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** | **22-2866913** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **Incorporation or organization)** | **Identification Number)** |
| **500 Delaware Avenue, Wilmington, Delaware** | **19801** |
| **(Address of principal executive offices)** | **(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** | **8,705,389** |
| **(Title of Class)** | **(Shares Outstanding)** |

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**WSFS FINANCIAL CORPORATION**

**FORM 10-Q**

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| Exhibit 101.INS | Instance Document | |
| Exhibit 101.SCH | Schema Document | |
| Exhibit 101.CAL | Calculation Linkbase Document | |
| Exhibit 101.LAB | Labels Linkbase Document | |
| Exhibit 101.PRE | Presentation Linkbase Document | |

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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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**WSFS FINANCIAL CORPORATION**

**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, | |
|---|---|---|
| | **2012** | 2011 |
| | (In Thousands, Except Per Share Data) | |
| **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 (In Thousands) | Unrealized Loss | Fair Value | Unrealized Loss |
| **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 (In Thousands) | Unrealized Loss | Fair Value | Unrealized Loss |
| 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<br>(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 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Mar 31, 2012** | Dec. 31, 2011 | **Mar 31, 2012** | Dec. 31, 2011 | **Mar 31, 2012** | Dec. 31, 2011 | **Mar 31, 2012** | Dec. 31, 2011 | **March 31, 2012** Amount | Percent | December 31, 2011 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31, 2012** | Dec. 31, 2011 | **Mar 31, 2012** | Dec. 31, 2011 | **March 31, 2012** Amount | Percent | December 31, 2011 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 |
| **As of March 31, 2012** | | | | |
| Cash and cash equivalents | $ 51,520 | $ 405,053 | $ 3,122 | $ 459,695 |
| Other segment assets | 3,667,601 | 2,530 | 197,328 | 3,867,459 |
| Total segment assets | $ 3,719,121 | $ 407,583 | $ 200,450 | $ 4,327,154 |

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For the three months ended March 31, 2011

| | WSFS Bank | Cash Connect | Trust & Wealth Management | Total |
|---|---|---|---|---|
| | | (In Thousands) | | |
| External customer revenues: | | | | |
| Interest income | $ 36,787 | $ | $ 2,365 | $ 39,152 |
| Noninterest income | 7,318 | 3,416 | 2,905 | 13,639 |
| Total external customer revenues | 44,105 | 3,416 | 5,270 | 52,791 |
| Inter-segment revenues: | | | | |
| Interest income | 830 | | 1,651 | 2,481 |
| Noninterest income | 1,842 | 161 | | 2,003 |
| Total inter-segment revenues | 2,672 | 161 | 1,651 | 4,484 |
| Total revenue | 46,777 | 3,577 | 6,921 | 57,275 |
| External customer expenses: | | | | |
| Interest expense | 8,550 | | 348 | 8,898 |
| Noninterest expenses | 27,371 | 1,765 | 2,251 | 31,387 |
| Provision for loan loss | 5,153 | | 755 | 5,908 |
| Total external customer expenses | 41,074 | 1,765 | 3,354 | 46,193 |
| Inter-segment expenses | | | | |
| Interest expense | 1,651 | 271 | 559 | 2,481 |
| Noninterest expenses | 161 | 451 | 1,391 | 2,003 |
| Total inter-segment expenses | 1,812 | 722 | 1,950 | 4,484 |
| Total expenses | 42,886 | 2,487 | 5,304 | 50,677 |
| Income (loss) before taxes | $ 3,891 | $ 1,090 | $ 1,617 | $ 6,598 |
| Provision for income taxes | | | | 2,392 |
| Consolidated net income | | | | $ 4,206 |
| Capital expenditures | $ 1,840 | $ 44 | $ | $ 1,884 |
| **As of December 31, 2011** | | | | |
| Cash and cash equivalents | $ 48,107 | $ 416,949 | $ 2,961 | $ 468,017 |
| Other segment assets | 3,618,744 | 2,155 | 200,092 | 3,820,991 |
| Total segment assets | $ 3,666,851 | $ 419,104 | $ 203,053 | $ 4,289,008 |

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**7. FAIR VALUE DISCLOSURES OF FINANCIAL ASSETS**

**FAIR VALUE OF FINANCIAL ASSETS**

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The table below presents the balances of assets measured at fair value as of March 31, 2012 (there are no material liabilities measured at fair value):

| Description | Quoted Prices in Active Markets for Identical Asset (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| | | | (in Thousands) | |
| **Assets Measured at Fair Value on a Recurring Basis** | | | | |
| Available-for-sale securities: | | | | |
| Collateralized mortgage obligations | $ | $ 312,593 | $ 3,500 | $ 316,093 |
| FNMA | | 372,493 | | 372,493 |
| FHLMC | | 94,116 | | 94,116 |
| GNMA | | 60,109 | | 60,109 |
| U.S. Government and GSE | | 45,011 | | 45,011 |
| State and political subdivisions | | 3,673 | | 3,673 |
| Reverse mortgages | | | (630) | (630) |
| Trading Securities | | | 12,465 | 12,465 |
| **Total assets measured at fair value on a recurring basis** | **$** | **$ 887,995** | **$ 15,335** | **$ 903,330** |
| **Assets Measured at Fair Value on a Nonrecurring Basis** | | | | |
| Other real estate owned | $ | $ | $ 6,708 | $ 6,708 |
| Impaired Loans (collateral dependent) | | | 72,294 | 72,294 |
| **Total assets measured at fair value on a nonrecurring basis** | **$** | **$** | **$ 79,002** | **$ 79,002** |

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The table below presents the balances of assets measured at fair value as of December 31, 2011 (there are no material liabilities measured at fair value):

| Description | Quoted Prices in Active Markets for Identical Asset (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| | | | (in Thousands) | |
| **Assets Measured at Fair Value on a Recurring Basis** | | | | |
| Available-for-sale securities: | | | | |
| Collateralized mortgage obligations | $ | $ 324,450 | $ 3,936 | $ 328,386 |
| FNMA | | 329,354 | | 329,354 |
| FHLMC | | 95,086 | | 95,086 |
| GNMA | | 63,967 | | 63,967 |
| U.S. Government and GSE | | 39,025 | | 39,025 |
| State and political subdivisions | | 4,190 | | 4,190 |
| Reverse mortgages | | | (646) | (646) |
| Trading Securities | | | 12,432 | 12,432 |
| **Total assets measured at fair value on a recurring basis** | **$** | **$ 856,072** | **$ 15,722** | **$ 871,794** |
| **Assets Measured at Fair Value on a Nonrecurring Basis** | | | | |
| Other real estate owned | $ | $ 11,695 | $ | $ 11,695 |
| Impaired Loans (collateral dependent) | | 74,562 | | 74,562 |
| **Total assets measured at fair value on a nonrecurring basis** | **$** | **$ 86,257** | **$** | **$ 86,257** |

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include unobservable parameters. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe our valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

*Available- for-sale securities*. As of March 31, 2012, securities classified as available for sale are reported at fair value using both Level 2 and Level 3 inputs. Included in the Level 2 total are approximately $45.0 million in Federal Agency debentures, $758.4 million in Federal Agency MBS, $80.9 million of Private Label MBS, and $3.7 million in municipal bonds. Agency and MBS securities are predominately AAA-rated. We believe that this Level 2 designation is appropriate for these securities under ASC 820-10 as, with almost all fixed income securities, none are exchange traded, and all are priced by correlation to observed market data. For these securities we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security s terms and conditions, among other factors. Included in the Level 3 total is a small equity traunche of a reverse mortgage security purchased on July 15, 2011. This security is Level 3 because there is no active market for this security and no observable inputs that reflect quoted prices for identical assets in active markets (Level 1) or inputs other than quoted prices that are observable for the asset through corroboration with observable market data (Level 2). In order to establish the fair value for a Level 3 asset a mark-to-model has been developed using the income approach described in ASC 820-10-35-32 and is similar to the methodology used to value our trading securities described below.

