WSFS FINANCIAL CORP
Form 10-Q
August 09, 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 June 30, 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)**
WSFS Bank Center	
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 August 3, 2012:

Common Stock, par value $.01 per share	**8,705,604**
(Title of Class)	(Shares Outstanding)

WSFS FINANCIAL CORPORATION

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PART I. Financial Information

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(Unaudited)			
	(In Thousands, Except Per Share Data)			
Interest income:				
Interest and fees on loans	**$ 32,787**	$ 32,803	**$ 66,182**	$ 64,759
Interest on mortgage-backed securities	**4,891**	6,884	**10,609**	13,910
Interest and dividends on investment securities	**76**	127	**177**	297
Other interest income	**9**		**18**	
	37,763	39,814	**76,986**	78,966
Interest expense:				
Interest on deposits	**3,400**	5,034	**7,415**	10,257
Interest on Federal Home Loan Bank advances	**1,645**	2,655	**3,582**	5,382
Interest on trust preferred borrowings	**370**	339	**745**	675
Interest on other borrowings	**270**	599	**636**	1,211
	5,685	8,627	**12,378**	17,525
Net interest income	**32,078**	31,187	**64,608**	61,441
Provision for loan losses	**16,383**	8,582	**24,628**	14,490
Net interest income after provision for loan losses	**15,695**	22,605	**39,980**	46,951
Noninterest income:				
Security gains, net	**13,310**	603	**15,346**	1,018
Credit/debit card and ATM income	**5,871**	5,286	**11,293**	10,026
Deposit service charges	**4,299**	4,026	**8,313**	7,590
Fiduciary & investment management income	**3,427**	3,068	**6,458**	5,895
Loan fee income	**487**	576	**1,097**	1,261
Mortgage banking activities, net	**452**	231	**968**	778
Bank owned life insurance income	**136**	1,419	**321**	1,598
Other income	**1,010**	820	**1,954**	1,502
	28,992	16,029	**45,750**	29,668
Noninterest expenses:				
Salaries, benefits and other compensation	**16,663**	14,413	**32,898**	29,229
Occupancy expense	**3,414**	2,935	**6,462**	5,773
Equipment expense	**2,035**	1,915	**3,702**	3,529
Loan workout and OREO expenses	**1,951**	1,642	**2,787**	4,125
Data processing and operations expenses	**1,466**	1,284	**2,788**	2,701
FDIC expenses	**1,441**	1,278	**2,878**	3,042
Professional Fees	**1,082**	1,584	**2,246**	2,707
Marketing Expense	**818**	898	**1,597**	1,849
Acquisition integration costs		446		780
Other operating expense	**4,147**	4,257	**8,648**	8,304

		33,017		30,652		**64,006**		62,039
Income before taxes		**11,670**		7,982		**21,724**		14,580
Income tax provision		**4,340**		2,459		**7,950**		4,851
Net income		**7,330**		5,523		**13,774**		9,729
Dividends on preferred stock and accretion of discount		**692**		693		**1,384**		1,385
Net income allocable to common stockholders	**$**	**6,638**	$	4,830	**$**	**12,390**	$	8,344
Earnings per share:								
Basic	**$**	**0.76**	$	0.56	**$**	**1.42**	$	0.97
Diluted	**$**	**0.76**	$	0.55	**$**	**1.41**	$	0.96

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 June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
	(Unaudited)		(Unaudited)	
	(In Thousands)		(In Thousands)	
Net Income	**$ 7,330**	$ 5,523	**$ 13,774**	$ 9,729
Other comprehensive income (loss):				
Unrealized gains on securities available for sale	**11,724**	1,631	**12,264**	1,771
Tax expense	**(4,433)**	(620)	**(4,656)**	(673)
Net of tax amount	**7,291**	1,011	**7,608**	1,098
Reclassification adjustment for gains included in net income	**(13,310)**	(603)	**(15,346)**	(1,018)
Tax expense	**5,058**	229	**5,831**	387
Net of tax amount	**(8,252)**	(374)	**(9,515)**	(631)
Total other comprehensive (loss) income	**(961)**	637	**(1,907)**	467
Total comprehensive income	**$ 6,369**	$ 6,160	**$ 11,867**	$ 10,196

