities	3,801,532	3,585,696
Stockholders' Equity:		
Serial preferred stock $.01 par value, 7,500,000 shares authorized; issued 56,625 at September 30, 2011 and December 31, 2010	1	1
Common stock $.01 par value, 20,000,000 shares authorized; issued 18,191,845 at September 30, 2011 and 18,105,788 at December 31, 2010	182	180
Capital in excess of par value	218,546	216,316
Accumulated other comprehensive income	12,329	6,524
Retained earnings	404,430	393,081
Treasury stock at cost, 9,580,569 shares at September 30, 2011 and December 31, 2010	(248,280)	(248,280)
Total stockholders' equity	387,208	367,822
Total liabilities and stockholders' equity	$4,188,740	$3,953,518

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2011	2010
	(Unaudited) (In Thousands)	
Operating activities:		
Net Income	$16,515	$12,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	21,048	31,980
Depreciation, accretion and amortization	7,991	4,725
Decrease in accrued interest receivable	439	682
Increase in other assets	(5,070)	(7,947)
Origination of loans held-for-sale	(69,659)	(102,598)
Proceeds from sales of loans held-for-sale	77,844	99,102
Gain on mortgage banking activity	(1,035)	(1,145)
Gain on mark to market adjustment on trading securities	-	(249)
Gain on sale of securities, net	(2,953)	(1,775)
Stock-based compensation expense	1,216	773
Excess tax benefits from share-based payment arrangements	(587)	(323)
Increase in accrued interest payable	5,216	6,245
Increase in other liabilities	11,884	10,589
Loss on sale of assets acquired through foreclosure and valuation adjustments, net	2,447	3,577
Increase in value of bank-owned life insurance	(1,795)	(596)
Decrease in capitalized interest, net	1	144
Net cash provided by operating activities	$63,502	$55,221
Investing activities:		
Maturities of investment securities	11,727	3,540
Sale of investment securities available for sale	6,050	-
Purchase of investments available-for-sale	(13,159)	(7,081)
Sales of mortgage-backed securities available-for sale	210,211	92,493
Repayments of mortgage-backed securities available-for-sale	130,184	142,612
Purchases of mortgage-backed securities available-for-sale	(402,118)	(264,464)
Disbursements for reverse mortgages	(396)	(145)
Net increase in loans	(118,138)	(27,143)
Payment of bank-owned life insurance	2,885	-
Net decrease in stock of Federal Home Loan Bank of Pittsburgh	(102)	-
Sales of assets acquired through foreclosure, net	9,088	6,324
Investment in premises and equipment, net	(8,067)	(3,621)
Net cash used for investing activities	$(171,835)	$(57,485)
Financing activities:		
Net increase in demand and saving deposits	162,096	192,696
Net (decrease) increase in time deposits	(14,975)	42,731
Net decrease in brokered deposits	(28,245)	(95,901)
	3,103,525	13,795,000

Receipts from federal funds purchased and securities sold under agreement to repurchase		
Repayments of federal funds purchased and securities sold under agreement to repurchase	(3,103,525)	(13,795,000)
Receipts from FHLB advances	9,846,709	19,767,639
Repayments of FHLB advances	(9,766,892)	(19,935,582)
Dividends paid	(5,067)	(4,527)
Issuance of common stock and exercise of common stock options	914	47,931
Excess tax benefits from share-based payment arrangements	587	323
Net cash provided by financing activities	$195,127	$15,310
Increase cash and cash equivalents	86,794	13,046
Cash and cash equivalents at beginning of period	376,759	321,749
Cash and cash equivalents at end of period	$463,553	$334,795
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest during the period	$20,220	$47,148
Cash paid for income taxes, net	336	7,485
Loans transferred to assets acquired through foreclosure	14,391	6,101
Net change in other comprehensive income	5,805	11,687
Settlement of pending sale of premises and equipment	-	6,515

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 AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(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 Ca Management, Inc. ("Montchanin"). We also have one unconsolidated affiliate, WSFS Capital Trust III ("the Trust"). WSFS Bank has two fully-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, the Bank is one of the ten oldest banks continuously operating under the same name in the United States. 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 Christiana Trust 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 48 offices located in Delaware (38), 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 and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2011. 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, 2010, 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.