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*Trading securities*. The amount included in the trading securities category represents the fair value of a BBB-rated traunche of a reverse mortgage security. There has never been an active market for these securities. As such, we classify these trading securities as Level 3 under ASC 820-10. As prescribed by ASC 820-10 management used various observable and unobservable inputs to develop a range of likely fair value prices where this security would be exchanged in an orderly transaction between market participants at the measurement date. The unobservable inputs reflect management s assumptions about the estimates that market participants would use in pricing this asset. Included in these inputs were the median of a selection of other BBB-rated securities as well as quoted market prices from higher rated tranches of this asset class. As a result, the value assigned to this security is determined primarily through a discounted cash flow analysis. All of these assumptions require a significant degree of management judgment. The key inputs consist of prepayments, house price appreciation and interest rates. Management has completed a sensitivity analysis at March 31, 2012, which showed any increase or decrease in these inputs would not have a significant impact on the fair value of these assets.

*Reverse Mortgages.* The amount of our investment in reverse mortgages represents the estimated value of future cash flows of the reverse mortgages at a rate deemed appropriate for these mortgages, based on the market rate for similar collateral. The projected cash flows depend on assumptions about life expectancy of the mortgagor and the future changes in collateral values. Due to the significant amount of management judgment and the unobservable input calculations, these reverse mortgages have been classified as Level 3.

*The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:*

| (In Thousands) | Trading Securities | Reverse Mortgages | Available-for-sale Securities | Total |
|---|---|---|---|---|
| **Balance at December 31, 2010** | $ 12,432 | $ (686) | $ | $ 11,746 |
| Total net income (losses) for the period included in net income | | (137) | 265 | 128 |
| Purchases, sales, issuances, and settlements, net | | 177 | 2,755 | 2,932 |
| Mark-to-market adjustment | | | 916 | 916 |
| **Balance at December 31, 2011** | $ 12,432 | $ (646) | 3,936 | $ 15,722 |
| Total net income (losses) for the period included in net income | 33 | (29) | | 4 |
| Purchases, sales, issuances, and settlements, net | | 45 | | 45 |
| Mark-to-market adjustment | | | (436) | (436) |
| **Balance at March 31, 2012** | **$ 12,465** | **$ (630)** | **$ 3,500** | **$ 15,335** |

*Other real estate owned.* Other real estate owned consists of loan collateral which has been repossessed through foreclosure or other measures. Initially, foreclosed assets are recorded as held for sale at the lower of the loan balance or fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically and the assets may be marked down further, reflecting a new cost basis. The fair value of our real estate owned was estimated using Level 3 inputs based on appraisals obtained from third parties.

*Impaired loans.* We evaluate and value impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan s collateral has a unique appraisal and management s discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management s subjective discount on appraisals of the collateral securing the loan, which range from 10% - 50%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by us. Appraised and reported values may be discounted based on management s historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management s expertise and knowledge of the client and the client s business.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross amount of $82.9 million and $80.0 million at March 31, 2012 and December 31, 2011, respectively. The valuation allowance on impaired loans was $8.7 million as of March 31, 2012 and $4.7 million as of December 31, 2011.

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In light of the continuing slow-down in the real estate market, management is required to utilize a more significant level of unobservable inputs and, as such, we have reclassified the hierarchical levels of both Other Real Estate Owned and Impaired Loans to Level 3 as of March 31, 2012.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

The reported fair values of financial instruments are based on a variety of factors. In certain cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions regarding the amount and timing of estimated future cash flows that are discounted to reflect current market rates and varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of period-end or that will be realized in the future.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and Short-Term Investments:* For cash and short-term investments, including due from banks, federal funds sold, securities purchased under agreements to resell and interest-bearing deposits with other banks, the carrying amount is a reasonable estimate of fair value.

*Loans:* Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, construction, residential mortgages and consumer. For loans that reprice frequently, the book value approximates fair value. The fair values of other types of loans are estimated by discounting expected cash flows using the current rates at which similar loans would be made to borrowers with comparable credit ratings and for similar remaining maturities. The fair value of nonperforming loans is based on recent external appraisals of the underlying collateral. Estimated cash flows, discounted using a rate commensurate with current rates and the risk associated with the estimated cash flows, are utilized if appraisals are not available. This technique does not contemplate an exit price.

*Bank-Owned Life Insurance:* The estimated fair value approximates the carrying value for this investment.

*Stock in the Federal Home Loan Bank of Pittsburgh:* The fair value of FHLB stock is assumed to be essentially equal to its cost. We carry FHLB stock at cost, or par value, and evaluate FHLB stock for impairment based on the ultimate recoverability of par value rather than by recognizing temporary declines in value. As part of the impairment assessment of FHLB stock, management considers, among other things, (i) the significance and length of time of any declines in net assets of the FHLB compared to its capital stock, (ii) commitments by the FHLB to make payments required by law or regulations and the level of such payments in relation to its operating performance, (iii) the impact of legislative and regulatory changes on FHLB, the FHLB has access to the U.S. Government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLB would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. On August 8, 2011, Standard & Poors ( S&P ) downgraded the FHLB from AAA to AA+, similar to their downgrade of the U.S. sovereign rating. The reduction in the FHLB credit rating was due to the belief, by S&P, that the FHLB system is certain to receive U.S. government support, if necessary, resulting from the important role the FHLB system plays as primary liquidity providers to U.S. mortgage and housing-market participants. Despite the downgrade, the FHLB continues to have a very high degree of government support and was in compliance with all regulatory capital requirements as of March 31, 2012. As a result, we have determined there was no other-than-temporary impairment related to our FHLB stock investment as of March 31, 2012.

*Demand Deposits, Savings Deposits and Time Deposits:* The fair value of demand deposits and savings deposits is determined by projecting future cash flows using an estimated economic life based on account characteristics. The resulting cash flow is discounted using rates available on alternative funding sources. The fair value of time deposits is estimated using the rate and maturity characteristics of the deposits to estimate their cash flow. The cash flow is discounted at rates for similar term wholesale funding.

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*Borrowed Funds:* Rates currently available to us for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

*Off-Balance Sheet Instruments:* The fair value of off-balance sheet instruments, including commitments to extend credit and standby letters of credit, is estimated using the fees currently charged to enter into similar agreements with comparable remaining terms and reflects the present creditworthiness of the counterparties.

