WSFS FINANCIAL CORP
Form 10-Q
July 30, 2010

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 June 30, 2010

OR

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

For the transition period from to

Commission File Number 0-16668

WSFS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

(302) 792-6000
Registrant's telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files), ____ Yes_____ 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 July 26, 2010

Common Stock, par value $.01 per share	7,116,714
(Title of Class)	(Shares Outstanding)

WSFS FINANCIAL CORPORATION

FORM 10-Q

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PART I. Financial Information

PART II. Other Information

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	(Unaudited) (In Thousands, Except Per Share Data)			
Interest income:				
Interest and fees on loans	$ 31,610	$ 32,356	$ 62,833	$ 63,730
Interest on mortgage-backed securities	9,639	6,948	18,671	14,284
Interest and dividends on investment securities	199	535	502	632
Other interest income	6	—	6	—
	41,454	39,839	82,012	78,646
Interest expense:				
Interest on deposits	5,771	7,523	12,065	15,852
Interest on Federal Home Loan Bank advances	4,017	4,804	7,994	10,145
Interest on trust preferred borrowings	348	465	677	1,060
Interest on other borrowings	620	667	1,235	1,318
	10,756	13,459	21,971	28,375
Net interest income	30,698	26,380	60,041	50,271
Provision for loan losses	10,594	11,997	22,004	19,650
Net interest income after provision for loan losses	20,104	14,383	38,037	30,621
Noninterest income:				
Credit/debit card and ATM income	4,817	4,049	9,187	7,751
Deposit service charges	4,349	4,276	8,228	8,093
Loan fee income	709	1,354	1,389	2,604
Investment advisory income	612	516	1,216	1,047
Security gains, net	268	887	268	1,310
Mortgage banking activities, net	247	406	499	608
Bank owned life insurance income	219	229	415	439
Other income	1,215	950	2,375	1,916
	12,436	12,667	23,577	23,768
Noninterest expenses:				
Salaries, benefits and other compensation	12,111	12,051	24,097	24,382
Loan workout and OREO expenses	2,872	1,721	3,969	2,361
Occupancy expense	2,271	2,355	4,833	4,791
FDIC expenses	1,762	2,903	3,405	4,368
Equipment expense	1,646	1,725	3,114	3,304
Professional fees	1,440	2,082	2,458	2,992
Data processing and operations expenses	1,159	1,157	2,445	2,278
Marketing expense	904	831	1,609	1,558
Non-recurring ATM loss	—	—	4,491	—

Other operating expense	3,574	6,130	6,951	9,295
	27,739	30,955	57,372	55,329
Income before taxes	4,801	(3,905)	4,242	(940)
Income tax provision (benefit)	1,500	(1,589)	427	(1,564)
Net income (loss)	3,301	(2,316)	3,815	624
Dividends on preferred stock and accretion of discount	692	751	1,384	1,264
Net income (loss) allocable to common shareholders	$ 2,609	$ (3,067)	$ 2,431	$ (640)
Earnings (loss) per share:				
Basic	$ 0.37	$ (0.50)	$ 0.34	$ (0.10)
Diluted	$ 0.36	$ (0.50)	$ 0.34	$ (0.10)

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

		June 30, 2010		December 31, 2009
		(Unaudited) (In Thousands, Except Per Share Data)		
Assets:				
Cash and due from banks	$	57,664	$	55,756
Cash in non-owned ATMs		263,989		264,903
Federal funds sold		-		-
Interest-bearing deposits in other banks		474		1,090
Total cash and cash equivalents		322,127		321,749
Investment securities held-to-maturity		557		709
Investment securities-available-for-sale including reverse mortgages		44,469		44,808
Mortgage-backed securities - available-for-sale		743,470		669,059
Mortgages-backed securities-trading		12,121		12,183
Loans held-for-sale		10,372		8,366
Loans, net of allowance for loan losses of $62,256 at June 30, 2010 and $53,446 at December 31, 2009		2,449,631		2,470,789
Bank owned life insurance		60,669		60,254
Stock in Federal Home Loan Bank of Pittsburgh, at cost		39,305		39,305
Assets acquired through foreclosure		9,428		8,945
Premises and equipment		29,304		36,108
Goodwill		10,870		10,870
Intangible assets		2,501		2,781
Accrued interest receivable and other assets		57,042		62,581
Total assets	$	3,791,866	$	3,748,507
Liabilities and Stockholders' Equity				
Liabilities:				
Deposits:				
Noninterest-bearing demand	$	469,518	$	431,476
Interest-bearing demand		259,180		265,719
Money market		594,007		550,639
Savings		243,268		224,921
Time		469,114		470,139
Jumbo certificates of deposit – customer		200,834		203,126
Total customer deposits		2,235,921		2,146,020
Other jumbo certificates of deposit		91,915		69,208
Brokered deposits		300,946		346,643
Total deposits		2,628,782		2,561,871