2. EARNINGS PER SHARE

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

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
	(In thousands, Except Per Share Data)			
Numerator:				
Net income allocable to common stockholders	$ 6,094	$ 7,530	$ 14,438	$ 9,961
Denominator:				
Denominator for basic earnings per share - weighted average shares	8,605	7,907	8,594	7,369
Effect of dilutive employee stock options and warrants	96	124	124	125
Denominator for diluted earnings per share – adjusted weighted average shares and assumed exercise	8,701	8,031	8,718	7,494
Earnings per share:				
Basic:				
Net income allocable to common shareholders	$ 0.71	$ 0.95	$ 1.68	$ 1.35
Diluted:				
Net income allocable to common shareholders	$ 0.70	$ 0.94	$ 1.66	$ 1.33
Outstanding common stock equivalents having no dilutive effect	537	603	538	604

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:				
September 30, 2011:				
Reverse mortgages	$(418)	$—	$—	$(418)
U.S. Government and government sponsored enterprises ("GSE")	43,796	320	(21)	44,095
State and political subdivisions	4,159	39	(2)	4,196
	$47,537	$359	$(23)	$47,873
December 31, 2010:				
Reverse mortgages	$(686)	$—	$—	$(686)
GSE	49,691	441	(129)	50,003
State and political subdivisions	2,879	38	(2)	2,915
	$51,884	$479	$(131)	$52,232
Held-to-maturity:				
September 30, 2011:				
State and political subdivisions	$219	$1	$—	$220
	$219	$1	$—	$220
December 31, 2010:				
State and political subdivisions	$219	$—	$(23)	$196
	$219	$—	$(23)	$196

Securities with market values aggregating $44.0 million at September 30, 2011 were specifically pledged for certain letters of credit and municipal deposits which require collateral.

The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at September 30, 2011 and December 31, 2010 were as follows:

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
September 30, 2011				
Within one year (1)	$—	$—	$10,139	$10,204
After one year but within five years	—	—	35,084	35,357
After five years but within ten years	—	—	2,000	2,000
After ten years	219	220	314	312
	$219	$220	$47,537	$47,873
December 31, 2010				
Within one year (1)	$—	$—	$10,549	$10,617
After one year but within five years	—	—	41,006	41,286
After five years but within ten years	—	—	—	—
After ten years	219	196	329	329

	$219	$196	$51,884	$52,232

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

We sold a $6.1 million investment security classified as available-for-sale during the first nine months of 2011 resulting in a gain on sale of $110,000. There were no sales of investment securities classified as available-for-sale during the first nine months of 2010 and, as a result, there were no net gains or losses realized during the 2010 period. The cost basis for investment security sales was based on the specific identification method. Investment securities totaling $500,000 and $720,000 were called by their issuers during the nine months ended September 30, 2011 and 2010, respectively.

At September 30, 2011, we owned investment securities totaling $4.5 million where the amortized cost basis exceeded the fair value. Total unrealized losses on those securities were $23,000 at September 30, 2011. This temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Securities with fair values of $135,000 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 the 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.

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 September 30, 2011.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	$—	$—	$—	$—	$—	$—
Available-for-sale						
State and political subdivisions	312	1	135	1	447	2
U.S Government and agencies	4,046	21	—	—	4,046	21
Total temporarily impaired investments	$4,358	$22	$135	$1	$4,493	$23

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, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	$—	$—	$102	$23	$102	$23
Available-for-sale						
State and political subdivisions	502	2	—	—	502	2

U.S Government and agencies	12,994	129	—	—	12,994	129
Total temporarily impaired investments	$13,496	$131	$102	$23	$13,598	$154

4. MORTGAGE-BACKED SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's mortgage-backed securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available-for-sale securities:				
September 30, 2011:				
Collateralized mortgage obligations ("CMO") (1)	$327,313	$8,270	$(1,536)	$334,047
Federal National Mortgage Association ("FNMA")	294,022	8,917	(53)	302,886
Federal Home Loan Mortgage Corporation ("FHLMC")	72,256	2,019	(20)	74,255
Government National Mortgage Association ("GNMA")	58,649	2,671	-	61,320
	$752,240	$21,877	$(1,609)	$772,508
December 31, 2010:				
CMO (1)	$490,946	$9,687	$(599)	$500,034
FNMA	89,226	1,253	(431)	90,048
FHLMC	43,970	743	(273)	44,440
GNMA	65,849	1,229	(674)	66,404
	$689,991	$12,912	$(1,977)	$700,926
Trading securities:				
September 30, 2011:				
CMO	$12,432	$—	$—	$12,432
December 31, 2010:				
CMO	$12,432	$—	$—	$12,432

(1) Includes Agency CMOs classified as available-for-sale and SASCO RM-1 2002 Class O securities classified as available-for-sale.