The book value and estimated fair value of our financial instruments are as follows:

| | **Fair Value Measurement** | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|---|
| *(In Thousands)* | | **Book Value** | **Fair Value** | Book Value | Fair Value |
| Financial assets: | | | | | |
| Cash and cash equivalents | Level 1 | **$ 459,456** | **$ 459,456** | $ 468,017 | $ 468,017 |
| Investment securities | See previous table | **903,330** | **903,330** | 871,794 | 871,794 |
| Loans held for sale | Level 3 | **8,173** | **8,173** | 10,185 | 10,185 |
| Loans, net | Level 3 | **2,723,863** | **2,744,491** | 2,702,589 | 2,721,804 |
| Stock in Federal Home Loan Bank of Pittsburgh | Level 2 | **33,968** | **33,968** | 35,756 | 35,756 |
| Accrued interest receivable | Level 2 | **11,582** | **11,582** | 11,743 | 11,743 |
| Financial liabilities: | | | | | |
| Deposits | Level 2 | **3,189,508** | **3,090,097** | 3,135,304 | 3,087,464 |
| Borrowed funds | Level 2 | **703,097** | **709,554** | 723,620 | 731,522 |
| Standby letters of credit | Level 3 | **297** | **297** | 322 | 322 |
| Accrued interest payable | Level 2 | **3,817** | **3,817** | 1,910 | 1,910 |

The estimated fair value of our off-balance sheet financial instruments is as follows:

| *(In Thousands)* | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| Off-balance sheet instruments: | | |
| Commitments to extend credit | **$ 4,414** | $ 4,445 |

**8. INDEMNIFICATIONS AND GUARANTEES**

**Secondary Market Loan Sales**. We generally do not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances first payment defaults by borrowers. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. These indemnifications may include our repurchase of the loans. Repurchases and losses are rare, and no provision is made for the losses at the time of sale. During the first quarter of 2012, we had no repurchases under these indemnifications.

We typically sell fixed-rate, conforming first mortgage loans (including reverse mortgages) in the secondary market as part of our ongoing asset/liability management program. Loans held-for-sale are carried at the lower of cost or market of the aggregate or in some cases individual loans. Gains and losses on sales of loans are recognized at the time of the sale.

**Swap Guarantees.** We entered into agreements with three unrelated financial institutions whereby those financial institutions entered into interest rate derivative contracts (interest rate swap transactions) with customers referred to them by us. By the terms of the agreements, those financial institutions have recourse to us for any exposure created under each swap transaction in the event the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. This is a customary arrangement that allows smaller financial institutions like us to provide access to interest rate swap transactions for our customers without creating the swap ourselves.

At March 31, 2012 there were 81 variable-rate swap transactions between the third party financial institutions and our customers, compared to 79 at December 31, 2011. The initial notional amount aggregated approximately $319.8 million at March 31, 2012 compared with $318.1 million at December 31, 2011. At March 31, 2012 maturities ranged from approximately 4 months to 13 years. The aggregate market value of these swaps to the customers was a liability of $30.7 million at March 31, 2012 and $32.8 million at December 31, 2011.

**9. ASSOCIATE (EMPLOYEE) BENEFIT PLANS**

**Postretirement Benefits**

We share certain costs of providing health and life insurance benefits to retired Associates (and their eligible dependents). Substantially all Associates may become eligible for these benefits if they reach normal retirement age while working for us.

We account for our obligations under the provisions of FASB ASC 715, *Compensation Retirement Benefits* ( ASC 715 ) (Formerly SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions*). ASC 715 requires that the costs of these benefits be recognized over an Associate s active working career. Disclosures are in accordance with ASC 715.

The following disclosures of the net periodic benefit cost components of postretirement benefits were measured at January 1, 2012 and 2011:

| | Three months ended March 31, | |
|---|---|---|
| (In Thousands) | **2012** | 2011 |
| Service cost | **$ 72** | $ 52 |
| Interest cost | **44** | 42 |
| Amortization of transition obligation | **15** | 15 |
| Net loss recognition | **17** | 8 |
| Net periodic benefit cost | **$ 148** | $ 117 |

**10. STOCK AND COMMON STOCK WARRANTS**

In August 2010, we completed an underwritten public offering of 1,370,000 shares of common stock. The offering priced at $36.50 per share, a slight premium to the prior day s closing price, and raised $47.1 million net of $2.9 million of costs.

On September 24, 2009 we completed a private placement of stock to Peninsula Investment Partners, L.P. (Peninsula), pursuant to which we issued and sold 862,069 shares of common stock for a total purchase price of $25.0 million, and a 10-year warrant to purchase 129,310 shares of common stock at an exercise price of $29.00 per share. The warrant is immediately exercisable. During 2011 all shares were distributed on a pro-rata basis to the fund holders of Peninsula with the warrants being transferred to Peninsula s managing partner.

Total proceeds of $25.0 million were allocated, based on the relative fair value of common stock and common stock warrants, to common stock for $23.5 million and common stock warrants for $1.5 million on September 24, 2009.

On January 23, 2009, we entered into a purchase agreement with the U.S. Treasury pursuant to which we issued and sold 52,625 shares of our fixed-rate cumulative perpetual preferred stock for a total purchase price of $52.6 million, and a 10-year warrant to purchase 175,105 shares of common stock at an exercise price of $45.08 per share. On March 28, 2012, the U.S. Department of the Treasury held a public auction where it sold all 52,625 shares, which represented the Treasury s entire preferred stock holding in WSFS. Under the terms of the agreement, WSFS will continue to pay a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year. We have declared and paid $658,000 preferred stock dividends during the three months ended March 31, 2012.

Total proceeds of $52.6 million were allocated, based on the relative fair value of the preferred stock and common stock warrants, to preferred stock for $51.9 million and common stock warrants for $693,000 respectively, on January 23, 2009. The preferred stock discount is being accreted, on an effective yield method, to preferred stock over five years. We have accreted $35,000 during the three months ended March 31, 2012, relating to the discount on preferred stock.

The preferred stock is nonvoting, except for class voting rights on certain matters that could adversely affect the shares. They may be redeemed by us for the liquidation preference ($1,000 per share), plus accrued but unpaid dividends. The warrant is exercisable immediately and subject to certain anti-dilution and other adjustments.

**11. GOODWILL AND INTANGIBLES**

In accordance with FASB ASC 805, *Business Combinations*, and FASB ASC 350, *Intangibles Goodwill and Other*, all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles are recorded at fair value. We consider our accounting policies related to goodwill and other intangible assets to be critical because the assumptions and judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions and judgment could have a significant impact on our financial condition or results of operations.

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third-party sources, when available. When third-party information was not available we made good-faith estimates primarily through the use of internal cash flow modeling techniques. The assumptions used in the cash flow modeling are subjective and susceptible to significant changes.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least annually and charged to results of operations in periods in which the recorded value is more than the estimated fair value. Intangible assets that have finite useful lives will continue to be amortized over their useful lives and are periodically evaluated for impairment. Goodwill totaled $28.1 million at both March 31, 2012 and December 31, 2011. The majority of this goodwill, or $23.0 million, is in the WSFS Bank reporting unit and is the result of a branch acquisition in 2008 and the acquisition of CB&T during 2010. The remaining $5.1 million is in the Trust and Wealth Management reporting unit and is mainly the result of the acquisition of CB&T.

Goodwill is tested for impairment using a two-step process that begins with an estimation of fair value. The first step compares the estimated fair value of our reporting units with their carrying amounts, including goodwill. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. However, if the carrying amount exceeds its estimated fair value, a second step is performed comparing the implied fair value to the carrying amount of goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analyses and other variables. Estimated cash flows extend five years into the future and, by their nature, are difficult to estimate over such an extended period of time. Factors that may significantly affect estimates include, but are not limited to, balance sheet growth assumptions, credit losses in our investment and loan portfolios, competitive pressures in our market area, changes in customer base and customer product preferences, changes in revenue growth trends, cost structure, changes in discount rates, conditions in the banking sector and general economic variables.

