

WSFS FINANCIAL CORP  
Form 10-Q  
May 11, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended **March 31, 2009**

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  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.

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Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 1, 2009:

|  |                      |
|--|----------------------|
| <b>Common Stock, par value \$.01 per share</b> | <b>6,190,987</b>     |
| (Title of Class)                               | (Shares Outstanding) |

WSFS FINANCIAL CORPORATION

FORM 10-Q

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|  |                 |                 |
|--|-----------------|-----------------|
| <b>Net income available to common stockholders</b> | <b>\$ 2,427</b> | <b>\$ 7,246</b> |
| <b>Earnings per share:</b>                         |                 |                 |
| Basic  | <b>\$ 0.39</b>  | <b>\$ 1.17</b>  |
| Diluted  | <b>\$ 0.39</b>  | <b>\$ 1.15</b>  |

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

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## WSFS FINANCIAL CORPORATION

## CONSOLIDATED STATEMENT OF CONDITION

|  | March 31,<br>2009<br>(Unaudited)  | December 31,<br>2008 |
|--|-----------------------------------|----------------------|
|  | (In Thousands, Except Share Data) |                      |
| <b>Assets</b>  |                                   |                      |
| Cash and due from banks  | \$ 56,830                         | \$ 58,377            |
| Cash in non-owned ATMs   | 144,737                           | 189,965              |
| Interest-bearing deposits in other banks   | 281                               | 216                  |
| Total cash and cash equivalents  | 201,848                           | 248,558              |
| Investment securities held-to-maturity   | 1,174                             | 1,181                |
| Investment securities available-for-sale including reverse mortgages                                       | 46,044                            | 48,507               |
| Mortgage-backed securities available-for-sale  | 585,897                           | 487,389              |
| Mortgage-backed securities trading   | 10,691                            | 10,816               |
| Loans held-for-sale  | 5,281                             | 2,275                |
| Loans, net of allowance for loan losses of \$35,631 at March 31, 2009<br>and \$31,189 at December 31, 2008 | 2,498,689                         | 2,441,560            |
| Bank-owned life insurance  | 59,547                            | 59,337               |
| Stock in Federal Home Loan Bank of Pittsburgh, at cost   | 39,305                            | 39,305               |
| Assets acquired through foreclosure  | 8,023                             | 4,471                |
| Premises and equipment   | 35,293                            | 34,966               |
| Accrued interest receivable and other assets   | 51,515                            | 54,195               |
| <b>Total assets</b>  | <b>\$ 3,543,307</b>               | <b>\$ 3,432,560</b>  |
| <b>Liabilities and Stockholders' Equity</b>  |                                   |                      |
| <b>Liabilities:</b>  |                                   |                      |
| Deposits:  |                                   |                      |
| Noninterest-bearing demand   | \$ 386,103                        | \$ 311,322           |
| Interest-bearing demand  | 232,102                           | 214,749              |
| Money market   | 347,246                           | 326,792              |
| Savings  | 223,683                           | 208,368              |
| Time   | 454,188                           | 450,056              |
| Jumbo certificates of deposit – customer   | 202,913                           | 195,846              |
| Total customer deposits  | 1,846,235                         | 1,707,133            |
| Other jumbo certificates of deposit  | 77,623                            | 103,825              |
| Brokered deposits  | 334,262                           | 311,394              |
| Total deposits   | 2,258,120                         | 2,122,352            |
| Federal funds purchased and securities sold under agreements to repurchase                                 | 100,000                           | 75,000               |
| Federal Home Loan Bank advances  | 696,291                           | 815,957              |
| Trust preferred borrowings   | 67,011                            | 67,011               |
| Other borrowed funds   | 115,753                           | 108,777              |
| Accrued interest payable and other liabilities   | 30,661                            | 26,828               |
| <b>Total liabilities</b>   | <b>3,267,836</b>                  | <b>3,215,925</b>     |

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**Stockholders' Equity:**

|  |                     |              |   |
|--|---------------------|--------------|---|
| Serial preferred stock \$.01 par value, 7,500,000 shares authorized; issued<br>52,625 at March 31, 2009 and -0- at December 31, 2008   | <b>1</b>            | —            |   |
| Common stock \$.01 par value, 20,000,000 shares authorized; issued<br>15,771,556 at March 31, 2009 and 15,739,768 at December 31, 2008 | <b>157</b>          | 157          |   |
| Capital in excess of par value   | <b>140,262</b>      | 87,033       |   |
| Accumulated other comprehensive loss   | <b>(8,879)</b>      | (12,613)     | ) |
| Retained earnings  | <b>392,210</b>      | 390,338      |   |
| Treasury stock at cost, 9,580,569 shares at March 31, 2009 and 9,580,569<br>shares at December 31, 2008                                | <b>(248,280)</b>    | (248,280)    | ) |
| <b>Total stockholders' equity</b>  | <b>275,471</b>      | 216,635      |   |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 3,543,307</b> | \$ 3,432,560 |   |