The portfolio of available-for-sale mortgage-backed securities is comprised of 183 securities with an amortized cost of $752.2 million of both GSE ($569.0 million) and non-GSE ($183.2 million) securities. All securities were AAA-rated at time of purchase; only two securities with an aggregate value of $10.8 million are now rated below AAA. Downgraded securities were re-evaluated at September 30, 2011. The result of this evaluation shows no other-than-temporary impairment for the nine months ended September 30, 2011. The weighted average duration of the mortgage-backed securities was 2.7 years at September 30, 2011.

At September 30, 2011, mortgage-backed securities with market values aggregating $368.5 million were pledged as collateral for retail customer repurchase agreements, municipal deposits and other obligations. From time to time, mortgage-backed securities are also pledged as collateral for Federal Home Loan Bank (FHLB) borrowings. The fair value of these FHLB-pledged mortgage-backed securities was $17.4 million at September 30, 2011.

During the first nine months of 2011, we sold available-for-sale mortgage-backed securities of $210.0 million with net gains of $2.8 million. The cost basis of all mortgage-backed securities sales is based on the specific identification method. There were sales of available-for-sale mortgage-backed securities of $92.5 million with net securities gains of $1.8 million during the first nine months of 2010.

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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 September 30, 2011, we owned mortgage-backed securities totaling $80.9 million where the amortized cost basis exceeded fair value. Total unrealized losses on these securities were $1.6 million at September 30, 2011. This temporary impairment is the result of changes in market interest rates in the mortgage-backed securities market. There were no securities impaired for 12 months or longer. We have determined that these securities were not other-than-temporarily impaired at September 30, 2011. Quarterly, we evaluate the current characteristics of each of our mortgage-backed securities such as delinquency and foreclosure levels, credit enhancement, projected losses and coverage. 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.

The table below shows our mortgage-backed securities' gross unrealized losses, fair value by investment category and length of time individual securities have been in continuous unrealized loss position at September 30, 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						
CMO	$ 64,739	$ 1,536	$ —	$ —	$ 64,739	$ 1,536
FNMA	10,488	53	—	—	10,488	53
FHLMC	5,674	20	—	—	5,674	20
GNMA	—	—	—	—	—	—
Total temporarily impaired MBS	$ 80,901	$ 1,609	$ —	$ —	$ 80,901	$ 1,609

The table below shows our mortgage-backed 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, 2010.

	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						
CMO	$58,821	$534	$1,171	$65	$59,992	$599
FNMA	45,129	431	—	—	45,129	431
FHLMC	14,981	273	—	—	14,981	273
GNMA	23,831	674	—	—	23,831	674
Total temporarily impaired MBS	$142,762	$1,912	$1,171	$65	$143,933	$1,977

We own $12.4 million par value of SASCO RM-1 2002 class B securities which are classified as trading, of which, $1.4 million is accrued 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 used the guidance under ASC 320 to provide a reasonable estimate of fair value in 2010. 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 September 30, 2011.

5. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

We maintain an allowance for loan losses and charge losses to this allowance when such losses are realized. The determination of the allowance for loan losses requires significant judgment reflecting our best estimate of impairment 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.

The following table provides the activity of the allowance for loan losses and loan balances for the three and nine months ended September 30, 2011:

	Commercial	Commercial Mortgages	Construction	Residential	Consumer	Total
	(In Thousands)					
Three months ended September 30, 2011						
Allowance for loan losses						
Beginning balance	$ 25,236	$ 12,330	$ 5,831	$ 3,707	$ 9,144	$ 56,248
Charge-offs	(1,431)	(5,302)	(1,107)	(877)	(1,248)	(9,965)
Recoveries	71	94	51	25	106	347
Provision	1,645	302	926	427	3,258	6,558
Ending balance	$ 25,521	$ 7,424	$ 5,701	$ 3,282	$ 11,260	$ 53,188
Nine months ended September 30, 2011						
Allowance for loan losses						
Beginning balance	$ 26,480	$ 10,564	$ 10,019	$ 4,028	$ 9,248	$ 60,339
Charge-offs	(7,641)	(6,609)	(8,179)	(2,183)	(5,472)	(30,084)
Recoveries	409	381	557	116	422	1,885
Provision	6,273	3,088	3,304	1,321	7,062	21,048
Ending balance	$ 25,521	$ 7,424	$ 5,701	$ 3,282	$ 11,260	$ 53,188
Period-end allowance allocated to:						
Specific reserves(1)	$ 1,810	$ 1,604	$ 3,005	$ 808	$ 120	$ 7,347
General reserves(2)	23,711	5,820	2,696	2,474	11,140	45,841
Ending balance	$ 25,521	$ 7,424	$ 5,701	$ 3,282	$ 11,260	$ 53,188
Period-end loan balances evaluated for:						
Specific reserves(1)	$ 21,270	$ 20,306	$ 21,701	$ 17,666	$ 3,176	$ 84,119 (3)
General reserves(2)	1,376,272	583,564	89,803	267,668	293,991	2,611,298
Ending balance	$ 1,397,542	$ 603,870	$ 111,504	$ 285,334	$ 297,167	$ 2,695,417