As of December 31, 2011, we completed the Step One test of the analysis to determine potential goodwill impairment of the WSFS Bank and Trust and Wealth Management reporting units. The valuation incorporated a market-based analysis and indicated the fair values of our WSFS Bank and Trust and Wealth Management reporting units were above their carrying amounts. Therefore, in accordance with FASB ASC 350-20-35-6, the Step Two analysis was not required.

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FASB ASC 350, also requires that an acquired intangible asset be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer s intent to do so.

The following table summarizes other intangible assets:

| | Gross Intangible Assets | Accumulated Amortization (In Thousands) | Net Intangible Assets |
|---|---|---|---|
| **March 31, 2012** | | | |
| **Core deposits** | **$ 4,370** | **$ (1,549)** | **$ 2,821** |
| **Other** | **4,870** | **(1,759)** | **3,111** |
| **Total other intangible assets** | **$ 9,240** | **$ (3,308)** | **$ 5,932** |
| December 31, 2011 | | | |
| Core deposits | $ 4,370 | $ (1,393) | $ 2,977 |
| Other | 4,865 | (1,703) | 3,162 |
| Total other intangible assets | $ 9,235 | $ (3,096) | $ 6,139 |

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits and straight-line methods of amortization. During the three months ended March 31, 2012, we recognized amortization expense on other intangible assets of $212,000.

The following presents the estimated amortization expense of intangibles:

| **(In Thousands)** | **Amortization of Intangibles** |
|---|---|
| Remaining in 2012 | $ 885 |
| 2013 | 916 |
| 2014 | 758 |
| 2015 | 711 |
| 2016 | 465 |
| Thereafter | 2,197 |
| Total | $ 5,932 |

For the three months ended March 31, 2012, we determined there were no events that would trigger impairment testing of goodwill and other intangible assets. Changing economic conditions that may adversely affect our performance and stock price could result in impairment, which could adversely affect earnings in the future.

**12. LEGAL PROCEEDINGS**

We were served with a complaint filed in U.S. Bankruptcy Court by a bankruptcy trustee relating to a former WSFS Bank customer. The complaint challenges the Bank s actions in exercising its rights concerning an outstanding loan and also seeks to avoid and recover the pre-bankruptcy repayment of that loan. Management of the Bank believes it acted appropriately and is vigorously defending itself against the complaint. No litigation reserve has been recorded as it is not yet possible to establish the probability of, or reasonably estimate, a potential loss. Our insurance carrier has determined our future litigation defense costs are covered by an insurance policy we have for such matters.

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On November 18, 2011, a purported class action was filed in the Delaware Superior Court for New Castle County. The Complaint challenges WSFS Bank s practices relating to its assessment and collection of overdraft fees on checking accounts. Damages are sought for the statute of limitations period applicable to the claims made in the suit, and include restitution of overdraft fees paid to WSFS Bank, actual damages allegedly sustained by customers, punitive damages, and attorney s fees. This case is nearly identical to numerous other lawsuits that have been brought by a small handful of class action litigators. We have discovered more than 120 other overdraft suits that have been brought against U.S. banks. No litigation reserve has been recorded as it is not yet possible to establish the probability of, or reasonably estimate, a potential loss. We strongly believe that our overdraft practices are fair to our customers and comply fully with all applicable laws and regulations. We believe this suit is without merit and intend to vigorously defend the pending action.

There are no other significant pending legal proceedings involving us other than those arising out of routine operations. Management does not anticipate that the ultimate liability, if any, arising out of such other proceedings will have a material effect on the Consolidated Financial Statements.

**13. SUBSEQUENT EVENTS**

In April, 2012, we began a process to sell in bulk sale transactions approximately $52 million in unpaid principal balance, as of March 31, 2012, of criticized and nonperforming loans. Preliminary bids are due by June 7, 2012 and, assuming receipt of an acceptable bid, we anticipate that the closing of such a sale will be completed on or around June 30, 2012. We are not bound to complete these sales, and may choose to reject any and all bids based upon the terms of the bids received. Overall, bids are expected to reflect discounts from current asset carrying values and these discounts may be significant. The loans anticipated to be sold were reclassified as loans held for sale in April 2012.

Concurrently with the proposed bulk sale, we anticipate selling approximately $300 million in mortgage-backed securities at a gain and reinvesting the proceeds in similar securities but with a shorter duration reducing the prepayment and interest-rate risk in the overall portfolio. We expect the gain from the securities sales may offset all, or a large part of the loss to be included in the bulk sale transactions. While future earnings may be negatively impacted by the decreased securities yield, we expect that the impact on 2012 earnings will be offset by an improvement in total credit costs from the bulk sales.

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## ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

WSFS Financial Corporation is parent to Wilmington Savings Fund Society, FSB ( WSFS Bank or the Bank ), the seventh oldest bank and trust in the United States continuously operating under the same name. A permanent fixture in the community, WSFS has been in operation for more than 180 years. In addition to its focus on stellar customer service, the Bank has continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed, community banking institution that has grown to become the largest thrift holding company in the State of Delaware, one of the top commercial lenders in the state, the third largest bank in terms of Delaware deposits and one of the top trust companies in the country. We state our mission simply: We Stand for Service and Strengthening Our Communities.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a $2.1 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering a high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits. We service our customers primarily from our 49 offices located in Delaware (39), Pennsylvania (8), Virginia (1) and Nevada (1). We also offer a broad variety of consumer loan products, retail securities and insurance brokerage through our retail branches.

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc. ( Montchanin ) and one unconsolidated affiliate, WSFS Capital Trust III ( the Trust ).

WSFS Bank has two wholly owned subsidiaries, WSFS Investment Group, Inc. and Monarch Entity Services, LLC ( Monarch ). WSFS Investment Group, Inc., markets various third-party investment and insurance products, such as single-premium annuities, whole life policies and securities primarily through the Bank s retail banking system and directly to the public. Monarch provides commercial domicile services which include employees, directors, sublease of office facilities and registered agent services in Delaware and Nevada.

Our Cash Connect division is a premier provider of ATM Vault Cash and related services in the United States. Cash Connect manages nearly $448 million in vault cash in more than 12,000 ATMs nationwide and also provides online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates over 400 ATMs for WSFS Bank, which has, by far, the largest branded ATM network in Delaware.

We offer trust and wealth management services through Christiana Trust, Cypress Capital Management, LLC (Cypress), WSFS Investment Group brokerage and our Private Banking group. The Christiana Trust division provides investment, fiduciary, agency and commercial domicile services from locations in Delaware and Nevada and has over $11 billion in assets under administration. These services are provided to individuals and families as well as corporations and institutions. The Christiana Trust division of WSFS Bank provides these services to customers locally, nationally and internationally making use of the advantages of its branch facilities in Delaware and Nevada. Cypress is an investment advisory firm that manages more than $500 million of portfolios for individuals, trusts, retirement plans and endowments. WSFS Investment Group, Inc. markets various third-party insurance products and securities through the Bank s retail banking system.

Until July 21, 2011, WSFS Financial Corporation and WSFS Bank were regulated by the Office of Thrift Supervision. As of July 21, 2011, WSFS Financial Corporation s primary federal regulator became the Federal Reserve and WSFS Bank s primary federal regulator became the Office of the Comptroller of the Currency. While we do not anticipate the change in primary regulators will have a material impact on our operations, there can be no assurance that the interpretation by these agencies of the regulations governing our business will not be different than that of the Office of Thrift Supervision which may affect the manner in which we conduct our business in the future.