Federal funds purchased and securities sold under agreements to repurchase	100,000	100,000
Federal Home Loan Bank advances	572,072	613,144
Trust preferred borrowings	67,011	67,011
Other borrowed funds	80,782	74,654
Accrued interest payable and other liabilities	28,486	30,027
Total liabilities	3,477,133	3,446,707
Stockholders' Equity:		
Serial preferred stock $.01 par value, 7,500,000 shares authorized; issued 52,625 at June 30, 2010 and December 31, 2009	1	1
Common stock $.01 par value, 20,000,000 shares authorized; issued 16,697,283 at June 30, 2010 and 16,660,588 at December 31, 2009	166	166
Capital in excess of par value	167,992	166,627
Accumulated other comprehensive income (loss)	8,818	(2,022)
Retained earnings	386,036	385,308
Treasury stock at cost, 9,580,569 shares at June 30, 2010 and December 31, 2009	(248,280)	(248,280)
Total stockholders' equity	314,733	301,800
Total liabilities and stockholders' equity	$ 3,791,866	$ 3,748,507

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30, 2010	2009
	(Unaudited) (In Thousands)	
Operating activities:		
Net income	$ 3,815	$ 624
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	22,004	19,650
Depreciation, accretion and amortization	2,973	3,393
Increase in accrued interest receivable and other assets	(5,597)	(4,538)
Non-routine ATM losses	4,491	—
Origination of loans held-for-sale	(54,225)	(53,740)
Proceeds from sales of loans held-for-sale	52,543	43,104
Gain on mortgage banking activity	(499)	(608)
Loss (gain) on mark to market adjustment on trading securities	62	(497)
Securities gain from the sale of MasterCard, Inc. and Visa, Inc. common stock	—	(119)
Gain on sale of investments, net	(330)	(694)
Stock-based compensation expense, net of tax benefit recognized	372	484
Excess tax benefits from share-based payment arrangements	(263)	—
Increase in accrued interest payable and other liabilities	4,994	8,995
Loss on wind-down of 1st Reverse Financial Services, LLC	—	1,589
Loss on sale of assets acquired through foreclosure and valuation adjustments	3,563	1,993
Increase in value of bank-owned life insurance	(415)	(439)
Decrease in capitalized interest, net	76	106
Net cash provided by operating activities	33,564	19,303
Investing activities:		
Maturities and calls of investment securities	2,500	18,025
Purchases of investment securities available-for-sale	(2,002)	(16,049)
Sales of mortgage backed securities available-for-sale	45,979	38,646
Repayments of mortgage-backed securities available-for-sale	90,523	75,605
Purchases of mortgage-backed securities available-for-sale	(192,700)	(158,473)
Repayments of reverse mortgages	—	50
Disbursements for reverse mortgages	(97)	(104)
Net increase in loans	(5,872)	(88,002)
Sales of assets acquired through foreclosure, net	926	1,523
Proceeds from the sale of MasterCard, Inc. and Visa, Inc. common stock	—	119
Investment in premises and equipment, net	(2,165)	(3,526)
Net cash used for investing activities	(62,908)	(132,186)

Financing activities:				
Net increase in demand and savings deposits		99,346		210,943
Net increase (decrease) in time deposits		19,390		(17,427)
Net (decrease) increase in brokered deposits		(46,109)		21,344
Receipts from federal funds purchased & securities sold under agreement to repurchase		9,245,000		9,247,995
Repayments of federal funds purchased & securities sold under agreement to repurchase		(9,245,000)		(9,222,995)
Receipts from FHLB advances		15,593,383		17,615,421
Repayments of FHLB advances		(15,634,455)		(17,794,606)
Proceeds from issuance of unsecured bank debt		—		30,000
Dividends paid		(3,016)		(2,301)
Proceeds from issuance of preferred stock		—		52,625
Issuance of common stock and exercise of common stock options		920		454
Excess tax benefits from share-based payment arrangements		263		—
Net cash provided by financing activities		29,722		141,453
Increase in cash and cash equivalents		378		28,570
Cash and cash equivalents at beginning of period		321,749		248,558
Cash and cash equivalents at end of period	$	322,127	$	277,128
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest during the period	$	17,660	$	22,919
Cash paid for income taxes, net		4,659		971
Loans transferred to assets acquired through foreclosure		4,972		6,683
Net change in other comprehensive income		10,840		3,744
Settlement of pending sale of premises and equipment		6,515		—

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

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WSFS FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)

1. BASIS OF PRESENTATION

Our Consolidated Financial Statements include the accounts of WSFS Financial Corporation (“the Company”, “our Company”, “we”, “our” or “us”), Wilmington Savings Fund Society, FSB (“WSFS Bank” or the “Bank”) and Montchanin Ca Management, Inc. (“Montchanin”) and its wholly owned subsidiary, Cypress Capital Management, LLC (“Cypress”). We also have one unconsolidated affiliate, WSFS Capital Trust III (“the Trust”). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., which markets various third-party insurance products and securities products to Bank customers through WSFS’ retail banking system. Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States.

We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services through WSFS Trust and Wealth Management. Lending activities are funded primarily with customer deposits and borrowings. The Federal Deposit Insurance Corporation (“FDIC”) insures our customers’ deposits to their legal maximum. We serve our customers primarily from our 40 banking offices located in Delaware (35), Pennsylvania (4) and Virginia (1) and through our website at www.wsfsbank.com.

Although our current estimates contemplate current economic conditions and how we expect them to change in the future, it is reasonably possible that, in 2010, actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan losses and lending related commitments, goodwill, intangible assets, post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future 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 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 SEC’s Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC.