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



## WSFS FINANCIAL CORPORATION

## CONSOLIDATED STATEMENT OF CASH FLOWS

|  | Three months ended |               |
|--|--------------------|---------------|
|  | March 31,          |               |
|  | 2009               | 2008          |
|  | (unaudited)        |               |
|  | (In Thousands)     |               |
| <b>Operating activities:</b>   |                    |               |
| Net Income   | \$ 2,940           | \$ 7,246      |
| Adjustments to reconcile net income to net cash provided by operating activities:          |                    |               |
| Provision for loan losses  | 7,653              | 2,390         |
| Depreciation, accretion and amortization   | 1,592              | 1,526         |
| (Increase) Decrease in accrued interest receivable and other assets                        | (275 )             | 1,798         |
| Origination of loans held-for-sale   | (19,413 )          | (6,707 )      |
| Proceeds from sales of loans held-for-sale   | 16,648             | 7,663         |
| Gain on mortgage banking activity  | (202 )             | (105 )        |
| Loss on mark to market adjustment on trading securities                                    | 124                | 303           |
| Securities gain from the sale of Visa, Inc. common stock                                   | —                  | (1,370 )      |
| Gain on sale of investments  | (547 )             | —             |
| Stock-based compensation expense, net of tax benefit recognized                            | 286                | 196           |
| Excess tax benefits from share-based payment arrangements                                  | —                  | (29 )         |
| Increase in accrued interest payable and other liabilities                                 | 4,004              | 612           |
| Loss on sale of assets acquired through foreclosure and valuation adjustments              | 723                | 23            |
| Increase in value of bank-owned life insurance   | (210 )             | (574 )        |
| Increase (decrease) in capitalized interest, net   | 301                | (90 )         |
| <b>Net cash provided by operating activities</b>   | <b>13,624</b>      | <b>12,882</b> |
| <b>Investing activities:</b>   |                    |               |
| Maturities of investment securities  | 16,025             | 6,070         |
| Purchase of investments available-for-sale   | (14,027 )          | (10,042 )     |
| Sales of mortgage-backed securities available-for sale                                     | 20,830             | —             |
| Repayments of mortgage-backed securities available-for-sale                                | 30,895             | 18,286        |
| Purchases of mortgage-backed securities available-for-sale                                 | (143,343 )         | —             |
| Repayments of reverse mortgages  | 50                 | 519           |
| Disbursements for reverse mortgages  | (52 )              | (58 )         |
| Purchase of loans  | —                  | (1,300 )      |
| Net increase in loans  | (69,991 )          | (12,716 )     |
| Net decrease in stock of Federal Home Loan Bank of Pittsburgh                              | —                  | 1,924         |
| Sales of assets acquired through foreclosure, net  | 1,007              | 265           |
| Proceeds from sale of Visa, Inc. shares  | —                  | 1,370         |
| Premises and equipment, net  | (1,640 )           | (1,689 )      |
| <b>Net cash (used for) provided by investing activities</b>                                | <b>(160,246 )</b>  | <b>2,629</b>  |
| <b>Financing activities:</b>   |                    |               |
| Net increase in demand and saving deposits   | 104,879            | 22,019        |
| Net increase (decrease) in time deposits   | 7,678              | (38,184 )     |
| Net increase in federal funds purchased and securities sold under agreements to repurchase | 25,000             | —             |

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|   |                      |               |
|---|----------------------|---------------|
| Receipts from FHLB advances                                   | <b>11,371,780</b>    | 26,667,187    |
| Repayments of FHLB advances                                   | <b>(11,491,446 )</b> | (26,681,568 ) |
| Proceeds from issuance of unsecured bank debt                 | <b>30,000</b>        | —             |
| Dividends paid  | <b>(901 )</b>        | (617 )        |
| Proceeds from issuance of preferred stock and warrants        | <b>52,625</b>        | —             |
| Issuance of common stock and exercise of common stock options | <b>297</b>           | 626           |
| Excess tax benefits from share-based payment arrangements     | <b>—</b>             | 29            |
| Purchase of treasury stock, net of reissuance                 | <b>—</b>             | (2,010 )      |
| <b>Net cash provided by (used in) financing activities</b>    | <b>99,912</b>        | (32,518 )     |
| <br>  |                      |               |
| Decrease in cash and cash equivalents                         | <b>(46,710 )</b>     | (17,007 )     |
| Cash and cash equivalents at beginning of period              | <b>248,558</b>       | 267,537       |
| Cash and cash equivalents at end of period                    | <b>\$ 201,848</b>    | \$ 250,530    |
| <br>  |                      |               |
| <b>Supplemental Disclosure of Cash Flow Information:</b>      |                      |               |
| Cash paid for interest during the period                      | <b>\$ 11,873</b>     | \$ 22,601     |
| Cash (refund of) paid for income taxes, net                   | <b>(851 )</b>        | 1,063         |
| Loans transferred to assets acquired through foreclosure      | <b>5,076</b>         | 618           |
| Net change in other comprehensive income                      | <b>3,734</b>         | (515 )        |
| Net transfer of loans to loans held-for-sale to loans         | <b>—</b>             | 14,844        |

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

**WSFS FINANCIAL CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THREE MONTHS ENDED MARCH 31, 2009 AND 2008**

**(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”) 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. WSFS Bank also owns a majority interest in 1<sup>st</sup> Reverse Financial Services, LLC (1<sup>st</sup> Reverse ), specializing in reverse mortgage lending. 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 personal trust services. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation (“FDIC”) insures our customers’ deposits to their legal maximums. We serve customers from our main office, 35 retail banking offices, loan production offices and operations centers located in Delaware and southeastern Pennsylvania and Virginia and through our website at [www.wsfsbank.com](http://www.wsfsbank.com).

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2009, actual conditions could 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 and 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 establishment 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 Regulation S-X. Per Rule 10-01 of Regulation S-X, we are not required to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2008 as filed with the Securities and Exchange Commission.

**Accounting for Stock-Based Compensation**

Stock-based compensation is accounted for in accordance with SFAS 123R. 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 862,000. At March 31, 2009, there were 84,806 shares available for future grants under the 2005 Plan.

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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 nonincentive 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 2009 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.