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, and exhibits thereto, contains estimates, predictions, opinions, projections and other statements that may be interpreted as forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to our financial goals, management s plans and objectives for future operations, financial and business trends, business prospects, and management s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. Such forward-looking statements are based on various assumptions (some of which may be beyond the Company s control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to, the results of the Company s proposed bulk sale and investment securities transactions; those related to the economic environment, particularly in the market areas in which the Company operates; the volatility of the financial and securities markets, including changes with respect to the market value of financial assets; changes in market interest rates, changes in government regulation affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules being issued in accordance with this statute and potential expenses associated therewith; and the costs associated with resolving any problem loans and other risks and uncertainties, discussed in documents filed by WSFS Financial Corporation with the Securities and Exchange Commission from time to time. Forward looking statements are as of the date they are made, and the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

**CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these Consolidated Financial Statements requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those related to the allowance for loan losses, deferred taxes, fair value measurements, goodwill and other intangible assets. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Although our current estimates contemplate current economic conditions and how we expect them to change in the future, for the remainder of 2012, it is reasonably possible that actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Actual results may differ from these estimates under different assumptions or conditions.

The following are critical accounting policies that involve more significant judgments and estimates. See further discussion of these critical accounting policies in the 2011 Annual Report on Form 10-K.

**Allowance for Loan Losses**

We maintain allowances for loan losses and charge losses to these allowances when realized. We consider the determination of the allowance for loan losses to be critical because it requires significant judgment reflecting our best estimate of impairment related to specifically evaluated impaired loans as well as the inherent risk of loss for those in the remaining loan portfolio. Our evaluation is based upon a continuing review of the portfolio, with consideration given to evaluations resulting from examinations performed by regulatory authorities.

**Deferred Taxes**

We account for income taxes in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740, *Income Taxes* ( ASC 740 ), which 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 consider our accounting policies on deferred taxes to be critical because we regularly assess the need for valuation allowances on deferred income tax assets that may result from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences. No valuation allowance is required as of March 31, 2012.

**Fair Value Measurements**

We adopted FASB ASC 820-10 *Fair Value Measurements and Disclosures* ( ASC 820 ), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. We consider our accounting policies related to fair value measurements to be critical because they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. See Note 7, Fair Value of Financial Assets to our Consolidated Financial Statements.

**Goodwill and Other Intangible Assets**

In accordance with FASB ASC 805, *Business Combinations*, and FASB ASC 350, *Intangibles Goodwill and Other*, all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles are recorded at fair value. We consider our accounting policies related to goodwill and other intangible assets to be critical because the assumptions or judgment used in determining the fair value of assets and liabilities acquired in past acquisitions are subjective and complex. As a result, changes in these assumptions or judgment could have a significant impact on our financial condition or results of operations.

For additional information regarding our goodwill and other intangible assets, see Note 11 to the Consolidated Financial Statements.

**FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY**

**Financial Condition**

Our total assets increased $38.1 million or 1% to $4.3 billion as of March 31, 2012. Included in this increase was a $21.3 million, or 1% increase in net loans, and a $31.5 million, or 4%, increase in investment securities. The increase in loans was mainly in commercial and industrial (C&I) loans which grew $25.6 million, or 2% during the first quarter of 2012. This growth occurred despite typically slower seasonal loan growth during the first quarter and was partially offset by a decrease in residential and consumer loans, generally reflecting a continuing purposeful change in the mix of our loan portfolios. In addition, and partially offsetting these increases, cash and cash equivalents decreased $8.3 million or 2% during the quarter.

Total liabilities increased $33.7 million during the quarter to $3.9 billion as of March 31, 2012. This increase was primarily the result of increased deposits of $54.2 million, or 2%, and an increase of $25.0 million in federal funds purchased and securities sold under agreements to repurchase. Partially offsetting these increases was a $34.8 million decrease in other borrowed funds, which includes customer sweep accounts.

**Capital Resources**

Stockholders equity increased $4.4 million between December 31, 2011 and March 31, 2012. This increase was mainly due to net income of $6.4 million. Partially offsetting this increase was a decrease of $1.0 million in the value of our available-for-sale securities portfolio combined with the payment of common and preferred dividends of $1.7 million during the three months ended March 31, 2012.

Book value per common share was $45.55 at March 31, 2012 an increase of $0.36 from $45.19 reported at December 31, 2011. Tangible common book value per common share (a non-GAAP measurement) was $35.62 at March 31, 2012, an increase of $0.42, or 1% from $35.20 reported at December 31, 2011.

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Below is a table comparing the Bank s consolidated capital position to the minimum regulatory requirements as of March 31, 2012:

| | Consolidated Bank Capital | | For Capital Adequacy Purposes | | To be Well-Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amount | % of Assets | Amount | % of Assets | Amount | % of Assets |
| Total Capital (to Risk-Weighted Assets) | $ 441,162 | 13.57% | $ 260,144 | 8.00% | $ 325,180 | 10.00% |
| Core Capital (to Adjusted Total Assets) | 400,317 | 9.34 | 171,497 | 4.00 | 214,371 | 5.00 |
| Tangible Capital (to Tangible Assets) | 400,317 | 9.34 | 64,311 | 1.50 | N/A | N/A |
| Tier 1 Capital (to Risk-Weighted Assets) | 400,317 | 12.31 | 130,072 | 4.00 | 195,108 | 6.00 |

Under guidelines issued by banking regulators, savings institutions such as the Bank must maintain tangible capital equal to 1.5% of adjusted total assets, core capital equal to 4.0% of adjusted total assets, Tier 1 capital equal to 4.0% of risk weighted assets and total or risk-based capita (a combination of core and supplementary capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our bank s financial statements.

At March 31, 2012, the Bank was in compliance with regulatory capital requirements and was considered a well-capitalized institution. The Bank s core capital ratio of 9.34%, Tier 1 capital ratio of 12.31% and total risk based capital ratio of 13.57%, all remain substantially in excess of well-capitalized regulatory benchmarks, the highest regulatory capital rating. In addition, and not included in Bank capital, the holding company held $12.0 million in cash to support dividends, acquisitions, strategic growth plans.

**Recently Issued Guidance on Federal Debt**

On August 5, 2011, Standard and Poor s rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+. In a joint press release issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency, the following guidance was provided related to the downgrade: for risk-based capital purposes, the risk weights for U.S. Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies and government-sponsored entities will not change. In addition, the treatment of U.S. Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies and government-sponsored entities will be unaffected.

**Liquidity**

We manage our liquidity risk and funding needs through our Treasury function and our Asset/Liability Committee. We have a policy that separately addresses liquidity, and management monitors our adherence to policy limits. Also, liquidity risk management is a primary area of examination by the banking regulators.

As a financial institution, the Bank has ready access to several sources to fund growth and meet its liquidity needs. Among these are: net income, retail deposit programs, loan repayments, borrowing from the FHLB, repurchase agreements, access to the Fed Discount Window, and access to the brokered deposit market as well as other wholesale funding avenues. In addition, we have a large portfolio of high-quality, liquid investments, primarily short-duration mortgage-backed securities and government sponsored enterprises ( GSE ) notes that provide a near-continuous source of cash flow to meet current cash needs, or can be sold to meet larger discrete needs for cash. Management believes these sources are sufficient to maintain required and prudent levels of liquidity.