Accounting for Stock-Based Compensation

Stock-based compensation is accounted for in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718 (formerly SFAS No. 123R, Share-Based Payment). We have stock options outstanding under two plans (collectively, “Stock Incentive Plans”) for officers, directors and Associates of the Company and its subsidiaries. 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. The number of shares reserved for issuance under the 2005 Plan is 1,197,000. At June 30, 2010, there were 402,669 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 the Corporation's common stock on the date of the grant. All Stock Options granted during 2010 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.

We announced in 2007, that our Executive Committee of the Board of Directors adopted an administrative policy related to the future award of stock options under the 2005 Plan. The Executive Committee's policy provided that any change to the policy would only be made following the approval by our stockholders. At the 2010 Annual Meeting of Shareholders, a proposal was approved to increase the maximum life of stock options and stock appreciation rights from five years to seven years.

A summary of the status of our Stock Incentive Plans at June 30, 2010 and June 30, 2009, respectively, and changes during the quarters then ended is presented below:

	June 30, 2010		June 30, 2009	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	736,576	$ 43.06	755,388	$ 42.56
Granted	200	43.71	1,500	26.23
Exercised	(19,690)	13.27	0	0.00
Forfeited or canceled	0	0.00	0	0.00
Outstanding at end of period	717,086	43.88	756,888	42.52
Exercisable at end of period	526,015	$ 44.79	476,469	$ 39.95
Weighted-average fair value of stock options granted	$ 16.98		$ 7.69	

On April 1, 2010, 544,912 stock options were exercisable with an intrinsic value of $3.0 million. In addition, at April 1, 2010, there were 191,664 nonvested options with a grant date fair value of $9.23 per option. During the second quarter of 2010, 793 options vested with an intrinsic value of $4,000, and a grant date fair value of $10.88 per option. Also during the quarter, 19,690 options were exercised with an intrinsic value of $556,000. There were 526,015 exercisable options remaining at June 30, 2010, with an intrinsic value of $2.5 million and a remaining contractual term of 2.2 years. At June 30, 2010 there were 717,086 stock options outstanding with an intrinsic value of $3.4 million and a remaining contractual term of 2.5 years. During the second quarter of 2009, no options were exercised and 852 options vested with a grant date fair value of $12.44 per option.

A summary of the status of our Stock Incentive Plans at June 30, 2010 and June 30, 2009, respectively and changes during the six months then ended is presented below:

	June 30, 2010		June 30, 2009	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	733,468	$ 42.95	675,887	$ 44.98
Granted	26,289	30.56	83,921	23.23
Exercised	(36,551)	13.67	0	0.00

Forfeited or canceled	(6,120)		54.93	(2,920)		59.26
Outstanding at end of period	717,086		43.88	756,888		42.52
Exercisable at end of period	526,015	$	44.79	476,469	$	39.95
Weighted-average fair value of stock options granted	$ 9.22			$ 5.42		

Beginning January 1, 2010, 541,910 stock options were exercisable. During the six months ended June 30, 2010, 24,994 options vested with a $261,000 intrinsic value, and a weighted-average grant date fair value of $6.78 per option. Also during the first six months of 2010, 36,551 options were exercised with an intrinsic value of $907,000. During the first six months of 2009, no options were exercised and 4,476 options vested with a weighted-average grant date fair value of $13.61 per option.

The total amount of compensation cost related to non-vested stock options as of June 30, 2010 was $931,000. The weighted-average period over which they are expected to be recognized is 2.1 years. We issue new shares upon the exercise of options.

The Black-Scholes and other option-pricing models assume that options are freely tradable and immediately vested. Since options are not transferable, have vesting provisions, and are subject to trading blackout periods imposed by us, the value calculated by the Black-Scholes model may significantly overstate the true economic value of the options.

During the second quarter of 2010, we granted 200 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 1.9% in 2010; an expected option life of three and three-quarter years; and an expected stock price volatility of 54.4% in 2010. For the purposes of this option-pricing model, a dividend yield of 1.1% was assumed. During the first six months of 2010, we granted 26,289 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 1.8% in 2010; an expected option life of three and three-quarter years; and an expected stock price volatility of 43.4% in 2010. For the purposes of this option-pricing model, a dividend yield of 1.6% was assumed.

During the second quarter of 2010, we issued 59 restricted stock units. During the first six months of 2010, we issued 5,761 restricted stock units and awards. These awards generally vest over a four to five year period. In addition, for these stock awards made to certain executive officers, there are additional vesting limitations. Under these additional limitations; 25% of the awards will become transferrable at the time of repayment of at least 25% of the aggregate financial assistance received by the Company under the Emergency Economic Stabilization Act of 2008 (“EESA”); an additional 25% of the shares granted (for an aggregate total of 50% of the shares transferrable) at the time of repayment of at least 50% of the aggregate financial assistance received by the Company under EESA; an additional 25% of the shares granted (for an aggregate total of 75% of the shares transferrable) at the time of repayment of at least 75% of the aggregate financial assistance received by the Company under EESA. The remainder of the shares will vest following the time of repayment of 100% of the aggregate financial assistance received by the Company under EESA. If the date specified has not occurred by the tenth anniversary of the grant date, the grantee will forfeit all of the restricted shares.

Compensation costs related to these issuances are recognized over the lives of the restricted stock and restricted stock units. We amortize the expense related to the restricted stock grants into salaries, benefits and other compensation expense on a straight-line basis over the requisite service period for the entire award. When we award restricted stock to individuals from whom we may not receive services in the future, such as those who are eligible for retirement, we recognize the expense of restricted stock grants when we make the award, instead of amortizing the expense over the vesting period of the award.