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

	June 30, 2012	Dec 31, 2011
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	$ 85,069	$ 70,889
Cash in non-owned ATMs	382,139	397,119
Interest-bearing deposits in other banks	43	9
Total cash and cash equivalents	467,251	468,017
Investment securities, available-for-sale	807,253	859,362
Investment securities, trading	12,465	12,432
Loans held-for-sale	19,552	10,185
Loans, net of allowance for loan losses of $46,429 at June 30, 2012 and $53,080 at December 31, 2011	2,657,513	2,702,589
Bank owned life insurance	63,713	63,392
Stock in Federal Home Loan Bank of Pittsburgh, at cost	33,364	35,756
Assets acquired through foreclosure	9,246	11,695
Premises and equipment	36,841	35,964
Goodwill	28,146	28,146
Intangible assets	5,646	6,139
Accrued Interest receivable	10,098	11,743
Other assets	41,286	43,588
Total assets	$ 4,192,374	$ 4,289,008
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 620,062	$ 525,444
Interest-bearing demand	429,466	389,495
Money market	712,669	805,570
Savings	394,254	368,390
Time	379,997	412,027
Jumbo certificates of deposit customer	341,709	346,568
Total customer deposits	2,878,157	2,847,494
Brokered deposits	286,212	287,810
Total deposits	3,164,369	3,135,304
Federal funds purchased and securities sold under agreements to repurchase	100,000	50,000
Federal Home Loan Bank advances	392,932	538,682
Trust preferred borrowings	67,011	67,011
Other borrowed funds	28,781	67,927
Accrued interest payable	5,184	1,910
Other liabilities	32,152	36,041
Total liabilities	3,790,429	3,896,875

Stockholders Equity:

Serial preferred stock $.01 par value, 7,500,000 shares authorized; issued 52,625 at June 30, 2012 and December 31, 2011	**$ 1**	$ 1
Common stock $.01 par value, 20,000,000 shares authorized; issued 18,287,752 at June 30, 2012 and 18,258,714 at December 31, 2011	**183**	182
Capital in excess of par value	**221,576**	220,163
Accumulated other comprehensive income	**9,295**	11,202
Retained earnings	**419,170**	408,865
Treasury stock at cost, 9,580,569 shares at June 30, 2012 and December 31, 2011	**(248,280)**	(248,280)
Total stockholders equity	**401,945**	392,133
Total liabilities and stockholders equity	**$ 4,192,374**	$ 4,289,008

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

WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, **2012**	2011
	(Unaudited) (In Thousands)	
Operating activities:		
Net Income	$ **13,774**	$ 9,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**24,628**	14,490
Depreciation, accretion and amortization	**7,811**	4,995
Decrease in accrued interest receivable	**1,645**	496
Decrease in other assets	**3,480**	4,162
Origination of loans held-for-sale	**(69,557)**	(47,393)
Proceeds from sales of loans held-for-sale	**65,837**	59,329
Loss on loan disposition	**14,176**	
Gain on mortgage banking activities, net	**(968)**	(778)
Security gains, net	**(15,346)**	(1,018)
Stock-based compensation expense	**1,478**	441
Excess tax benefits from share-based payment arrangements	**(10)**	(75)
Increase in accrued interest payable	**3,274**	4,140
Decrease in other liabilities	**(3,861)**	(2,182)
Loss on sale of assets acquired through foreclosure and valuation adjustments, net	**1,596**	1,765
Increase in value of bank-owned life insurance	**(321)**	(1,598)
(Increase) decrease in capitalized interest, net	**(295)**	71
Net cash provided by operating activities	$ **47,341**	$ 46,574
Investing activities:		
Maturities of investment securities	**4,524**	11,552
Sale of investment securities available for sale	**504,203**	123,125
Purchase of investment securities available-for-sale	**(521,138)**	(265,874)
Repayments of investment securities available-for-sale	**73,353**	89,879
Disbursements for reverse mortgages	**(14)**	(351)
Proceeds from loan disposition	**26,377**	
Net increase in loans	**(34,364)**	(80,350)
Net decrease in stock of Federal Home Loan Bank of Pittsburgh	**2,392**	1,855
Sales of assets acquired through foreclosure, net	**10,134**	7,303
Investment in premises and equipment, net	**(4,101)**	(4,886)
Net cash provided by (used for) investing activities	$ **61,366**	$ (117,747)
Financing activities:		
Net increase in demand and saving deposits	**58,408**	155,070
Net decrease in time deposits	**(36,889)**	(29,834)
Net decrease in brokered deposits	**(1,709)**	(82,321)
Receipts from FHLB advances	**18,325,738**	7,907,471
Repayments of FHLB advances	**(18,471,488)**	(7,762,343)
Receipts from federal funds purchased and securities sold under agreement to repurchase	**9,410,000**	8,525,000
Repayments of federal funds purchased and securities sold under agreement to repurchase	**(9,360,000)**	(8,525,000)
Repayment of unsecured debt	**(30,000)**	