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A summary of the status of our Stock Incentive Plans and changes during the quarter then ended is presented below:

|   | March 2009      |                                    | March 2008 |                                    |
|---|-----------------|------------------------------------|------------|------------------------------------|
|   | Shares          | Weighted-Average<br>Exercise Price | Shares     | Weighted-Average<br>Exercise Price |
| <b>Stock Options:</b>                                   |                 |                                    |            |                                    |
| Outstanding at beginning of period                      | <b>675,887</b>  | <b>\$44.98</b>                     | 722,582    | \$43.14                            |
| Granted   | <b>82,421</b>   | <b>23.28</b>                       | 3,150      | 48.95                              |
| Exercised   | <b>0</b>        | <b>0.00</b>                        | (11,290 )  | 32.36                              |
| Forfeited or canceled                                   | <b>(2,920 )</b> | <b>59.26</b>                       | (2,056 )   | 58.75                              |
| Outstanding at end of period                            | <b>755,388</b>  | <b>42.56</b>                       | 712,386    | 43.29                              |
| <br>  |                 |                                    |            |                                    |
| Exercisable at end of period                            | <b>475,617</b>  | <b>39.93</b>                       | 434,940    | 33.85                              |
| <br>  |                 |                                    |            |                                    |
| Weighted-average fair value<br>of stock options granted |                 | <b>\$ 5.38</b>                     |            | \$ 9.58                            |

Beginning January 1, 2009, 473,445 stock options were exercisable with an intrinsic value of \$6.1 million. In addition, at January 1, 2009, there were 202,442 nonvested options with a grant date fair value of \$12.10. During the first quarter of 2009, 3,624 options vested with no intrinsic value, and a grant date fair value of \$13.88 per option. Also during the quarter, there were no options exercised. In addition, 1,452 vested options and 1,468 nonvested options were forfeited with no intrinsic value and a grant date fair value of \$13.15 and \$12.06, respectively. There were 475,617 exercisable options remaining at March 31, 2009, with an intrinsic value of \$1.1 million and a remaining contractual term of 3.2 years. At March 31, 2009 there were 755,388 stock options outstanding with an intrinsic value of \$1.1 million and a remaining contractual term of 3.5 years. During the first quarter of 2008, 11,290 options were exercised with an intrinsic value of \$182,000 and 3,633 options vested with a fair value of \$13.25 per option.

The total amount of compensation cost related to nonvested stock options as of March 31, 2009 was \$1.7 million. The weighted-average period over which they are expected to be recognized is 2.6 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 first quarter of 2009, we granted 82,421 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 1.7% for 2009; an expected option life of three and three-quarters years (based on the simplified method of estimating expected option life); and an expected stock price volatility of 34.4% in 2009. For the purposes of this option-pricing model, a dividend yield of 2.1% was assumed.

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During the first quarter of 2009 and 2008 we issued 96 and 44 shares, respectively, of restricted stock units. These awards vest over five years: 0% during the first two years, 25% at the end of each of the third and fourth years and 50% at the end of the fifth year. We also issued an additional 8,272 shares of restricted stock units during the first quarter of 2009. These awards vest over four years, 25% on each anniversary date.

Additionally, we issued 25,248 shares of restricted stock during the first quarter of 2009. These awards vest over four years, 25% on the first three anniversaries and the final 25% on the later of the fourth anniversary of the grant date or the first date on which the Company has no remaining outstanding obligation under the Emergency Economic Stabilization Act of 2008 ("EESA") or such other date as may be provided by the U.S. Department of the Treasury regulations under EESA applicable to the Company; provided, however, that if the date specified has not occurred by the tenth anniversary of the grant date, the grantee shall forfeit all of the final 25% of the restricted shares. Finally, we issued 640 shares of restricted stock during the first quarter of 2009 that vest over four years, 25% on each anniversary date.

The amount of restricted stock units and restricted stock issued during the first quarter of 2009 increased compared to the same period of 2008 due to several factors. First, under our agreement with the U.S. Treasury and the guidance set forth under the American Recovery and Reinvestment Act (ARRA), we are prohibited from paying or accruing bonuses, retention awards or incentive compensation during the CPP obligation period, except for the payment of long-term restricted

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stock that does not fully vest until the CPP obligation period is completed. In addition, in order to remain competitive in the market for recruiting and retaining top senior managers, our long-term compensation plans have migrated towards offering a mix of stock options and restricted stock, rather than 100% stock options as we have done in previous years.

During the first quarter of 2009 we awarded 5,900 shares of Common Stock from this plan to our Board of Directors as part of their semi-annual retainer. These shares are not subject to a vesting period.

During 2008 we created a new performance-based incentive program under the terms of the 2005 Plan. Under this program shares of WSFS stock may be awarded to certain members of management.

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, an additional 21,200 shares, or up to 76,100 shares will be awarded. If an annual ROA performance level of 1.50% or greater is achieved, an additional 33,100 shares, or 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.

We did not recognize any compensation expense related to this program in the first quarter of 2009. Compensation expense for the Long-Term Program was based on the closing stock price as of May 28, 2008 and will begin to be recognized once the achievement of target performance is considered probable.

At March 31, 2009 we had 84,806 shares available for issuance under the 2005 Plan. Full share awards, such as restricted stock, have the equivalence of four option grants for the purpose of calculating shares available for issuance. Under the provisions of the Long -Term Program, 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.

The impact of stock-based compensation (stock options, restricted stock units and restricted stock) for the three months ended March 31, 2009 was \$445,000 pre-tax (\$359,000 after tax) or \$0.06 per share, to salaries, benefits and other compensation. This compares to \$298,000 pre-tax (\$242,000 after tax) or \$0.04 per share for the three months ended March 31, 2008. The increase in 2009 over 2008 includes \$89,000 of expense related to restricted stock and restricted stock units. In prior years, stock options have been granted to Associates during the fourth quarter. The stock options that would have been awarded in the fourth quarter of 2008 were delayed until the first quarter of 2009. This delay and the effect of immediately expensing stock-based compensation to retirement eligible Associates accounted for the increase in compensation expense related to stock options.