The Long-Term Performance-Based Restricted Stock Unit program (“Long-Term Program”) will award up to an aggregate of 109,200 shares of WSFS stock to seventeen participants, only after the achievement of targeted levels of return on assets (“ROA”). Under the terms of the plan, if an annual ROA performance level of 1.20% is achieved, up to 54,900 shares will be awarded. If an annual ROA performance level of 1.35% is achieved, up to 76,100 shares will be awarded. If an annual ROA performance level of 1.50% or greater is achieved, up to 109,200 shares will be awarded. If these targets are achieved in any year up until 2011, the awarded stock will vest in 25% increments over four years. In addition, if a performance level is achieved and there are insufficient shares available for grant, then we would have the option of granting the available shares with the remainder being paid in cash. We did not recognize any compensation expense related to this program in the first six months of 2010. Compensation expense for the

Long-Term Program was based on the closing stock price as of May 28, 2009 and will begin to be recognized once the achievement of target performance is considered probable.

The impact of stock-based compensation for the three months ended June 30, 2010 was $273,000 pre-tax ($213,000 after tax) or $0.03 per share, to salaries, benefits and other compensation. This compares to $356,000 pre-tax ($273,000 after tax) or $0.04 per share for the three months ended June 30, 2009. The impact of stock-based compensation for the six months ended June 30, 2010 was $642,000 pre-tax ($500,000 after tax) or $0.07 per share, to salaries, benefits and other compensation. This compares to $801,000 pre-tax ($639,000 after tax) or $0.10 per share for the six months ended June 30, 2009.

2. EARNINGS PER SHARE

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

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
	(Unaudited) (In Thousands, Except per Share Data)			
Numerator:				
Net income (loss) allocable to common stockholders	$ 2,609	$ (3,067)	$ 2,431	$ (640)
Denominator:				
Denominator for basic earnings per share — weighted average shares	$ 7,107	$ 6,191	$ 7,096	$ 6,182
Effect of dilutive employee stock options	152	—	125	—
Denominator for diluted earnings per share — adjusted weighted average shares and assumed exercise	$ 7,259	$ 6,191	$ 7,221	$ 6,182
Basic:				
Net income (loss) available to common shareholders	$ 0.37	$ (0.50)	$ 0.34	$ (0.10)
Diluted:				
Net income (loss) available to common shareholders	$ 0.36	$ (0.50)	$ 0.34	$ (0.10)
Outstanding common stock equivalents having no dilutive effect	616	763	637	761

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 includes reverse mortgages):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
June 30, 2010:				
Reverse mortgages	$ (509)	$ —	$ —	$ (509)
U.S. Government and agencies	40,613	695	—	41,308
State and political subdivisions	3,590	82	(2)	3,670
	$ 43,694	$ 777	$ (2)	$ 44,469
December 31, 2009				
Reverse mortgages	$ (530)	$ —	$ —	$ (530)
U.S. Government and agencies	40,695	652	(35)	41,312
State and political subdivisions	3,935	91	—	4,026

	$	44,100	$	743	$	(35)	$	44,808
Held-to-maturity:								
June 30, 2010:								
State and political subdivisions	$	557	$	—	$	(15)	$	542
	$	557	$	—	$	(15)	$	542
December 31, 2009:								
State and political subdivisions	$	709	$	—	$	(38)	$	671
	$	709	$	—	$	(38)	$	671

Securities with fair values aggregating $41.3 million at June 30, 2010 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank, securities sold under agreement to repurchase, certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was $336,000 and $352,000 at June 30, 2010 and December 31, 2009, respectively.

The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at June 30, 2010 and December 31, 2009 were as follows:

	Held-to-Maturity		Available-for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
June 30, 2010				
Within one year (1)	$ 340	$ 340	$ 19,866	$ 20,140
After one year but within five years	—	—	23,708	24,204
After five years but within ten years	—	—	120	125
After ten years	217	202	—	—
	$ 557	$ 542	$ 43,694	$ 44,469
December 31, 2009				
Within one year (1)	$ 340	$ 340	$ 10,864	$ 11,068
After one year but within five years	—	—	32,986	33,485
After five years but within ten years	—	—	250	255
After ten years	369	331	—	—
	$ 709	$ 671	$ 44,100	$ 44,808

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

There were no sales of investment securities classified as available-for-sale during 2010 or 2009. As a result, there were no net gains/losses realized during 2010 or 2009. Investment securities totaling $2.5 million and $18.0 million matured or were called by their issuers during the six months ended June 30, 2010 and 2009, respectively.

At June 30, 2010, we owned investment securities totaling $333,000 where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were $17,000 at June 30, 2010. This temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Securities amounting to $110,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. The 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 new-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis (which may be at maturity).