Dividends paid		**(3,407)**		(3,376)
Issuance of common stock and exercise of common stock options		**(136)**		838
Excess tax benefits from share-based payment arrangements		**10**		75
Net cash (used for) provided by financing activities	**$**	**(109,473)**	$	185,580
(Decrease) increase in cash and cash equivalents		**(766)**		114,407
Cash and cash equivalents at beginning of period		**468,017**		376,759
Cash and cash equivalents at end of period	**$**	**467,251**	$	491,166
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest during the period	**$**	**9,104**	$	13,385
Cash paid for income taxes, net		**8,202**		317
Loans transferred to assets acquired through foreclosure		**8,605**		5,187
Other comprehensive (loss) income		**(1,907)**		467

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

WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 fully-owned subsidiaries, WSFS Investment Group, Inc. (WIG) and Monarch Entity Services LLC (Monarch) and Montchanin has one wholly owned subsidiary, Cypress Capital Management, LLC (Cypress).

Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our 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 52 offices located in Delaware (42), Pennsylvania (8), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com.

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

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of the Securities and Exchange Commission (SEC) Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three and six month periods ended June 30, 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.

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 June 30, 2012, there were 141,177 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

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are to be granted at not less than the market price of our Corporation 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 June 30, 2012 and 2011:

	June 30, 2012		June 30, 2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	**447,901**	**$ 43.41**	595,537	$ 43.18
Granted	**55,477**	**38.93**	3,000	42.86
Exercised	**(2,059)**	**27.49**	(6,464)	33.04
Forfeited	**(2,075)**	**69.00**	(27,632)	45.12
Outstanding at end of period	**499,244**	**42.87**	564,441	43.21
Exercisable at end of period	**334,430**	**$ 44.93**	428,226	$ 44.39
Weighted-average fair value of awards granted	**$ 12.57**		$ 13.92	

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

The following table provides vesting information about our stock options outstanding for the three months ended June 30, 2012 and 2011:

	June 30, 2012		June 30, 2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Unvested at beginning of period	**110,137**	**$ 38.53**	141,243	$ 39.66
Granted	**55,477**	**38.93**	3,000	42.86
Vested	**(800)**	**35.12**	(3,351)	45.54
Forfeited			(4,677)	42.82
Unvested at end of period	**164,814**	**$ 38.68**	136,215	$ 39.52

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Stock Options

The following table provides information about our stock options outstanding for the six months ended June 30, 2012 and 2011:

	June 30, 2012		June 30, 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)	**88,307**	**39.66**	53,723	44.90
Exercised	**(3,874)**	**26.29**	(13,625)	27.42
Forfeited	**(2,075)**	**69.00**	(41,980)	45.47
Outstanding at end of period	**499,244**	**42.87**	564,441	43.21
Exercisable at end of period	**334,430**	**$ 44.93**	428,226	$ 44.39
Weighted-average fair value of awards granted	**$ 12.50**		$ 14.30	

The following table provides information about our stock options outstanding for the six months ended June 30, 2012 and 2011:

	June 30, 2012		June 30, 2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Unvested at beginning of period	**112,258**	**$ 36.08**	123,486	$ 34.94
Granted	**88,307**	**39.66**	53,723	44.90
Vested	**(35,751)**	**32.94**	(28,328)	29.16
Forfeited			(12,666)	40.85
Unvested at end of period	**164,814**	**$ 38.68**	136,215	$ 39.52

The total amount of compensation cost to be recognized relating to non-vested stock options as of June 30, 2012 was $1.2 million. The weighted-average period over which it is expected to be recognized is 2.9 years. We issue new shares upon the exercise of options.

Restricted Stock

We did not issue any restricted stock units or awards during the second quarter of 2012. We issued 24,442 restricted stock units and awards during the first six months of 2012 compared to 39,422 during the first six months 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 June 30, 2012, was $1.5 million. The weighted-average period over which it is expected to be recognized is 2.0 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.