## 2. EARNINGS PER SHARE

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





**3. INVESTMENT SECURITIES**

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

|                                       | Amortized<br>Cost<br>(In Thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---------------------------------------|-------------------------------------|------------------------------|-------------------------------|---------------|
| <b>Available-for-sale securities:</b> |                                     |                              |                               |               |
| <b>March 31, 2009:</b>                |                                     |                              |                               |               |
| Reverse mortgages                     | \$ (359 )                           | \$ —                         | \$ —                          | \$ (359 )     |
| U.S. Government and agencies          | 41,769                              | 657                          | (43 )                         | 42,383        |
| State and political subdivisions      | 4,005                               | 19                           | (4 )                          | 4,020         |
|                                       | \$ 45,415                           | \$ 676                       | \$ (47 )                      | \$ 46,044     |
| December 31, 2008                     |                                     |                              |                               |               |
| Reverse mortgages                     | \$ (61 )                            | \$ —                         | \$ —                          | \$ (61 )      |
| U.S. Government and agencies          | 43,778                              | 857                          | (1 )                          | 44,634        |
| State and political subdivisions      | 4,020                               | —                            | (86 )                         | 3,934         |
|                                       | \$ 47,737                           | \$ 857                       | \$ (87 )                      | \$ 48,507     |
| <b>Held-to-maturity:</b>              |                                     |                              |                               |               |
| <b>March 31, 2009:</b>                |                                     |                              |                               |               |
| State and political subdivisions      | \$ 1,174                            | \$ —                         | \$ (69 )                      | \$ 1,105      |
|                                       | \$ 1,174                            | \$ —                         | \$ (69 )                      | \$ 1,105      |
| December 31, 2008:                    |                                     |                              |                               |               |
| State and political subdivisions      | \$ 1,181                            | \$ —                         | \$ (110 )                     | \$ 1,071      |
|                                       | \$ 1,181                            | \$ —                         | \$ (110 )                     | \$ 1,071      |

Securities with par values aggregating \$41.5 million at March 31, 2009 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank, securities sold under agreement to repurchase and certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was \$407,000 and \$409,000 at March 31, 2009 and December 31, 2008, respectively.

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

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|                                       | Held-to-Maturity  |               | Available-for Sale |               |
|---------------------------------------|-------------------|---------------|--------------------|---------------|
|                                       | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost  | Fair<br>Value |
|                                       | (In Thousands)    |               |                    |               |
| Within one year (1)                   | \$ —              | \$ —          | \$ 3,911           | \$ 3,995      |
| After one year but within five years  | 630               | 630           | 40,468             | 41,015        |
| After five years but within ten years | —                 | —             | 1,035              | 1,034         |
| After ten years                       | 544               | 475           | —                  | —             |
|                                       | \$ 1,174          | \$ 1,105      | \$ 45,414          | \$ 46,044     |

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

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There were no sales of investment securities classified as available-for-sale or held-to-maturity for the quarters ended March 31, 2009 or March 31, 2008. The cost basis for all investment security sales was based on the specific identification method. Investment securities totaling \$16.0 million were called by the issuers during the first quarter of 2009.

At March 31, 2009, we owned investment securities totaling \$7.2 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$116,000 at March 31, 2009. This temporary impairment is the result of changes in market interest rates since the purchase of the securities. Securities amounting to \$296,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. The following table includes unrealized losses aggregated by category:

|   | Less than 12 months |                 | 12 months or longer |                 | Total           |                 |
|---|---------------------|-----------------|---------------------|-----------------|-----------------|-----------------|
|   | Fair Value          | Unrealized Loss | Fair Value          | Unrealized Loss | Fair Value      | Unrealized Loss |
| (In Thousands)                                |                     |                 |                     |                 |                 |                 |
| <b>Held-to-maturity</b>                       |                     |                 |                     |                 |                 |                 |
| State and political subdivisions              | \$ 86               | \$ —            | \$ 296              | \$ 69           | \$ 382          | \$ 69           |
| <b>Available-for-sale</b>                     |                     |                 |                     |                 |                 |                 |
| State and political subdivisions              | 836                 | 4               | —                   | —               | 836             | 4               |
| U.S Government and agencies                   | 5,993               | 43              | —                   | —               | 5,993           | 43              |
| <b>Total temporarily impaired investments</b> | <b>\$ 6,915</b>     | <b>\$ 47</b>    | <b>\$ 296</b>       | <b>\$ 69</b>    | <b>\$ 7,211</b> | <b>\$ 116</b>   |

**4. MORTGAGE-BACKED SECURITIES**

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

|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value        |
|--|-------------------|------------------------|-------------------------|-------------------|
| (In Thousands)                             |                   |                        |                         |                   |
| <b>Available-for-sale securities:</b>      |                   |                        |                         |                   |
| <b>March 31, 2009:</b>                     |                   |                        |                         |                   |
| <b>Collateralized mortgage obligations</b> | <b>\$ 436,006</b> | <b>\$ 3,112</b>        | <b>\$ 20,882</b>        | <b>\$ 418,236</b> |
| <b>FNMA</b>                                | <b>94,587</b>     | <b>1,485</b>           | <b>55</b>               | <b>96,017</b>     |
| <b>FHLMC</b>                               | <b>39,497</b>     | <b>921</b>             | <b>—</b>                | <b>40,418</b>     |
| <b>GNMA</b>                                | <b>30,024</b>     | <b>1,206</b>           | <b>4</b>                | <b>31,226</b>     |
|  | <b>\$ 600,114</b> | <b>\$ 6,724</b>        | <b>\$ 20,941</b>        | <b>\$ 585,897</b> |
| <b>Weighted average yield</b>              | <b>5.16</b>       | <b>%</b>               |                         |                   |

December 31, 2008:

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|                                     |            |          |           |            |
|-------------------------------------|------------|----------|-----------|------------|
| Collateralized mortgage obligations | \$ 419,177 | \$ 2,595 | \$ 25,728 | \$ 396,044 |
| FNMA                                | 35,578     | 932      | —         | 36,510     |
| FHLMC                               | 30,477     | 830      | —         | 31,307     |
| GNMA                                | 22,536     | 992      | —         | 23,528     |
|                                     | \$ 507,768 | \$ 5,349 | \$ 25,728 | \$ 487,389 |
| Weighted average yield              | 5.30       | %        |           |            |