During the three months ended March 31, 2012, cash and cash equivalents decreased $8.3 million to $459.7 million. This decrease was primarily a result of the following: cash usages for a $33.3 million increase in net loans; $32.7 million purchases (net of sales and maturities) of available for sale securities; $30.0 million repayment of unsecured bank debt, and a

$10.7 million decrease in federal home loan bank advances. Offsetting these decreases in cash were: $40.1 million in cash provided through increases in demand, savings, and time deposits, $25.0 million increase in proceeds in federal funds purchased and securities sold under repurchase agreements; $18.6 million provided by funds related to operations and $7.3 million from the sales of assets acquired through foreclosure.

**NONPERFORMING ASSETS**

The following table shows our nonperforming assets and past due loans at the dates indicated. Nonperforming assets include nonaccruing loans, nonperforming real estate, assets acquired through foreclosure and restructured mortgage and home equity consumer debt. Nonaccruing loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and the value of the collateral is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management s assessment of the ultimate collectability of principal and interest. Past due loans are loans contractually past due 90 days or more as to principal or interest payments but which remain on accrual status because they are considered well secured and in the process of collection.

| | **March 31, 2012** | December 31, 2011 |
|---|---|---|
| | (In Thousands) | |
| Nonaccruing loans: | | |
| Commercial | **$ 6,526** | $ 23,080 |
| Owner-occupied commercial (3) | **21,760** | |
| Consumer | **1,321** | 1,018 |
| Commercial mortgage | **11,625** | 15,814 |
| Residential mortgage | **8,587** | 9,057 |
| Construction | **24,246** | 22,124 |
| Total nonaccruing loans | **74,065** | 71,093 |
| Assets acquired through foreclosure | **6,708** | 11,695 |
| Troubled debt restructuring (accruing) | **8,837** | 8,887 |
| Total nonperforming assets | **$ 89,610** | $ 91,675 |
| Past due loans (1): | | |
| Residential Mortgages | **111** | 887 |
| Commercial and commercial mortgages | **854** | 78 |
| Total past due loans | **$ 965** | $ 965 |
| Ratios: | | |
| Allowance for loan losses to total loans (2) | **2.01%** | 1.92% |
| Nonperforming assets to total assets | **2.07%** | 2.14% |
| Nonaccruing loans to total loans (2) | **2.66%** | 2.58% |
| Loan loss allowance to nonaccruing loans | **75.34%** | 74.66% |
| Loan loss allowance to total nonperforming assets | **62.27%** | 57.90% |

(1) Past due loans are accruing loans which are contractually past due 90 days or more as to principal or interest. These loans are well secured and in the process of collection.

(2) Total loans exclude loans held for sale.

(3) Prior to 2012, owner-occupied loans were included in commercial loans.

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Nonperforming assets decreased $2.1 million between December 31, 2011 and March 31, 2012. As a result, non-performing assets as a percentage of total assets decreased from 2.14% at December 31, 2011 to 2.07% at March 31, 2012. This decrease was mainly due to a $5.0 million decrease in Other Real Estate Owned ( OREO ) assets, mainly due to the sale of OREO properties, including one large residential development for $3.3 million and a bulk sale of smaller residential properties totaling $2.6 million. These decreases were partially offset by the downgrade of two new relationships during the first quarter of 2012 to nonaccrual status.

The following table summarizes the changes in nonperforming assets during the period indicated:

| | **For the three months ended March 31, 2012** | For the year ended December 31, 2011 |
|---|---|---|
| | (In Thousands) | |
| Beginning balance | **$ 91,675** | $ 92,898 |
| Additions | **18,377** | 89,842 |
| Collections | **(13,605)** | (40,695) |
| Transfers to accrual | **(269)** | (8,474) |
| Charge-offs / write-downs, net | **(6,568)** | (41,896) |
| Ending balance | **$ 89,610** | $ 91,675 |

The timely identification of problem loans is a key element in our strategy to manage our loan portfolio. Timely identification enables us to take appropriate action and, accordingly, minimize losses. An asset review system established to monitor the asset quality of our loans and investments in real estate portfolios facilitates the identification of problem assets. In general, this system utilizes guidelines established by federal regulation.

**INTEREST SENSITIVITY**

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. We regularly review our interest-rate sensitivity and adjust the sensitivity within acceptable tolerance ranges established by the Board of Directors. At March 31, 2012, interest-earning liabilities exceeded interest-bearing assets that mature or reprice within one year (interest-sensitive gap) by $1.7 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window decreased from 102.84% at December 31, 2011, to 99.93% at March 31, 2012. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to -0.04% at March 31, 2012 from 1.54% at December 31, 2011. The change in sensitivity since December 31, 2011 reflects the current interest rate environment and our continuing effort to effectively manage interest rate risk.

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Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in our lending, investing, and funding activities. To that end, we actively monitor and manage our interest rate risk exposure. One measure, required to be performed by federal regulation, measures the impact of an immediate change in interest rates in 100 basis point increments on the net portfolio value ratio. The net portfolio value ratio is defined as the net present value of the estimated cash flows from assets and liabilities as a percentage of net present value of cash flows from total assets (or the net present value of equity). The table below shows the estimated impact of immediate changes in interest rates on our net interest margin and net portfolio value ratio at the specified levels at March 31, 2012 and December 31, 2011:

| | **March 31, 2012** | | December 31, 2011 | |
|---|---|---|---|---|
| % Change in Interest Rate (Basis Points) | **% Change in Net Interest Margin (1)** | **Economic Value of Equity (2)** | % Change in Net Interest Margin (1) | Economic Value of Equity (2) |
| +300 | **5%** | **12.02%** | 6% | 11.17% |
| +200 | **1%** | **11.95%** | 3% | 11.30% |
| +100 | **-3%** | **11.84%** | -2% | 11.21% |
| - | **0%** | **11.74%** | 0% | 10.97% |
| -100 | **2%** | **11.15%** | -8% | 10.19% |
| -200 (3) | **NMF** | **NMF** | NMF | NMF |
| -300 (3) | **NMF** | **NMF** | NMF | NMF |

(1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.

(2) The economic value of equity ratio of the Company in a stable interest rate environment and the economic value of equity ratio as projected under the various rate change environments.

(3) Sensitivity indicated by a decrease of 200 or 300 basis points is not deemed meaningful at March 31, 2012 given the low absolute level of interest rates at that time.

We also engage in other business activities that are sensitive to changes in interest rates. For example, mortgage banking revenues and expenses can fluctuate with changing interest rates. These fluctuations are difficult to model and estimate.

**COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2012**

**Results of Operations**

We recorded net income of $6.4 million for the quarter ended March 31, 2012, a 53% increase over net income of $4.2 million for the quarter ended March 31, 2011. Income allocable to common stockholders (after preferred stock dividends) was $5.8 million, or $0.66 per diluted common share (a 65% increase in diluted EPS), for the quarter ended March 31, 2012, compared to income allocable to common shareholders of $3.5 million, or $0.40 per diluted common share, for the quarter ended March 31, 2011. Earnings for the first quarter of 2012 reflected strong revenue growth, while expenses decreased slightly during the same period. The improvement in earnings included an increase of $3.1 million in noninterest income and an increase of $2.3 million in net interest income. The increase in noninterest income was due in part to an increase in securities gains and credit/debit card and ATM fees during first quarter of 2012. These increases were partially offset by an increase in the provision for loan losses of $2.3 million. Noninterest expenses decreased slightly year-over-year, as increases from the later stages of our heavy investment phase, were offset by lower loan workout and OREO expenses in the first quarter of 2012.