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For the three months ended June 30, 2012, the effect of stock-based compensation, including stock options, restricted stock, stock awards, and performance stock, on salaries, benefits and other compensation was $767,000 pre-tax ($537,000 after tax) or $0.06 per share. This compares to $335,000 pre-tax ($251,000 after tax) or $0.03 per share during the three months ended June 30, 2011. The increase was mainly due to the timing of stock option awards granted in 2012 as well as additional expense in 2012 related to Performance Stock Awards. There was no expense for Performance Stock Awards recorded during 2011.

For the six months ended June 30, 2012, the effect of stock-based compensation, including stock options, restricted stock, stock awards, and performance stock, on salaries, benefits and other compensation was $1.5 million pre-tax ($1.1 million after tax) or $0.12 per share. This compares to $860,000 pre-tax ($688,000 after tax) or $0.08 per share during the three months ended June 30, 2011. Similar to the quarterly discussion, the increase was mainly due to the timing and amount of stock option awards granted in 2012 and the expense related to 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 June 30,		For the six months ended June 30,	
	2012	2011	**2012**	2011
	(In Thousands, Except Per Share Data)			
Numerator:				
Net income allocable to common stockholders	**$ 6,638**	$ 4,830	**$ 12,390**	$ 8,344
Denominator:				
Denominator for basic earnings per share weighted average shares	**8,706**	8,599	**8,696**	8,588
Effect of dilutive employee stock options and warrants	**72**	128	**75**	139
Denominator for diluted earnings per share adjusted weighted average shares and assumed exercise	**8,778**	8,727	**8,771**	8,727
Earnings per share:				
Basic:				
Net income allocable to common shareholders	**$ 0.76**	$ 0.56	**$ 1.42**	$ 0.97
Diluted:				
Net income allocable to common shareholders	**$ 0.76**	$ 0.55	**$ 1.41**	$ 0.96
Outstanding common stock equivalents having no dilutive effect	**536**	545	**536**	487

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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:				
June 30, 2012:				
Reverse mortgages	**$ (632)**	**$**	**$**	**$ (632)**
U.S. Government and government sponsored enterprises (GSE)	**47,766**	**260**	**(7)**	**48,019**
State and political subdivisions	**3,635**	**36**	**(1)**	**3,670**
Collateralized Mortgage Obligation (CMO) (1)	**240,739**	**5,115**	**(163)**	**245,691**
Federal National Mortgage Association (FNMA) Mortgage-Backed Securities (MBS)	**369,770**	**5,928**	**(141)**	**375,557**
Federal Home Loan Mortgage Corporation (FHLMC) MBS	**76,300**	**1,553**	**(10)**	**77,843**
Government National Mortgage Association (GNMA) MBS	**53,979**	**3,126**		**57,105**
	$ 791,557	**$ 16,018**	**$ (322)**	**$ 807,253**
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				
June 30, 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 June 30, 2012 and December 31, 2011 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
June 30, 2012		
Within one year (1)	**$ 6,766**	**$ 6,818**
After one year but within five years	**42,303**	**42,542**
After five years but within ten years	**168,803**	**172,129**
After ten years	**573,685**	**585,764**
	$ 791,557	**$ 807,253**
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 (MBS) includes 151 securities with an amortized cost of $740.8 million comprised of all GSE securities. All securities were AAA-rated at the time of purchase. All securities were re-evaluated for OTTI at June 30, 2012. The result of this evaluation showed no OTTI for the second quarter of 2012. The weighted average duration of the mortgage-backed securities was 4.5 years at June 30, 2012.

At June 30, 2012, investment securities with market values aggregating $364.0 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 June 30, 2012.

In conjunction with the asset disposition strategies discussed in the Company s Current Report on Form 8-K filed on May 10, 2012 (the Asset Strategies), during the first six months of 2012, we sold $504.2 million of investment securities categorized as available-for-sale for net gains of $15.4 million. In the first six months of 2011, proceeds from the sale of investment securities available-for-sale were $123.0 million and resulted in net gains of $1.0 million. 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 investment 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 June 30, 2012, we owned investment securities totaling $107.9 million in which the amortized cost basis exceeded fair value. Total unrealized losses on those securities were $322,000 at June 30, 2012. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. 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 June 30, 2012.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In Thousands)			
Available-for-sale						
U.S Government and agencies	**$ 5,047**	**$ 7**	**$**	**$**	**$ 5,047**	**$ 7**
State and political subdivisions			**135**	**1**	**135**	**1**
CMO	**31,871**	**163**			**31,871**	**163**
FNMA	**65,682**	**141**			**65,682**	**141**
FHLMC	**5,172**	**10**			**5,172**	**10**
GNMA						
Total temporarily impaired investments	**$ 107,772**	**$ 321**	**$ 135**	**$ 1**	**$ 107,907**	**$ 322**

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

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In Thousands)			
Available-for-sale						
U.S Government and agencies	$ 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, $1.5 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) 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 June 30, 2012.