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**Trading securities:****March 31, 2009:**

|  |                  |             |             |                  |
|--|------------------|-------------|-------------|------------------|
| <b>Collateralized mortgage obligations</b> | <b>\$ 10,691</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 10,691</b> |
|  | <b>\$ 10,691</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 10,691</b> |

**Weighted average yield** **3.52%**

**December 31, 2008:**

|  |                  |             |             |                  |
|--|------------------|-------------|-------------|------------------|
| <b>Collateralized mortgage obligations</b> | <b>\$ 10,816</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 10,816</b> |
|  | <b>\$ 10,816</b> | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 10,816</b> |

**Weighted average yield** **3.47 %**

The portfolio of available-for-sale mortgage-backed securities consists primarily of AAA-rated, currently cash flowing securities, backed by conventional 10 to 30-year mortgages. The weighted average duration of the mortgage-backed securities was 2.8 years at March 31, 2009.

At March 31, 2009, mortgage-backed securities with par values aggregating \$295.4 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. Accrued interest receivable relating to mortgage-backed securities was \$2.4 million and \$2.1 million at March 31, 2009 and December 31, 2008, respectively. From time to time, mortgage-backed securities are pledged as collateral for Federal Home Loan Bank (FHLB) borrowings. The fair value of these pledged mortgage-backed securities at March 31, 2009 and December 31, 2008 was \$15.6 million and \$16.0 million, respectively.

During the first three months of 2009, proceeds from the sale of mortgage-backed securities available-for-sale were \$20.8 million, resulting in a gain of \$547,000. The cost basis of all mortgage-backed sales is based on the specific identification method. There were no sales of mortgage-backed securities available-for-sale during the first quarter of 2008.

We own \$12.4 million par value of SASCO RM-1 2002 securities which are classified as trading. \$10.0 million was originally received as partial consideration for the sale of a previously owned reverse mortgage portfolio, an additional \$1.0 million was purchased at par at the time of the securitization of these assets by a third party, and \$1.4 million of accrued interest was paid in kind. The current fair value of this security is \$10.7 million which includes a negative \$124,000 mark-to-market adjustment for the first three months of 2009. These floating rate notes represent the BBB+ rated tranche of a reverse mortgage securitization underwritten by Lehman Brothers and carry a coupon rate of one-month London InterBank Offered Rate (LIBOR) plus 300 basis points. We expect to recover all principal and interest, because of seasoning and the fact that these securities are well over-collateralized. For a further discussion of reverse mortgages, see the Reverse Mortgages discussion in Management's Discussion and Analysis and Note 4 to the Consolidated Financial Statements.

Based on SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), when these securities were acquired they were classified as trading. It was our intention to sell them in the near term. An active market for these securities has not developed since the issuance. Since there is no active market for these securities, we have used the guidance under SFAS 157 to provide a reasonable estimate of fair value in 2009. We estimated the value of these securities as of March 31, 2009 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.

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At March 31, 2009, we owned mortgage-backed securities totaling \$296.0 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$20.9 million at March 31, 2009. This temporary impairment is the result of changes in market interest rates since the purchase of the securities and a lack of liquidity in the mortgage-backed securities market, depressing prices. Most of these securities have been impaired for twelve months or longer. We have determined that these securities are not “other than temporarily” impaired as these mortgage-backed securities carry high credit ratings. In addition, we have the intent and ability to hold these securities until they recover. The following table lists the unrealized losses aggregated by category:

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|                                | 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                            | \$ 41,312           | \$ 3,426        | \$ 235,716          | \$ 17,456       | \$ 277,028 | \$ 20,882       |
| FNMA                           | 17,683              | 55              | —                   | —               | 17,683     | 55              |
| FHLMC                          | —                   | —               | —                   | —               | —          | —               |
| GNMA                           | 1,249               | 4               | —                   | —               | 1,249      | 4               |
| Total temporarily impaired MBS | \$ 60,244           | \$ 3,485        | \$ 235,716          | \$ 17,456       | \$ 295,960 | \$ 20,941       |

5. COMPREHENSIVE INCOME

The following schedule reconciles net income to total comprehensive income.

|  | For the three months ended March 31, |          |
|--|--------------------------------------|----------|
|  | (In Thousands)<br>2009               | 2008     |
| Net income   | \$ 2,940                             | \$ 7,246 |
| Other Comprehensive Income:                                  |                                      |          |
| Unrealized holding gains (losses) on securities              |                                      |          |
| Available-for-sale arising during the period                 | 6,569                                | (831)    |
| Tax (expense) benefit  | (2,496)                              | 316      |
| Net of tax amount  | 4,073                                | (515)    |
| Reclassification adjustment for gains included in net income | (547)                                | —        |
| Tax expense  | 208                                  | —        |
| Net of tax amount  | (339)                                | —        |
| Total comprehensive income                                   | \$ 6,674                             | \$ 6,731 |

6. TAXES ON INCOME

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (“SFAS 109”) and Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* (“FIN 48”). SFAS 109 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

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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. FIN 48 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 FIN 48 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations. Significant judgment may be involved in applying the requirements of FIN 48.

The total amount of unrecognized tax benefits as of March 31, 2009 and December 31, 2008 were \$1.8 million and \$2.6 million, respectively, of which \$1.3 million would affect our effective tax rate if recognized. As of March 31, 2009 and December 31, 2008, the total amount of accrued interest included in such unrecognized tax benefits were \$282,000 and \$572,000, 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 during the quarter was primarily due to the expiration of a statute of limitations. Other than this decrease, we do not expect the total amount of unrecognized tax benefits will significantly change during 2009.