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 June 30, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	$ —	$ —	$ 110	$ 15	$ 110	$ 15
Available-for-sale						
State and political subdivisions	223	2	—	—	223	2
U.S Government and agencies	—	—	—	—	—	—
Total temporarily impaired investments	$ 223	$ 2	$ 110	$ 15	$ 333	$ 17

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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 were in a continuous unrealized loss position at December 31, 2009.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	$ —	$ —	$ 242	$ 38	$ 242	$ 38
Available-for-sale						
State and political subdivisions	—	—	—	—	—	—
U.S Government and agencies	2,985	35	—	—	2,985	35
Total temporarily impaired investments	$ 2,985	$ 35	$ 242	$ 38	$ 3,227	$ 73

4. MORTGAGE-BACKED SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
June 30, 2010:				
Collateralized mortgage obligations (1)	$ 600,027	$ 11,622	$ (2,753)	$ 608,896
FNMA	45,485	2,021	—	47,506
FHLMC	39,496	1,632	—	41,128
GNMA	44,280	1,660	—	45,940
	$ 729,288	$ 16,935	$ (2,753)	$ 743,470
Weighted average yield	5.05%			
December 31, 2009:				
Collateralized mortgage obligations (1)	$ 519,527	$ 5,368	$ (10,383)	$ 514,512
FNMA	61,603	813	(454)	61,962
FHLMC	44,536	561	(83)	45,014
GNMA	46,629	1,129	(187)	47,571
	$ 672,295	$ 7,871	$ (11,107)	$ 669,059
Weighted average yield	5.00%			

Trading securities:							
June 30, 2010:							
Collateralized mortgage obligations	$	12,121	$	—$	—$	12,121
	$	12,121	$	—$	—$	12,121
Weighted average yield		3.35%				
December 31, 2009:							
Collateralized mortgage obligations	$	12,183	$	—$	—$	12,183
	$	12,183	$	—$	—$	12,183
Weighted average yield		3.74%				

(1) Includes Agency CMO's classified as available-for-sale.

The portfolio of available-for-sale mortgage-backed securities ("MBS") is comprised of 190 securities with a book value of $729.3 million including both Agency ($271.5 million) and non-Agency securities ($457.8 million). All securities were AAA-rated at the time of purchase; $76.8 million are now rated below AAA. Downgraded securities were evaluated at June 30, 2010. The result of this evaluation showed no other-than-temporary impairment as of June 30, 2010. An evaluation of downgraded securities at December 31, 2009 showed one security ($2.6 million) had an other-than-temporary impairment which resulted in an earnings charge of $86,000 or 9 basis points of downgraded securities and only 1 basis point of the total mortgage-backed securities portfolio. The $86,000 of other-than-temporary impairment loss recognized during the fourth quarter of 2009 represents our only other-than-temporary impairment charge since the start of this credit cycle in 2008. The weighted average duration of the mortgage-backed securities was 2.4 years at June 30, 2010.

Accrued interest receivable relating to mortgage-backed securities was $3.0 million at June 30, 2010 and $2.8 million at December 31, 2009. At June 30, 2010, mortgage-backed securities with fair values aggregating $355.2 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. From time to time, mortgage-backed securities are also pledged as collateral for Federal Home Loan Bank ("FHLB") borrowings and other obligations. The fair value of these FHLB-pledged mortgage-backed securities at June 30, 2010 was $106.8 million.

During the first six months of 2010, as part our portfolio management, there were proceeds from the sales of mortgage-backed securities available-for-sale of $46.0 million with net securities gains of $330,000. These sales were primarily in late part of the second quarter to take advantage of significant improved pricing in the market. The cost basis of all mortgage-backed securities sales is based on the specific identification method. During the first six months of 2009, proceeds from the sale of mortgage-backed securities available-for-sale were $38.6 million, resulting in a net gain of $694,000. In addition, and also part of our portfolio management we purchased $192.7 million of mortgage-backed securities primarily during the first quarter of 2010.

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 June 30, 2010, we owned mortgage-backed securities totaling $104.6 million where the amortized cost basis exceeded fair value. Total unrealized losses on these securities were $2.8 million at June 30, 2010. This temporary impairment is the result of changes in market interest rates, a lack of liquidity in the mortgage-backed securities market and the reduction in credit ratings of 24 out of 109 bonds in the non-agency mortgage-backed security portfolio. Most of these securities have been impaired for twelve months or longer. We have determined that these securities are not other-than-temporarily impaired. Quarterly, we evaluate the current characteristics of each of our mortgage-backed securities such as delinquency and foreclosure levels, credit enhancement, projected losses and coverage. In addition, we do not have the intent to sell, nor is it more likely-than not we will be required to sell these securities before we are able to recover the amortized cost basis.

The table below shows our mortgage-backed securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Available-for-sale						
CMO	$ 44,225	$ 124	$ 60,419	$ 2,629	$ 104,644	$ 2,753

FNMA	—	—	—	—	—	—
FHLMC	—	—	—	—	—	—
GNMA	—	—	—	—	—	—
Total temporarily impaired MBS	$ 44,225	$ 124	$ 60,419	$ 2,629	$ 104,644	$ 2,753

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The table below shows our mortgage-backed securities' gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2009.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In Thousands)			
Available-for-sale						
CMO	$ 115,088	$ 2,701	$ 108,839	$ 7,682	$ 223,927	$ 10,383
FNMA	29,360	454	—	—	29,360	454
FHLMC	25,434	83	—	—	25,434	83
GNMA	19,953	187	—	—	19,953	187
Total temporarily impaired MBS	$ 189,835	$ 3,425	$ 108,839	$ 7,682	$ 298,674	$ 11,107

We own $12.4 million par value of SASCO RM-1 2002 reverse mortgage MBS which are classified as trading, of which $1.4 million is accrued interest paid in kind. We expect to recover all principal and interest due to seasoning and excess collateral. Based on FASB ASC 320, Investments – Debt and Equity Securities ("ASC 320") (Formerly SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities) when these securities were acquired they were classified as trading. It was our intent to sell them in the near term. We have used the guidance under ASC 320 to provide a reasonable estimate of fair value at June 30, 2010 and December 31, 2009. We estimated the fair value of these securities as of June 30, 2010 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.