During 2011, we purchased 100% of SASCO 2002-RM1 Class O certificates for $2.5 million. As of June 30, 2012, the market value of the SASCO 2002-RM1 O securities was determined in accordance with FASB ASC 820-10, *Fair Value Measurement* (ASC 820), to be $4.3 million. These securities have been included in our CMO portfolio since their purchase.

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4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

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

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 homogenous 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 homogenous 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 homogenous 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 above 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

Revised our loan risk rating system based on recommendations from industry experts

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The following table provides the activity of the allowance for loan losses and loan balances for the three and six months ended June 30, 2012:

	Commercial	Owner Occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk (1)	Total
				(In Thousands)				
Three months ended June 30, 2012								
Allowance for loan losses								
Beginning balance	$ 11,625	$ 7,005	$ 10,530	$ 8,917	$ 6,400	$ 10,253	$ 1,068	$ 55,798
Charge-offs	(7,704)	(2,186)	(4,701)	(8,498)	(2,315)	(1,692)		(27,096)
Recoveries	797		51	300	33	163		1,344
Provision	5,173	(728)	3,738	4,588	2,147	1,617	(152)	16,383
Ending balance	$ 9,891	$ 4,091	$ 9,618	$ 5,307	$ 6,265	$ 10,341	$ 916	$ 46,429
Six months ended June 30, 2012								
Allowance for loan losses								
Beginning balance	$ 15,067	$ 9,235	$ 7,556	$ 4,074	$ 6,544	$ 10,604	$	$ 53,080
Charge-offs	(10,035)	(2,688)	(4,891)	(10,004)	(2,639)	(2,921)		(33,178)
Recoveries	850	6	364	328	58	293		1,899
Provision	4,009	(2,462)	6,589	10,909	2,302	2,365	916	24,628
Ending balance	$ 9,891	$ 4,091	$ 9,618	$ 5,307	$ 6,265	$ 10,341	$ 916	$ 46,429
Period-end allowance allocated to:								
Loans individually evaluated for impairment	$ 629	$ 10	$ 309	$ 139	$ 882	$ 45	$	$ 2,014
Loans collectively evaluated for impairment	9,262	4,081	9,309	5,168	5,383	10,296	916	44,415
Ending balance	$ 9,891	$ 4,091	$ 9,618	$ 5,307	$ 6,265	$ 10,341	$ 916	$ 46,429
Period-end loan balances evaluated for:								
Loans individually evaluated for impairment	$ 4,020	$ 17,980	$ 5,219	$ 5,656	$ 16,083	$ 4,014	$	$ 52,972(2)
Loans collectively evaluated for impairment	807,981	$ 619,004	613,648	90,520	239,515	280,302		2,650,970
Ending balance	$ 812,001	$ 636,984	$ 618,867	$ 96,176	$ 255,598	$ 284,316	$	$ 2,703,942

(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 June 30, 2012, represents accruing troubled debt restructured loans.

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

	Commercial	Commercial Mortgages	Construction	Residential	Consumer	Total
			(In Thousands)			
Three months ended June 30, 2011						
Allowance for loan losses						
Beginning balance	$ 24,536	$ 11,866	$ 6,658	$ 3,763	$ 9,177	$ 56,000
Charge-offs	(2,847)	(1,060)	(1,846)	(899)	(2,468)	(9,120)
Recoveries	210	279	115	7	175	786
Provision	3,337	1,245	904	836	2,260	8,582
Ending balance	$ 25,236	$ 12,330	$ 5,831	$ 3,707	$ 9,144	$ 56,248
Six months ended June 30, 2011						
Allowance for loan losses						
Beginning balance	$ 26,480	$ 10,564	$ 10,019	$ 4,028	$ 9,248	$ 60,339
Charge-offs	(6,210)	(1,307)	(7,072)	(1,306)	(4,224)	(20,119)
Recoveries	338	287	506	91	316	1,538
Provision	4,628	2,786	2,378	894	3,804	14,490
Ending balance	$ 25,236	$ 12,330	$ 5,831	$ 3,707	$ 9,144	$ 56,248
Period-end allowance allocated to:						
Loans individually evaluated for impairment	$ 2,304	$ 4,349	$ 1,411	$ 825	$ 112	$ 9,001
Loans collectively evaluated for impairment	22,932	7,981	4,420	2,882	9,032	47,247
Ending balance	$ 25,236	$ 12,330	$ 5,831	$ 3,707	$ 9,144	$ 56,248
Period-end loan balances evaluated for:						
Loans individually evaluated for impairment	$ 22,736	$ 20,177	$ 31,586	$ 17,567	$ 3,128	$ 95,194(1)
Loans collectively evaluated for impairment	1,308,304	602,374	96,932	276,003	298,281	2,581,894
Ending balance	$ 1,331,040	$ 622,551	$ 128,518	$ 293,570	$ 301,409	$ 2,677,088