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While our Federal and State tax years 2005 through 2008 remain subject to examination as of March 31, 2009, the Internal Revenue Service (“IRS”) completed its examination of our 2004 through 2006 Federal tax returns during the quarter ended March 31, 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. The financial statement impact of the recovery was recorded during 2008, however we received \$130,000 more interest than originally expected. This amount, net of federal tax expense, was recorded as a reduction of income tax expense during the quarter ended March 31, 2009.

During the fourth quarter of 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 in 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 and we anticipate this evaluation to be completed during 2009.

### 7. SEGMENT INFORMATION

Under the definition of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* (“SFAS 131”), we discuss our business in three segments. There is one segment for WSFS Bank and one for Cash Connect, the ATM division of WSFS. The third segment, “All Others”, represents the combined contributions of Montchanin, WSFS Investment Group, Inc., our Wealth Management Services Division, and 1<sup>st</sup> Reverse. Montchanin, WSFS Investment Group, Inc., Wealth Management Services Division, and 1<sup>st</sup> Reverse each offer different products, to a separate customer base, through distinct distribution methods. Therefore, we have combined Montchanin, WSFS Investment Group, Inc., Wealth Management Services Division, and 1<sup>st</sup> Reverse to form the operating segment “All Others”.

The WSFS Bank segment provides financial products to commercial and retail customers through its main office, 35 retail banking and loan production offices and operations center. Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking 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 Company. 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 SFAS 131.

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.

Montchanin provides asset management products and services to customers in the Company’s primary market area. Montchanin has one consolidated wholly-owned subsidiary, 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 directly to the public and through the Bank’s retail banking system. The Wealth Management Services Division provides wealth management and personal trust services to customers in the Company’s primary market area. 1<sup>st</sup> Reverse specializes in reverse mortgage lending.

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

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segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the three months ended March 31, 2009 and 2008 follows:

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For the Three Months Ended March 31,

2009

2008

(In Thousands)

|                                  | All          |            |            |                       | WSFS         | All          |            |          |          |                       |
|----------------------------------|--------------|------------|------------|-----------------------|--------------|--------------|------------|----------|----------|-----------------------|
|                                  | WSFS         | Cash       | Connect    | Others <sup>(1)</sup> |              | Total        | WSFS       | Cash     | Connect  | Others <sup>(2)</sup> |
| External customer revenues:      |              |            |            |                       |              |              |            |          |          |                       |
| Interest income                  | \$ 38,807    | \$ —       | \$ —       | \$ —                  | \$ 38,807    | \$ 44,560    | \$ —       | \$ —     | \$ —     | \$ 44,560             |
| Noninterest income               | 6,897        | 2,777      | 1,427      | 1,101                 | 11,101       | 7,637        | 3,786      | 1,083    | 1,083    | 12,506                |
| Total external customer revenues | 45,704       | 2,777      | 1,427      | 49,908                | 49,908       | 52,197       | 3,786      | 1,083    | 1,083    | 57,066                |
| Inter-segment revenues:          |              |            |            |                       |              |              |            |          |          |                       |
| Interest income                  | 165          | —          | —          | 165                   | 165          | 1,442        | —          | —        | —        | 1,442                 |
| Noninterest income               | 725          | 71         | —          | 796                   | 796          | 786          | 166        | —        | —        | 952                   |
| Total inter-segment revenues     | 890          | 71         | —          | 961                   | 961          | 2,228        | 166        | —        | —        | 2,394                 |
| Total revenue                    | 46,594       | 2,848      | 1,427      | 50,869                | 50,869       | 54,425       | 3,952      | 1,083    | 1,083    | 59,460                |
| External expenses:               |              |            |            |                       |              |              |            |          |          |                       |
| Interest expense                 | 14,916       | —          | —          | 14,916                | 14,916       | 23,591       | —          | —        | —        | 23,591                |
| Noninterest expenses             | 21,131       | 1,074      | 2,169      | 24,374                | 24,374       | 18,292       | 1,366      | 1,279    | 1,279    | 20,937                |
| Provision for loan loss          | 7,653        | —          | —          | 7,653                 | 7,653        | 2,390        | —          | —        | —        | 2,390                 |
| Total external expenses          | 43,700       | 1,074      | 2,169      | 46,943                | 46,943       | 44,273       | 1,366      | 1,279    | 1,279    | 46,918                |
| Inter-segment expenses           |              |            |            |                       |              |              |            |          |          |                       |
| Interest expense                 | —            | 156        | 9          | 165                   | 165          | —            | 1,442      | —        | —        | 1,442                 |
| Noninterest expenses             | 71           | 187        | 538        | 796                   | 796          | 166          | 209        | 577      | 577      | 952                   |
| Total inter-segment expenses     | 71           | 343        | 547        | 961                   | 961          | 166          | 1,651      | 577      | 577      | 2,394                 |
| Total expenses                   | 43,771       | 1,417      | 2,716      | 47,904                | 47,904       | 44,439       | 3,017      | 1,856    | 1,856    | 49,312                |
| Income (loss) before taxes       | \$ 2,823     | \$ 1,431   | \$ (1,289) | \$ 2,965              | \$ 2,965     | \$ 9,986     | \$ 935     | \$ (773) | \$ (773) | \$ 10,148             |
| Income tax provision             |              |            |            | 25                    | 25           |              |            |          |          | 2,902                 |
| Consolidated net income          |              |            |            | \$ 2,940              | \$ 2,940     |              |            |          |          | \$ 7,246              |
| Cash and cash equivalents        |              |            |            |                       |              |              |            |          |          |                       |
| Cash and cash equivalents        | \$ 53,780    | \$ 144,737 | \$ 3,331   | \$ 201,848            | \$ 201,848   | \$ 73,568    | \$ 175,313 | \$ 1,649 | \$ 1,649 | \$ 250,530            |
| Other segment assets             | 3,324,084    | 14,620     | 2,755      | 3,341,459             | 3,341,459    | 2,909,432    | 13,318     | 2,054    | 2,054    | 2,924,804             |
| Total segment assets             | \$ 3,377,864 | \$ 159,357 | \$ 6,086   | \$ 3,543,307          | \$ 3,543,307 | \$ 2,983,000 | \$ 188,631 | \$ 3,703 | \$ 3,703 | \$ 3,175,334          |
| Capital expenditures             | \$ 1,877     | \$ —       | \$ 11      | \$ 1,888              | \$ 1,888     | \$ 1,655     | \$ 33      | \$ 1     | \$ 1     | \$ 1,689              |

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc., Wealth Management Services Division AND 1<sup>st</sup> Reserve.