(1) Specific reserves represent loans individually evaluated for impairment
(2) General reserves represent loans collectively evaluated for impairment
(3) The difference between this amount and nonaccruing loans at September 30, 2011, 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:

September 30, 2011 (In Thousands)	30–59 Days Past Due and Still Accruing	60–89 Days Past Due and Still Accruing	Greater Than 90 Days Past Due and Still Accruing	Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
Commercial	$ 1,774	$ 507	$ 894	$ 3,175	$ 1,372,997	$ 21,370	$ 1,397,542
Commercial mortgages	967	-	73	1,040	581,955	20,875	603,870
Construction	359	-	-	359	89,444	21,701	111,504
Residential	4,332	2,483	562	7,377	267,386	10,571	285,334
Consumer	1,342	395	-	1,737	293,868	1,562	297,167
Total	$ 8,774	$ 3,385	$ 1,529	$ 13,688	$ 2,605,650	$ 76,079	$ 2,695,417
% of Total Loans	0.32 %	0.13 %	0.06 %	0.51 %	96.67 %	2.82 %	100 %

December 31, 2010 (In Thousands)	30–59 Days Past Due and Still Accruing	60–89 Days Past Due and Still Accruing	Greater Than 90 Days Past Due and Still Accruing	Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
Commercial	$ 2,839	$ 384	$ -	$ 3,223	$ 1,213,246	$ 21,577	$ 1,238,046
Commercial mortgages	764	-	-	764	611,744	9,490	621,998
Construction	1,685	-	-	1,685	108,714	30,260	140,659
Residential	6,403	2,024	465	8,892	289,864	11,739	310,495
Consumer	1,355	163	-	1,518	305,290	3,701	310,509
Total	$ 13,046	$ 2,571	$ 465	$ 16,082	$ 2,528,858	$ 76,767	$ 2,621,707
% of Total Loans	0.49 %	0.10 %	0.02 %	0.61 %	96.46 %	2.93 %	100 %

Impaired Loans

The following tables provide an analysis of our impaired loans at September 30, 2011 and December 31, 2010:

September 30, 2011	Ending Loan	Loans with	Loans with Specific	Related Specific	Contractual Principal	Average Loan

(In Thousands)	Balances	No Specific Reserve (1)	Reserve	Reserve	Balances	Balances
Commercial	$ 21,270	$ 18,381	$ 2,889	$ 1,810	$ 30,291	$ 22,196
Commercial mortgages	20,306	11,960	8,346	1,604	28,728	16,251
Construction	21,701	3,687	18,014	3,005	44,010	28,622
Residential	17,666	11,419	6,247	808	20,740	17,794
Consumer	3,176	1,880	1,296	120	3,728	4,240
Total	$ 84,119	$ 47,327	$ 36,792	$ 7,347	$ 127,497	$ 89,103

December 31, 2010 (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	$ 21,527	$ 14,555	$ 6,972	$ 4,845	$ 29,309	$ 16,139
Commercial mortgages	9,490	3,263	6,227	2,591	12,001	4,530
Construction	30,260	12,166	18,094	3,485	53,265	36,102
Residential	17,441	11,226	6,215	968	22,112	16,667
Consumer	5,106	3,969	1,137	130	6,558	4,184
Total	$ 83,824	$ 45,179	$ 38,645	$ 12,019	$ 123,245	$ 77,622

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

Interest income of $94,000 and $279,000 was recognized on impaired loans during the three and nine months ended September 30, 2011, respectively.

Credit Quality Indicators

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

Pass. These assets presently show no current or potential problems and are considered fully collectible.