(1) The difference between this amount and nonaccruing loans at June 30, 2011, represents accruing troubled debt restructured loans.

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Non-Accrual and Past Due Loans

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

June 30, 2012 (In Thousands)	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	Greater Than 90 Days Past Due and Still Accruing	Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
Commercial	**$ 363**	**$**	**$ 7**	**$ 370**	**$ 807,611**	**$ 4,020**	**$ 812,001**
Owner occupied commercial (1)					**619,004**	**17,980**	**636,984**
Commercial mortgages					**613,648**	**5,219**	**618,867**
Construction			**182**	**182**	**90,338**	**5,656**	**96,176**
Residential	**4,562**	**1,092**	**547**	**6,201**	**241,913**	**7,484**	**255,598**
Consumer	**1,212**	**177**	**94**	**1,483**	**280,634**	**2,199**	**284,316**
Total	**$ 6,137**	**$ 1,269**	**$ 830**	**$ 8,236**	**$ 2,653,148**	**$ 42,558**	**$ 2,703,942**
% of Total Loans	**0.22 %**	**0.05 %**	**0.03 %**	**0.30 %**	**98.12 %**	**1.58 %**	**100 %**

December 31, 2011 (In Thousands)	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	Greater Than 90 Days Past Due and Still Accruing	Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
Commercial	$ 1,087	$ 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 %

(1) Prior to 2012 owner occupied loans were included in commercial loan balances.

Impaired Loans

The following tables provide an analysis of our impaired loans at June 30, 2012 and December 31, 2011:

June 30, 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	**$ 4,020**	**$ 3,277**	**$ 743**	**$ 629**	$ 5,571	$ 9,393

Owner-Occupied Commercial (2)	**17,980**	**17,935**	**45**	**10**	22,681	15,325
Commercial mortgages	**5,219**	**4,268**	**951**	**309**	6,900	19,437
Construction	**5,656**	**3,583**	**2,073**	**139**	14,546	39,054
Residential	**16,083**	**8,826**	**7,257**	**882**	17,699	19,255
Consumer	**4,014**	**2,490**	**1,524**	**45**	4,249	3,631
Total	**$ 52,972**	**$ 40,379**	**$ 12,593**	**$ 2,014**	$ 71,646	$ 106,095

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

(1) Reflects loan balances at their remaining book balance.
(2) Prior to 2012 owner occupied commercial loans were included in commercial loan balances.

Interest income of $235,000 and $328,000 was recognized on impaired loans during the three and six months ended June 30, 2012, respectively.

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 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 June 30, 2012 and December 31, 2011:

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

	Commercial		Owner-Occupied Commercial (1)		Commercial Mortgages		Construction		Total Commercial			
									June 30, 2012		December 31, 2011	
	Jun 30, 2012	Dec. 31, 2011	**Jun 30, 2012**	Dec. 31, 2011	**Jun 30, 2012**	Dec. 31, 2011	**Jun 30, 2012**	Dec. 31, 2011	Amount	Percent	Amount	Percen
k Rating:												
ecial mention	**$ 18,236**	$ 85,848	**$ 21,243**		**$ 31,649**	$ 50,044	**$ 2,209**	$ 9,747	**$ 73,337**		$ 145,639	
ostandard:												
crual	**83,886**	107,896	**56,695**		**16,826**	13,664	**11,239**	19,039	**168,646**		140,599	
naccrual	**3,277**	23,193	**17,935**		**4,268**	15,814	**3,583**	22,124	**29,063**		61,131	
ubtful/Nonaccrual	**743**		**45**		**951**		**2,073**		**3,812**			
al Special ntion and ostandard	**106,142**	216,937	**95,918**		**53,694**	79,522	**19,104**	50,910	**274,858**	**13 %**	347,369	16
ss	**705,859**	1,242,519	**541,066**		**565,173**	543,277	**77,072**	55,244	**1,889,170**	**87**	1,841,040	84
tal Commercial ans	**$ 812,001**	$ 1,459,456	**$ 636,984**		**$ 618,867**	$ 622,799	**$ 96,176**	$ 106,154	**$ 2,164,028**	**100 %**	$ 2,188,409	100