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**Net Interest Income**

The following tables provide information concerning the balances, yields and rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | | | 2011 | | |
| (Dollars In Thousands) | **Average Balance** | **Interest** | **Yield/ Rate (1)** | Average Balance | Interest | Yield/ Rate (1) |
| ***Assets:*** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans (2) (3): | | | | | | |
| Commercial real estate loans | **$ 739,158** | **$ 8,931** | **4.83%** | $ 755,256 | $ 8,860 | 4.69% |
| Residential real estate loans | **279,480** | **3,199** | **4.58** | 314,677 | 3,862 | 4.91 |
| Commercial loans | **1,468,048** | **17,775** | **4.88** | 1,253,433 | 15,381 | 4.99 |
| Consumer loans | **289,230** | **3,490** | **4.85** | 307,873 | 3,853 | 5.08 |
| Total loans | **2,775,916** | **33,395** | **4.86** | 2,631,239 | 31,956 | 4.90 |
| Mortgage-backed securities (4) | **826,088** | **5,718** | **2.77** | 711,852 | 7,026 | 3.95 |
| Investment securities (4) (5) | **47,276** | **101** | **0.96** | 47,806 | 170 | 1.42 |
| Other interest-earning assets | **35,290** | **9** | **0.10** | 37,596 | | |
| Total interest-earning assets | **3,684,570** | **39,223** | **4.30** | 3,428,493 | 39,152 | 4.60 |
| Allowance for loan losses | **(53,776)** | | | (61,883) | | |
| Cash and due from banks | **68,354** | | | 59,527 | | |
| Cash in non-owned ATMs | **361,508** | | | 312,580 | | |
| Bank-owned life insurance | **63,458** | | | 64,303 | | |
| Other noninterest-earning assets | **127,835** | | | 124,166 | | |
| Total assets | **$ 4,251,949** | | | $ 3,927,186 | | |
| ***Liabilities and Stockholders Equity:*** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Interest-bearing demand | **$ 379,315** | **$ 60** | **0.06%** | $ 301,563 | $ 120 | 0.16% |
| Money market | **768,666** | **519** | **0.27** | 729,072 | 842 | 0.47 |
| Savings | **383,294** | **173** | **0.18** | 298,442 | 306 | 0.42 |
| Customer time deposits | **763,802** | **2,984** | **1.57** | 781,955 | 3,729 | 1.93 |
| Total interest-bearing customer deposits | **2,295,077** | **3,736** | **0.65** | 2,111,032 | 4,997 | 0.96 |
| Brokered certificates of deposit | **270,814** | **279** | **0.41** | 198,233 | 226 | 0.46 |
| Total interest-bearing deposits | **2,565,891** | **4,015** | **0.63** | 2,309,265 | 5,223 | 0.92 |
| FHLB of Pittsburgh advances | **530,518** | **1,937** | **1.44** | 515,600 | 2,727 | 2.12 |
| Trust preferred borrowings | **67,011** | **375** | **2.21** | 67,011 | 336 | 2.01 |
| Other borrowed funds | **136,480** | **366** | **1.07** | 175,726 | 612 | 1.39 |
| Total interest-bearing liabilities | **3,299,900** | **6,693** | **0.81** | 3,067,602 | 8,898 | 1.16 |
| Noninterest-bearing demand deposits | **520,044** | | | 468,022 | | |
| Other noninterest-bearing liabilities | **33,571** | | | 20,911 | | |

| | | | | |
|---|---|---|---|---|
| Stockholders equity | **398,434** | | 370,651 | |
| Total liabilities and stockholders equity | **$ 4,251,949** | | $ 3,927,186 | |
| Excess of interest-earning assets over interest-bearing liabilities | **$ 384,670** | | $ 360,891 | |
| Net interest and dividend income | | **$ 32,530** | | $ 30,254 |
| Interest rate spread | | **3.49%** | | 3.44% |
| Net interest margin | | **3.57%** | | 3.56% |

(1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
(2) Nonperforming loans are included in average balance computations.
(3) Balances are reflected net of unearned income.
(4) Includes securities available-for-sale.
(5) Includes reverse mortgages.

Net interest income for the first quarter of 2012 improved by $2.3 million, or 8%, compared to the first quarter of 2011. The increase in net interest income reflects growth in both our average total loans which increased $144.7 million from the prior year and our mortgage backed securities portfolio which increased $114.2 million from the prior year.

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The net interest margin for the first quarter of 2012 was 3.57% on a tax-equivalent basis, a one basis point increase compared to 3.56% for the first quarter of 2011. The increase in net interest margin benefited from the continued decline in our funding costs, particularly on core deposits. This was mostly offset by the decrease in the yield on our MBS portfolio as the yield continued to decline due to MBS prepayments and sales combined with low reinvestment rates.

**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.

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,

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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.

The provision for loan losses was $8.2 million in the quarter ending March 31, 2012 compared to $5.9 million in the same quarter of 2011. The provision for the first quarter of 2012 more than covered our net charge-offs of $5.5 million. In addition, total credit costs (including the provision for loan losses, loan workout expense, OREO expense and other credit reserves) increased to $9.2 million from $8.4 million in the first quarter of 2011. The increase in credit costs is due primarily to risk rating migration arising from the implementation of a new risk rating policy and procedures.

The table below represents a summary of the changes in the allowance for loan losses during the periods indicated.

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2012** | 2011 |
| | (Dollars in Thousands) | |
| Beginning balance | **$ 53,080** | $ 60,339 |
| Provision for loan losses | **8,245** | 5,908 |
| Charge-offs: | | |
| Residential real estate | **324** | 406 |
| Commercial real estate | **190** | 247 |
| Construction | **1,506** | 5,226 |
| Commercial | **2,331** | 3,365 |
| Owner occupied-commercial (1) | **502** | |
| Overdrafts | **245** | 195 |
| Consumer | **984** | 1,561 |
| Total charge-offs | **6,082** | 11,000 |
| Recoveries: | | |
| Residential real estate | **25** | 85 |
| Commercial real estate | **313** | 8 |
| Construction | **28** | 391 |
| Commercial | **53** | 127 |
| Owner occupied-commercial (1) | **6** | |
| Overdrafts | **94** | 106 |
| Consumer | **36** | 36 |
| Total recoveries | **555** | 753 |
| Net charge-offs | **5,527** | 10,247 |
| Ending balance | **$ 55,798** | $ 56,000 |
| Net charge-offs to average gross loans outstanding, net of unearned income (2) | **0.80%** | 1.56% |

(1) Prior to 2012, owner-occupied commercial loans were included in commercial loans.
(2) Ratios for the three months ended March 31, 2012 and 2011 are annualized.

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*Noninterest Income*

Noninterest income increased $3.2 million to $16.8 million in the first quarter of 2012 from $13.6 million in the first quarter of 2011. Excluding the impact of net securities gains in both periods, noninterest income increased by $1.5 million, or 11%. Credit/debit card and ATM fees increased by $682,000, or 14%, and deposit service charges increased by $450,000, or 13%, over the prior year, reflecting franchise growth. In addition, fiduciary & investment management income increased $204,000, or 7%, over the prior year, and represents continued growth in this business.

*Noninterest Expense*

Noninterest expense for the first quarter of 2012 decreased $398,000 to $31.0 million in the first quarter of 2012 from $31.4 million in the first quarter of 2011. Included in this comparison was a $1.6 million decrease in loan workout and OREO costs which was mostly offset by expenses associated with increased organic franchise growth during the last year. This growth, included the opening and renovation of several branches, the hiring of additional commercial relationship managers and related infrastructure costs as the Company reached the later stages of its recent heavy investment phase by the end of 2011, resulting in increased salaries, benefits and other compensation, occupancy and other operating expenses.