5. IMPAIRED LOANS

Loans for which it is probable we will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of FASB ASC 310, Receivables (Formerly SFAS No. 114, Accounting for Creditors for Impairment of a Loan). The amount of impairment is required to be measured using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, a specific allowance is allocated for the impairment.

We had impaired loans (for which ASC 310 applied) of approximately $76.4 million at June 30, 2010 compared to $73.2 million at December 31, 2009. The average recorded balance of aggregate impaired loans was $73.7 million for the six months ended June 30, 2010 and $62.2 million for the year-ended December 31, 2009. The specific allowance for losses on these impaired loans was $15.0 million at June 30, 2010 compared to $11.8 million at December 31, 2009. The specific reserve at June 30, 2010 was associated with $46.8 million of total impaired loans. The remaining $29.6 million of impaired loans had no related specific reserve as collateral is more than sufficient to cover our loan balance or because of previous charge-offs.

When there is little prospect of collecting principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible.

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6. COMPREHENSIVE INCOME (LOSS)

The following schedule reconciles net income (loss) to total comprehensive income:

	For the three months Ended June 30, 2010	For the three months Ended June 30, 2009	For the six months Ended June 30, 2010	For the six months Ended June 30, 2009
	(In Thousands)			
Net income (loss)	$ 3,301	$ (2,316)	$ 3,815	$ 624
Other Comprehensive Income (Loss):				
Unrealized holding gains on securities available-for-sale arising during the period	9,211	158	17,484	6,727
Tax expense	(3,500)	(60)	(6,644)	(2,556)
Net of tax amount	5,711	98	10,840	4,171
Reclassification adjustment for gains included in net income	(330)	(141)	(330)	(688)
Tax expense	125	54	125	261
Net of tax amount	(205)	(87)	(205)	(427)
Total comprehensive income (loss)	$ 8,807	$ (2,305)	$ 14,450	$ 4,368

7. TAXES ON INCOME

We account for income taxes in accordance with FASB ASC 740, Income Taxes ("ASC 740") (Formerly SFAS No. 109, Accounting for Income Taxes and FASB Interpretation No. 48, Accounting for Uncertainty In Income Taxes, an Interpretation of FASB Statement 109). ASC 740 requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We have assessed valuation allowances on the deferred income taxes due to, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences. 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. 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 Consolidated 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 June 30, 2010 and December 31, 2009 were $1.0 million and $1.9 million, respectively, of which $500,000 would have affected our June 30, 2010 effective tax rate if recognized. As of June 30, 2010 and December 31, 2009, the total amount of accrued interest included in such unrecognized tax benefits was $43,000 and $372,000, respectively. No penalties are included in such unrecognized tax benefits. We record interest and penalties on potential income tax deficiencies as income tax expense. The decrease in the unrecognized tax benefits was primarily due to the expiration of a statute of limitations.

While our Federal and State tax years 2006 through 2009 remain subject to examination as of June 30, 2010, the Internal Revenue Service ("IRS") completed its examination of our 2004 through 2006 Federal tax returns during the quarter ended June 30, 2008. During 2008 we successfully completed the IRS appeal process and during the quarter ended March 31, 2009 we recovered $863,000 of taxes plus $275,000 of interest that were previously assessed during the audit phase.

During 2007, we donated a N.C. Wyeth mural which was previously displayed in our former headquarters. The estimated fair value of the mural was $6.0 million, which was recorded as a charitable contribution expense. We recognized a related offsetting gain on the transfer of the asset during 2007. The expense and offsetting gain was shown net in our Consolidated Financial Statements during 2007. As the gain on the transfer of the asset is permanently excludible from taxation, the charitable contribution transaction results in a permanent deduction for income tax purposes. The amount of the deduction represents an income tax uncertainty because it is subject to evaluation by the IRS. The IRS is still in the process of evaluating this tax deduction.

8. SEGMENT INFORMATION

Under the definition of FASB ASC 280, Segment Reporting ("ASC 280") (Formerly SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information) we discuss our business in three segments. There is one segment for WSFS Bank (including WSFS Investment Group, Inc.), Cash Connect, (the ATM division of WSFS), and Trust and Wealth Management (including Montchanin). During 2009 we reported the results of 1st Reverse (the national reverse mortgage subsidiary of WSFS) as a separate segment, consistent with the guidance promulgated in ASC 280. However, we completed a wind-down of 1st Reverse's operation during the latter part of 2009 and have no results to report as an operating segment in 2010. The three and six months ended June 30, 2009, includes a $1.6 million pre-tax charge related to 1st Reverse, which includes the write-off of all related goodwill and intangibles, uncollectable receivables and our remaining investment in this subsidiary.