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

	Residential		Consumer		Total Residential and Consumer			
					June 30, 2012		December 31, 2011	
	Jun 30, 2012	Dec.31, 2011	**Jun 30, 2012**	Dec.31, 2011	Amount	Percent	Amount	Percent
Nonperforming	**$ 16,083(1)**	$ 16,227	**$ 4,014(1)**	$ 2,621	**$ 20,097**	**4 %**	$ 18,848	3 %
Performing	**239,515**	259,276	**280,302**	289,136	**519,817**	**96**	548,412	97
Total	**$ 255,598**	$ 275,503	**$ 284,316**	$ 291,757	**$ 539,914**	**100 %**	$ 567,260	100 %

(1) Prior to 2012, owner occupied commercial loans were included in commercial loan balances.

(2) Includes $10.4 million at June 30, 2012 and $8.9 million at December 31, 2011 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 (TDR)

Effective July 1, 2011, we adopted the provisions of Accounting Standards Update No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* 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 June 30, 2012 and December 31, 2011 was $17.9 million and $27.7 million, respectively. The balances at June 30, 2012 include approximately $7.4 million of TDRs in nonaccrual status and $10.5 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 $927,000 and $1.3 million in specific reserves have been established for these loans as of June 30, 2012 and December 31, 2011, respectively.

During the six months ending June 30, 2012, the terms of nine loans were modified in troubled debt restructurings, of which two 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 seven 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 and six months ended June 30, 2012:

(In Thousands)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Commercial	**$**	**$ 9,276**
Construction		**378**
Residential	**827**	**1,278**
Total	**$ 827**	**$ 10,932**

The troubled debt restructurings described above increased the allowance for loan losses by $130,000 through allocation of a specific reserve, and resulted in charge offs of $5.3 million during the six months ending June 30, 2012.

There were no TDRs which defaulted (defined as past due 90 days) during the three and six months ended June 30, 2012 that were restructured within the last twelve months prior to December 31, 2011.

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 June 30, 2012 and December 31, 2011 were $3,000 and $88,000, respectively, all of which would affect our June 30, 2012 effective tax rate if recognized. As of June 30, 2012 and December 31, 2011, the total amount of accrued interest included in such unrecognized tax benefits were $3,000 and $15,000, respectively. Penalties of $6,000 were included in such unrecognized tax benefits at December 31, 2011, but none are included at June 30, 2012. 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 June 30, 2012. We were recently notified of the IRS intention to audit our 2010 tax return. There are currently no other 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, Monarch Entity Services LLC, 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 52 offices located in Delaware (42), 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, Monarch Entity Services LLC, Montchanin, Private Banking and WSFS Investment Group, Inc. Christiana Trust was acquired in December 2010 and WSFS Trust and Wealth Management business was consolidated into Christiana Trust. Christiana Trust provides investment, fiduciary, and agency services from locations in Delaware and Nevada. These services are provided to individuals and families as well as corporations and institutions. Monarch Entity Services LLC provides commercial domicile services from locations in Delaware and Nevada. 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 specializes in meeting the needs of professionals and their practices, including deposit services and credit needs of existing and start-up practices.

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 and six months ended June 30, 2012 and 2011 follows:

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For the three months ended June 30, 2012

	WSFS Bank	Cash Connect	Trust & Wealth Management	Total
		(In Thousands)		
External customer revenues:				
Interest income	$ 35,688	$	$ 2,075	$ 37,763
Noninterest income	20,969	4,473	3,550	28,992
Total external customer revenues	56,657	4,473	5,625	66,755
Inter-segment revenues:				
Interest income	1,048		1,479	2,527
Noninterest income	2,178	248		2,426
Total inter-segment revenues				