**Income Taxes**

We and our subsidiaries file a consolidated Federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded an income tax expense of $3.6 million during the three months ended March 31, 2012 compared to an income tax expense of $2.4 million for the same period in 2011. Our effective tax rate was 35.9% for the three months ended March 31, 2012 compared to 36.3% during the same period in 2011.

The effective tax rate reflects the recognition of certain tax benefits in the financial statements including those benefits from tax-exempt interest income (including a 50% interest income exclusion on a loan to an Employee Stock Ownership Plan) and BOLI income. These tax benefits are offset by the tax effect of stock-based compensation expense related to incentive stock options and a provision for state income tax expense.

We frequently analyze our projections of taxable income and make adjustments to our provision for income taxes accordingly.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2011, the FASB issued an update ( ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*) which clarifies when creditors should classify loan modifications as troubled debt restructurings. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. A provision in Update 2011-02 also ends the FASB s deferral of the additional disclosures about troubled debt restructurings as required by Update 2010-20. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements.

In April 2011, the FASB issued an update ( ASU No. 2011-03, *Reconsideration of Effective Control in Repurchase Agreements*) which removes from the assessment of effective control the criterion related to the transferor s ability to repurchase or redeem financial assets on substantially agreed terms, even in the event of default by the transferee. In addition, this guidance also eliminates the requirement to demonstrate that a transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The new guidance is effective for interim and annual periods beginning on or after December 15, 2011, and applies prospectively to transactions or modifications of existing transactions occurring on or after the effective date. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements.

In May 2011, the FASB issued an update ( ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*) to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. While the overall guidance is consistent with U.S. GAAP, the amendment includes additional fair value disclosure requirements. The amendments in the guidance are

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effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements; however, the adoption did have an impact on our fair value disclosures.

In June 2011, the FASB issued an update ( ASU No. 2011-05, *Presentation of Comprehensive Income*) to eliminate the option to present the components of other comprehensive income as part of the statement of changes in shareholder s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. This amendment is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements; however, the adoption did have an impact on our presentation of comprehensive income.

In September 2011, the FASB issued an update ( ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment*) to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. This amendment is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements.

In December 2011, the FASB issued an update ( ASU No. 2011-11, *Balance Sheet (Topic 350) Offsetting*) to address balance sheet offsetting. An entity is required to disclose information about offsetting and related arrangements so that users of the financial statements can understand the effect of those arrangements on its financial position. Entities are required to disclose both gross information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The instruments and transactions include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. This amendment is effective for interim and annual reporting periods beginning on or after January 1, 2013. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In December 2011, the FASB issued an update ( ASU No. 2011-12, *Presentation of Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*) which under ASU 2011-05 defers the effective date pertaining to reclassification adjustments out of other accumulated other comprehensive income (AOCI). Concerns were raised that reclassifications of items out of AOCI would be costly for prepares and may add unnecessary complexity to financial statements. All other requirements in ASU 2011-05 are not affected by this Update. This amendment is effective for interim and annual periods beginning after December 15, 2011. We have complied with the guidance for the period ended March 31, 2012.

**RECENT LEGISLATION**

On July 21, 2010, the President signed the Dodd-Frank Act into law. This legislation makes extensive changes to the laws regulating financial services firms and requires significant rule-making. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. While the full effects of the legislation on us cannot yet be determined, this legislation was opposed by the American Bankers Association and is generally perceived as negatively impacting the banking industry. This legislation may result in higher compliance and other costs, reduced revenues and higher capital and liquidity requirements, among other things, which could adversely affect our business. There are many parts of the Dodd-Frank Act that have yet to be determined and implemented however, as a direct result of the Act, the following rulings have been adopted or will be adopted in the coming years:

On August 10, 2010 the Board of Directors of the FDIC adopted a final ruling permanently increasing the standard maximum deposit insurance amount from $100,000 to $250,000, which became effective on July 22, 2010.

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During January of 2011, a timeframe and preliminary implementation plan for the phase out of the Office of Thrift Supervision ( the OTS ), one of our current banking regulators was announced by the joint agencies, and its merger into the Office of the Comptroller of the Currency. The provisions of the plan include a transition from the Thrift Financial Report, which we file each quarter, to the Call Report, which began with the March 2012 reporting period.

On February 7, 2011, the Federal Reserve approved a final ruling that changed the Deposit Insurance Fund ( DIF ) assessment from domestic deposits to average assets minus tangible equity. The changes went into effect during the second quarter of 2011 and were payable at the end of September. It is the intent of the FDIC that banks with over $10 billion in assets pay a larger share of the assessments into the DIF.

In June 2011, the Federal Reserve adopted the Durbin Amendment in which debit interchange fees would be capped at 21 cents plus 5 basis points of the transaction, with the possibility of an additional cent if the issuer implements certain fraud-prevention standards. This rule affects banks with $10 billion or more in assets.

On July 21, 2011, the Federal Reserve repealed Federal prohibitions on the payment of interest on demand deposits.

On July 21, 2011, the Consumer Financial Protection Bureau ( CFPB ) was created to centralize responsibility for consumer financial protection. The bureau has been given the responsibility for implementing, examining and enforcing compliance with Federal consumer protection laws.

**Item 3.** **Quantitative and Qualitative Disclosures About Market Risk**

Incorporated herein by reference from Item 2, of this quarterly report on Form 10-Q.

**Item 4.** **Controls and Procedures**

(a) **Evaluation of disclosure controls and procedures.** Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )), our principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Commission s rules and forms and is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

(b) **Changes in internal control over financial reporting.** During the quarter under report, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION**

**Item 1.** **Legal Proceedings**

Incorporated herein by reference to Note 12 Legal Proceedings to the Consolidated Financial Statements

**Item 1A.** **Risk Factors**

Our management does not believe there have been any material changes to the risk factors previously disclosed under Item 1A. of the Company s Form 10-K for the year ended December 31, 2011, previously filed with the Securities and Exchange Commission.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table represents information with respect to repurchases of common stock made by us during the three months ended March 31, 2012. These shares were delivered to us by employees as payment for taxes on the vesting of restricted stock or exercise of stock options.

| 2012 | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicity Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January | | $ | | |
| February | 918 | 39.56 | | |
| March | | | | |
| Total (1) | 918 | $ 39.56 | | |

(1) The shares repurchased were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by employees as payment for taxes on vesting of restricted stock or exercise of stock options. There were no treasury shares repurchased during the quarter ended March 31, 2012.

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

(a) Exhibit 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(c) Exhibit 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(d) Exhibit 101.INS XBRL Instance Document*

(e) Exhibit 101.SCH XBRL Schema Document*

(f) Exhibit 101.CAL XBRL Calculation Linkbase Document*

(g) Exhibit 101.LAB XBRL Labels Linkbase Document*

(h) Exhibit 101.PRE XBRL Presentation Linkbase Document*

* Pursuant to Regulation 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and are otherwise not subject to liability.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | **WSFS FINANCIAL CORPORATION** |
| Date: May 10, 2012 | /s/ Mark A. Turner<br>Mark A. Turner<br>President and Chief Executive Officer |
| Date: May 10, 2012 | /s/ Stephen A. Fowle<br>Stephen A. Fowle<br>Executive Vice President and<br>Chief Financial Officer |