The WSFS Bank segment provides financial products to commercial and retail customers through its 40 banking offices located in Delaware (35), Pennsylvania (4) and Virginia (1). Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking and other banking business units including WSFS Investment Group, Inc. are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Bank. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment of the Company 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 Wealth Management column is comprised of the WSFS Trust & Wealth Management division and Montchanin. The WSFS Trust and Wealth Management division was established in response to our commercial customers' demand for the same high level service in their investment relationships that they enjoy as banking customers of WSFS Bank. Montchanin provides asset management products and services to customers in the Bank's primary market area through its one consolidated, wholly owned subsidiary, Cypress Capital Management, LLC ("Cypress"). Cypress is a Wilmington-based Registered Investment Advisory firm serving high net-worth individuals and institutions.

An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segments and assessment of the performance of the segments, 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 and six months ended June 30, 2010 and 2009 follows:

For the Three Months Ended June 30, 2010

	WSFS	Cash Connect	Trust & Wealth Management	Total
		(In Thousands)		
External customer revenues:				
Interest income	$ 41,454	$ —	$ —	$ 41,454
Noninterest income	8,425	3,321	690	12,436
Total external customer revenues	49,879	3,321	690	53,890
Inter-segment revenues:				
Interest income	225	—	—	225
Noninterest income	699	203	—	902
Total inter-segment revenues	924	203	—	1,127
Total revenue	50,803	3,524	690	55,017
External expenses:				
Interest expense	10,756	—	—	10,756
Noninterest expenses	25,449	1,407	883	27,739
Provision for loan loss	10,594	—	—	10,594
Total external expenses	46,799	1,407	883	49,089
Inter-segment expenses				
Interest expense	—	225	—	225
Noninterest expenses	203	367	332	902
Total inter-segment expenses	203	592	332	1,127
Total expenses	47,002	1,999	1,215	50,216
Income (loss) before taxes	$ 3,801	$ 1,525	$ (525)	$ 4,801
Income tax provision				1,500
Consolidated net income				$ 3,301
Cash and cash equivalents	$ 57,073	$ 263,989	$ 1,065	$ 322,127
Other segment assets	3,454,067	14,871	801	3,469,739
Total segment assets	$ 3,511,140	$ 278,860	$ 1,866	$ 3,791,866
Capital expenditures	$ 1,427	$ 4	$ —	$ 1,431

For the Three Months Ended June 30, 2009

	WSFS	Cash Connect	1st Reverse	Trust & Wealth Management	Total
			(In Thousands)		
External customer revenues:					
Interest income	$ 39,839	$ —	$ —	$ —	$ 39,839
Noninterest income	8,570	2,855	654	588	12,667
Total external customer revenues	48,409	2,855	654	588	52,506
Inter-segment revenues:					
Interest income	162	—	—	—	162
Noninterest income	1,071	98	—	—	1,169
Total inter-segment revenues	1,233	98	—	—	1,331
Total revenue	49,642	2,953	654	588	53,837
External expenses:					
Interest expense	13,459	—	—	—	13,459
Noninterest expenses	26,484	1,272	2,332	867	30,955
Provision for loan loss	11,997	—	—	—	11,997
Total external expenses	51,940	1,272	2,332	867	56,411
Inter-segment expenses					
Interest expense	—	162	—	—	162
Noninterest expenses	285	253	63	568	1,169
Total inter-segment expenses	285	415	63	568	1,331
Total expenses	52,225	1,687	2,395	1,435	57,742
(Loss) income before taxes	$ (2,583)	$ 1,266	$ (1,741)	$ (847)	$ (3,905)
Income tax benefit					(1,589)
Consolidated net loss					$ (2,316)
Cash and cash equivalents	$ 74,602	$ 201,844	$ —	$ 682	$ 277,128
Other segment assets	3,293,523	15,967	—	1,298	3,310,788
Total segment assets	$ 3,368,125	$ 217,811	$ —	$ 1,980	$ 3,587,916
Capital expenditures	$ 2,524	$ 138	$ —	$ 2	$ 2,664

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For the Six Months Ended June 30, 2010

	WSFS	Cash Connect	Trust & Wealth Management	Total
		(In Thousands)		
External customer revenues:				
Interest income	$ 82,012	$ —	$ —	$ 82,012
Noninterest income	15,622	6,460	1,495	23,577
Total external customer revenues	97,634	6,460	1,495	105,589
Inter-segment revenues:				
Interest income	447	—	—	447
Noninterest income	1,429	375	—	1,804
Total inter-segment revenues	1,876	375	—	2,251
Total revenue	99,510	6,835	1,495	107,840
External expenses:				
Interest expense	21,971	—	—	21,971
Noninterest expenses	48,554	7,113	1,705	57,372
Provision for loan loss	22,004	—	—	22,004
Total external expenses	92,529	7,113	1,705	101,347
Inter-segment expenses				
Interest expense	—	447	—	447
Noninterest expenses	375	733	696	1,804
Total inter-segment expenses	375	1,180	696	2,251
Total expenses	92,904	8,293	2,401	103,598
Income (loss) before taxes	$ 6,606	$ (1,458)	$ (906)	$ 4,242
Income tax provision				427
Consolidated net income				$ 3,815
Cash and cash equivalents	$ 57,073	$ 263,989	$ 1,065	$ 322,127
Other segment assets	3,454,067	14,871	801	3,469,739
Total segment assets	$ 3,511,140	$ 278,860	$ 1,866	$ 3,791,866
Capital expenditures	$ 3,070	$ 7	$	$ 3,077

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For the Six Months Ended June 30, 2009