(2) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.



## 8. 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 quarter-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 Footnote 9 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 nonperforming loans is based on recent external appraisals of the underlying collateral. Estimated cash flows, discounted using a rate commensurate with current rates and the risk associated with the estimated cash flows, are utilized if appraisals are not available.

*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 equal to its cost basis, since the stock is non-marketable but redeemable at its par value.

*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.

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

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

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

| <i>(In Thousands)</i>                         | <b>March 31, 2009</b> |                   | December 31, 2008 |            |
|---|-----------------------|-------------------|-------------------|------------|
|   | <b>Book Value</b>     | <b>Fair Value</b> | Book Value        | Fair Value |
| Financial assets:                             |                       |                   |                   |            |
| Cash and cash equivalents                     | \$ 201,848            | \$ 201,848        | \$ 248,558        | \$ 248,558 |
| Investment securities                         | 47,218                | 47,149            | 49,688            | 49,578     |
| Mortgage-backed securities                    | 596,588               | 596,588           | 498,205           | 498,205    |
| Loans, net                                    | 2,503,970             | 2,491,894         | 2,443,835         | 2,435,135  |
| Bank-owned life insurance                     | 59,547                | 59,547            | 59,337            | 59,337     |
| Stock in Federal Home Loan Bank of Pittsburgh | 39,305                | 39,290            | 39,305            | 39,290     |
| Accrued interest receivable                   | 11,726                | 11,726            | 11,609            | 11,609     |
| Financial liabilities:                        |                       |                   |                   |            |
| Deposits                                      | 2,258,120             | 2,245,152         | 2,122,352         | 2,101,881  |
| Borrowed funds                                | 979,055               | 1,001,073         | 1,066,745         | 1,035,401  |
| Accrued interest payable                      | 9,836                 | 9,836             | 6,794             | 6,794      |

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

| <i>(In Thousands)</i>          | <b>Mar. 31, 2009</b> | <b>Dec. 31, 2008</b> |
|--------------------------------|----------------------|----------------------|
| Off-balance sheet instruments: |                      |                      |
| Commitments to extend credit   | \$ 5,368             | \$ 5,926             |
| Standby letters of credit      | 620                  | 597                  |

### 9. FAIR VALUE OF FINANCIAL ASSETS

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), for financial assets and financial liabilities. In addition we adopted Financial Accounting Standards Board Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, on January 1, 2009. This adoption did not have a material impact on our financial statements.

SFAS 157 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. SFAS 157 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.

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- 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 March 31, 2009 (there are no material liabilities measured at fair value):



| Description   | Quoted Prices<br>in Active<br>Markets for<br>Identical Asset | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs | Total      |
|---|--|--|---------------------------------------|------------|
|   | (Level 1)<br>(in Thousands)                                  | (Level 2)                                    | (Level 3)                             | Fair Value |
| Assets Measured at Fair Value on a Recurring Basis          |  |  |                                       |            |
| Available for sale securities                               | \$ -   | \$ 631,941                                   | \$ -                                  | \$ 631,941 |
| Trading Securities  | -  | -  | 10,691                                | 10,691     |
| Total assets measured at fair value on a recurring basis    | \$ -   | \$ 631,941                                   | \$ 10,691                             | \$ 642,632 |
| Assets Measured at Fair Value on a Nonrecurring Basis       |  |  |                                       |            |
| Impaired Loans  | \$ -   | \$ 33,571                                    | \$ -                                  | \$ 33,571  |
| Total assets measured at fair value on a nonrecurring basis | \$ -   | \$ 33,571                                    | \$ -                                  | \$ 33,571  |

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.* Securities classified as available for sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately \$42.0 million in Federal Agency debentures, \$270.5 million in Federal Agency mortgage-backed securities, \$315.4 million of Private Label mortgage-backed securities, and \$4.0 million in municipal bonds. Agency and mortgage-backed securities were predominately AAA-rated. We believe that this Level 2 designation is appropriate for these securities under SFAS 157 as, with almost all fixed income securities, none are exchange traded, and 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 tranche 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 FAS 157. As prescribed by FAS 157 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 tranches of this asset class. As a result, the value assigned to this security is determined primarily through a discounted cash flow analysis. The range of values for these securities had a low value of \$9.6 million and a high value of \$11.6 million at March 31, 2009. It was management's conclusion that a value of \$10.7 million was the best estimate of the value of these securities at March 31, 2009. All of these assumptions require a significant degree of management judgment.

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

|  | <b>Trading<br/>Securities<br/>(In Thousands)</b> |
|--|--|
| <b>Balance at January 1, 2009</b>                      | \$ 10,816  |
| Total net losses for the period included in net income | (125 )   |
| Purchases, sales, issuances, and settlements, net      | —  |
| <b>Balance at March 31, 2009</b>                       | <b>\$ 10,691</b>                                 |

*Impaired loans.* Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$35.0 million at March 31, 2009. The valuation allowance on impaired loans was \$1.4 million as of March 31, 2009.

## 10. INDEMNIFICATIONS AND GUARANTEES

**Secondary Market Loan Sales.** We generally do not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, first payment defaults by borrowers. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. We typically sell fixed-rate, conforming first mortgage loans in the secondary market as part of our ongoing asset/liability management program. Loans held-for-sale are carried at the lower of cost or market of the aggregate or in some cases individual loans. Gains and losses on sales of loans are recognized at the time of the sale.