Special Mention. These assets do not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification but do possess credit deficiencies or potential weaknesses deserving our close attention. Special mention assets have a potential weakness or pose an unwarranted financial risk which, if not corrected, could weaken the asset and increase risk in the future.

Substandard. Assets which are inadequately protected by the current net worth and paying capacity of the obligor or collateral, if any. Assets so classified have a well-defined weakness or weaknesses based upon objective evidence that jeopardizes the timely liquidation of the asset, or realization of the collateral at the asset’s net book value. Substandard assets can be classified as accrual or nonaccrual and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. The possibility of untimely liquidation requires a substandard classification even if there is little likelihood of total loss.

Doubtful. The rating designated to assets with all the weaknesses of substandard assets and added weaknesses that make collection in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

Loss. These assets are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather, that it is not practical or desirable to defer writing off a mostly worthless asset even though partial recovery may occur 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.

The following tables provide an analysis of problem loans as of September 30, 2011 and December 31, 2010:

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

	Commercial		Commercial Mortgages		Construction		Total Commercial			
							September 30, 2011		December 3 2010	
	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Amount	Percent	Amount	Pe
Risk Rating:										
Special mention	$74,727	$39,544	$30,514	$13,195	$11,328	$21,970	$116,569		$74,709	
Substandard:										
Accrual	67,197	54,230	4,291	21,121	17,988	32,560	89,476		107,911	
Nonaccrual	21,370	21,577	20,875	9,490	21,701	30,260	63,946		61,327	
Total Special Mention and Substandard	163,294	115,351	55,680	43,806	51,017	84,790	269,991	13%	243,947	1
Pass	1,234,248	1,122,695	548,190	578,192	60,487	55,869	1,842,925	87	1,756,756	8
Total Commercial Loans	$1,397,542	$1,238,046	$603,870	$621,998	$111,504	$140,659	$2,112,916	100%	$2,000,703	10

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

	Residential			Consumer			Total Residential and Consumer			
	Sept. 30, 2011		Dec.31, 2010	Sept. 30, 2011		Dec.31, 2010	September 30, 2011 Amount	Percent	December 31, 2010 Amount	Percent
Nonperforming	$ 17,666	(1)	$ 17,441	$ 3,176	(1)	$ 5,106	$ 20,842	4 %	$ 22,547	4 %
Performing	267,668		293,054	293,991		305,403	561,659	96	598,457	96
Total	$ 285,334		$ 310,495	$ 297,167		$ 310,509	$ 582,501	100 %	$ 621,004	100 %

(1) Includes $8.7 million of troubled debt restructured mortgages and home equity installment loans performing in accordance with modified terms and are accruing interest.

Troubled Debt Restructurings (TDR)

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. As such, 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 September 30, 2011 and December 31, 2010 was $27.7 million and $12.0 million, respectively. The balances at September 30, 2011 include approximately $19.0 million of TDRs in nonaccrual status and $8.7 million of TDRs in accrual status compared to $4.9 million of TDRs in nonaccrual status and $7.1 million of TDRs in accrual status at December 31, 2010. Approximately $2.1 million and $1.3 million in specific reserves have been established for these loans as of September 30, 2011 and December 31, 2010, respectively.

During the nine months ending September 30, 2011, the terms of 27 loans were modified in troubled debt restructurings, of which 19 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 eight loans represented residential and consumer 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 and nine months ended September 30, 2011:

(In Thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Commercial	$ 746	$ 1,352
Commercial mortgages	2,170	7,725
Construction	189	13,909
Residential	-	2,335
Consumer	146	146
Total	$ 3,251	$ 25,467

The troubled debt restructurings described above increased the allowance for loan losses by $1.2 million through allocation of a specific reserve, and resulted in charge offs of $10.3 million during the nine months ending September 30, 2011, most of which had been previously identified and reserved for in prior periods.

The following table summarizes TDRs which have defaulted (defined as past due 90 days) during the three and nine months ended September 30, 2011 that were restructured within the last twelve months prior to September 30, 2011:

(In Thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Commercial	$ -	$ -
Commercial mortgages	-	-
Construction	-	-
Residential	162	162
Consumer	-	-
Total	$ 162	$ 162

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6. COMPREHENSIVE INCOME

The following schedule reconciles net income to total comprehensive income:

	For the three months ended September 30, (In Thousands)		For the nine months ended September 30, (In Thousands)	
	2011	2010	2011	2010
Net income	$6,786	$8,222	$16,515	$12,037
Other Comprehensive Income:				
Other, net	—	162	—	162
Unrealized holding gains on securities available-for-sale arising during the period	8,568	1,105	9,321	18,590
Tax expense	(3,230)	(420)	(3,516)	(7,064)
Net of tax amount	5,338	685	5,805	11,526
Total comprehensive income	$12,124	$9,069	$22,320	$23,725

7. 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 September 30, 2011 and December 31, 2010 were $100,000 and $1.0 million, respectively, of which $100,000 would affect our September 30, 2011 effective tax rate if recognized. During the quarter ended September 30, 2011 we recorded tax benefits of $376,000 through earnings that resulted from a decrease in our income tax reserve primarily due to the expiration of a statute of limitations on a certain tax item. Further, we recorded tax benefits of $500,000 through equity during the quarter ended September 30, 2011 for a similar statute of limitations related decrease in the income tax reserve. The nine months ended September 30, 2010 included tax benefits of $899,000 resulting from a decrease in our income tax reserve due to the expiration of the statute of limitations on certain tax items. As of September 30, 2011 and December 31, 2010, the total amount of accrued interest included in such unrecognized tax benefits were $18,000 and $51,000, respectively. 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 2010 tax years are subject to examination as of September 30, 2011. There are currently no income tax audits in process.

8. 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 (including WSFS Investment Group, Inc.), Cash Connect, (the ATM division of WSFS), and Trust and Wealth Management. Trust and Wealth Management combines Montchanin and Christiana Trust into a single reportable segment.

The WSFS Bank segment provides financial products to commercial and retail customers through its 49 offices located in Delaware (39), Pennsylvania (8), Virginia (1) and Nevada (1). Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking and other banking business units (including the reorganization of WSFS Investment Group, Inc.) 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 our 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 and Montchanin. Christiana Trust was acquired as part of the acquisition of CB&T in December 2010 and WSFS' Trust and Wealth Management 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. The Christiana Trust division provides these services to local, national and international customers. 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.

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 the same that apply to the preparation of our accompanying Consolidated Financial Statements. Segment information for the three and nine months ended September 30, 2011 and 2010 was as follows:

For the three months ended September 30, 2011

	WSFS Bank	Cash Connect	Trust & Wealth Management	Total
	(In Thousands)			
External customer revenues:				
Interest income	$40,091	$-	$ -	$40,091
Noninterest income	9,701	4,235	2,988	16,924
Total external customer revenues	49,792	4,235	2,988	57,015
Inter-segment revenues:				
Interest income	349	-	876	1,225
Noninterest income	754	202	-	956
Total inter-segment revenues	1,103	202	876	2,181
Total revenue	50,895	4,437	3,864	59,196
External customer expenses:				
Interest expense	7,911	-	-	7,911
Noninterest expenses	27,867	2,187	2,358	32,412
Provision for loan loss	6,558	-	-	6,558
Total external customer expenses	42,336	2,187	2,358	46,881
Inter-segment expenses				
Interest expense	876	349	-	1,225
Noninterest expenses	202	358	396	956
Total inter-segment expenses	1,078	707	396	2,181
Total expenses	43,414	2,894	2,754	49,062
Income before taxes	$7,481	$1,543	$ 1,110	$10,134
Provision for income taxes				3,348
Consolidated net income				$6,786
Capital expenditures	$2,374	$837	$ 2	$3,213
As of September 30, 2011				
Cash and cash equivalents	$77,310	$383,358	$ 2,885	$463,553
Other segment assets	3,692,851	22,148	10,188	3,725,187
Total segment assets	$3,770,161	$405,506	$ 13,073	$4,188,740

For the three months ended September 30, 2010

	WSFS Bank	Cash Connect	Trust & Wealth Management	Total
	(In Thousands)			
External customer revenues:				
Interest income	$40,579	$-	$ -	$40,579
Noninterest income	10,172	3,523	730	14,425
Total external customer revenues	50,751	3,523	730	55,004
Inter-segment revenues:				
Interest income	238	-	-	238
Noninterest income	701	202	-	903
Total inter-segment revenues	939	202	-	1,141
Total revenue	51,690	3,725	730	56,145
External customer expenses:				
Interest expense	10,402	-	-	10,402
Noninterest expenses	23,916	(2,643)	819	22,092
Provision for loan loss	9,976	-	-	9,976
Total external customer expenses	44,294	(2,643)	819	42,470
Inter-segment expenses				
Interest expense	-	238	-	238
Noninterest expenses	202	377	324	903
Total inter-segment expenses	202			