	WSFS	Cash Connect	1st Reverse	Trust & Wealth Management	Total
			(In Thousands)		
External customer revenues:					
Interest income	$ 78,646	$ —	$ —	$ —	$ 78,646
Noninterest income	15,916	5,632	1,210	1,010	23,768
Total external customer revenues	94,562	5,632	1,210	1,010	102,414
Inter-segment revenues:					
Interest income	327	—	—	—	327
Noninterest income	1,796	169	—	—	1,965
Total inter-segment revenues	2,123	169	—	—	2,292
Total revenue	96,685	5,801	1,210	1,010	104,706
External expenses:					
Interest expense	28,375	—	—	—	28,375
Noninterest expenses	47,993	2,346	3,401	1,589	55,329
Provision for loan loss	19,650	—	—	—	19,650
Total external expenses	96,018	2,346	3,401	1,589	103,354
Inter-segment expenses					
Interest expense	—	318	9	—	327
Noninterest expenses	397	440	126	1,002	1,965
Total inter-segment expenses	397	758	135	1,002	2,292
Total expenses	96,415	3,104	3,536	2,591	105,646
Income (loss) before taxes	$ 270	$ 2,697	$ (2,326)	$ (1,581)	$ (940)
Income tax benefit					(1,564)
Consolidated net income					$ 624
Cash and cash equivalents	$ 74,602	$ 201,844	$ —	$ 682	$ 277,128
Other segment assets	3,293,523	15,967	—	1,298	3,310,788
Total segment assets	$ 3,368,125	$ 217,811	$ —	$ 1,980	$ 3,587,916
Capital expenditures	$ 4,401	$ 138	$ —	$ 13	$ 4,552

9. 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 year-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.

Investments and Mortgage-Backed Securities: Fair value of investment and mortgage-backed securities is based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted prices for similar securities. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional discussion of our mortgage-backed securities-trading, see Note 10, Fair Value of Financial Assets, to the Consolidated Financial Statements.

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 impaired 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 book 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. The FHLB is rated AAA and its rating is likely to remain unchanged based on expectations that the FHLB has a very high degree of government support and was in compliance with all regulatory capital requirements as of June 30, 2010. Based on the above, we have determined there was no other-than-temporary impairment related to our FHLB stock investment as of June 30, 2010.

Deposit Liabilities: The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, money market and interest-bearing demand deposits and savings deposits, is assumed to be equal to the amount payable on demand. The carrying value of variable rate time deposits and time deposits that reprice frequently also approximates fair value. The fair value of the remaining time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with comparable remaining maturities.

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:

	June 30, 2010		December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
(In Thousands)				
Financial assets:				
Cash and cash equivalents	$ 322,127	$ 322,127	$ 321,749	$ 321,749
Investment securities (HTM and AFS)	45,026	45,011	45,517	45,479
Mortgage-backed securities (AFS and Trading)	755,591	755,591	681,242	681,242
Loans, net	2,460,003	2,475,222	2,479,155	2,487,129
Bank-owned life insurance	60,669	60,669	60,254	60,254
Stock in Federal Home Loan Bank of Pittsburgh	39,305	39,305	39,305	39,305
Accrued interest receivable	11,948	11,948	12,407	12,407
Financial liabilities:				
Deposits	2,628,782	2,639,148	2,561,871	2,572,418
Borrowed funds	819,865	813,978	854,809	858,896
Accrued interest payable	8,551	8,551	4,240	4,240

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

	June 30, 2010	December 31, 2009
(In Thousands)		
Off-balance sheet instruments:		
Commitments to extend credit	$ 3,816	$ 5,071
Standby letters of credit	165	317

10. FAIR VALUE OF FINANCIAL ASSETS

Effective January 1, 2008, we adopted the provisions of FASB ASC 820-10 (“ASC 820-10”) (Formerly SFAS No. 157, Fair Value Measurements and Financial Accounting Standards Board Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157), for financial assets and financial liabilities. This adoption did not have a material impact on our financial statements.

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. These valuation methodologies were applied to all of our financial assets carried at fair value effective January 1, 2008. The table below presents the balances of assets measured at fair value as of June 30, 2010 (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	$ —	$ 608,896	$ —	$ 608,896
FNMA	—	47,506	—	47,506
FHLMC	—	41,128	—	41,128
GNMA	—	45,940	—	45,940
U.S. Government and agencies	—	41,308	—	41,308
State and political subdivisions	—	3,670	—	3,670
Reverse mortgages	—	—	(509)	(509)
Trading Securities	—	—	12,121	12,121
Total assets measured at fair value on a recurring basis	—	788,448	11,612	800,060
Assets Measured at Fair Value on a Nonrecurring Basis				
Impaired Loans	—	61,355	—	61,355
Total assets measured at fair value on a nonrecurring basis	$ —	$ 61,355	$ —	$ 61,355

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 June 30, 2010, securities classified as available for sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately $41.3 million in Federal Agency debentures, $281.3 million in Federal Agency MBS, $462.1 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 our fixed income securities are not 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.

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 assumptions 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 traunches 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.

Reverse Mortgages. The amount of our investment in reverse mortgages represents the estimated fair 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 mortgagee 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 are summarized as follows:

	Trading Securities	Reverse Mortgages (In Thousands)	Total
Balance at December 31, 2008	$ 10,816	$ (61)	$ 10,755
Total net income (losses) for the period included in net income	1,367	(464)	903
Purchases, sales, issuances, and settlements, net	—	(5)	