As is customary in such sales, we provide indemnifications to the buyers under certain circumstances. These indemnifications may include the repurchase of loans by us. Repurchases and losses are rare, and no provision is made for losses at the time of sale. During 2008 through the first quarter of 2009, we had no repurchases under these indemnifications.

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

At March 31, 2009 there were forty-one variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, compared to thirty-nine at December 31, 2008. The initial notional amount aggregated approximately \$183.2 million at March 31, 2009 compared with \$176.6 million at December 31, 2008. At March 31, 2009 maturities ranged from approximately one month to fourteen years. The aggregate market value of these swaps to the customers was a liability of \$19.8 million at March 31, 2009 and \$20.9 million at December 31, 2008. At March 31, 2009 all of the swap transactions were in a paying position to third-party financial institutions.

**ATM Cash Management.** In 2007, we entered into an agreement with a financial institution, whereby it provides cash for distribution/cash management by CashConnect, our ATM division. Under this agreement we accept the operational risk associated with this cash and are legally bound to reimburse the financial institution for any related operational losses. We have taken steps to mitigate the risk of loss to us by purchasing a multi-layer insurance policy and instituting strong operational controls. Additionally, CashConnect has the ability to recover losses from its vault cash customers based on the strength of our ATM cash bailment agreements, which hold the ATM vault cash customers responsible for any loss of cash, which is not a result of our gross negligence.

## 11. ASSOCIATE (EMPLOYEE) BENEFIT PLANS

### Postretirement Benefits

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

We account for our obligations under the provisions of SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ("SFAS 106"). SFAS 106 requires that the costs of these benefits be recognized over an Associate's active working career. Disclosures are in accordance with SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158").

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The following disclosures of the net periodic benefit cost components of post-retirement benefits were measured at January 1, 2009 and 2008:

|                                       | Three months ended March 31, |       |
|---------------------------------------|------------------------------|-------|
|                                       | 2009                         | 2008  |
|                                       | (In Thousands)               |       |
| Service cost                          | \$ 40                        | \$ 36 |
| Interest cost                         | 35                           | 34    |
| Amortization of transition obligation | 15                           | 15    |
| Net loss recognition                  | 4                            | 4     |
| Net periodic benefit cost             | \$ 94                        | \$ 89 |

### 12. PREFERRED STOCK AND COMMON STOCK WARRANTS

The Company entered into a purchase agreement with the U.S. Treasury on January 23, 2009, pursuant to which the Company issued and sold 52,625 shares of the Company's fixed-rate cumulative perpetual preferred stock for a total purchase price of \$52.6 million, and a 10-year warrant to purchase 175,105 shares of the Company's common stock at an exercise price of \$45.08 per share. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year.

The Company allocated total proceeds of \$52.6 million, based on the relative fair value of preferred stock and common stock warrants, to preferred stock for \$51.9 million and common stock warrants for \$693,000, respectively, on January 23, 2008. The preferred stock discount will be accreted, on an effective yield method, to preferred stock over 5 years.

### 13. SUBSEQUENT EVENT

In April 2009, the Company was made aware of suspicious wire transfer activity affecting the accounts of two of our customers. An investigation of the activity and the recovery of losses are in their early stages. While we believe only two customers have been affected, no other conclusions have been reached concerning the responsibility by any party for any potential losses, nor has there been a determination of whether or not existing insurance policies of any party will cover all or part of any such losses. Should there be no additional recoveries, including from insurance, and the Company were to absorb all the known losses associated with this activity (excluding the costs of investigation), it would incur an expense of approximately \$1.3 million.

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

### GENERAL

WSFS Financial Corporation ("the Company", "our Company", "we", "our" or "us") is a thrift holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank"). Founded in 1832, we are one of the ten oldest banks in the United States continuously-operating under the same name. As a federal savings bank, which was formerly chartered as a state mutual savings bank, we enjoy broader investment powers than most other financial institutions. We have served the residents of the Delaware Valley for over 175 years. We are the largest thrift institution headquartered in Delaware and the third largest

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financial institution in the state on the basis of total deposits traditionally garnered in-market. Our primary market area is the mid-Atlantic region of the United States, which is characterized by a diversified manufacturing and service economy. Our long-term strategy is to serve small and mid-size businesses through loans, deposits, investments, and related financial services, and to gather retail core deposits. Our strategic focus is to exceed customer expectations, deliver stellar service and build customer advocacy through highly trained, relationship oriented, friendly, knowledgeable, and empowered Associates.

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 personal trust services through WSFS Wealth Strategies, which was formed in 2005. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximum. We serve our customers primarily from our main office, 35 retail banking offices, loan production offices and operations centers located in Delaware, southeastern Pennsylvania and Virginia and through our website at [www.wsfsbank.com](http://www.wsfsbank.com).

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We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital management, Inc. (“Montchanin”). 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 through the Bank’s retail banking system. WSFS Bank also owns a majority interest in F Reverse Financial Services, LLC (“F Reverse”), specializing in reverse mortgage lending.

Montchanin has one consolidated subsidiary, Cypress Capital Management, LLC (“Cypress”). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. Cypress had approximately \$386 million in assets under management at March 31, 2009.

### **FORWARD-LOOKING STATEMENTS**

Within this report and financial statements, management has included certain “forward-looking statements” concerning our future operations. Statements contained in this report which are not historical facts, are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. It is management’s desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Company of the protections of such safe harbor with respect to all “forward-looking statements”. Management has used “forward-looking statements” to describe the future plans and strategies including expectations of our future financial results. Management’s ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Delaware, the mid-Atlantic region and the country as a whole, asset quality, loan growth, loan delinquency rates, liquidity, operating risk, uncertainty of estimates in general and changes in federal and state regulations, among other factors. These factors should be considered in evaluating the “forward-looking statements,” and undue reliance should not be placed on such statements. Actual results may differ materially from management expectations. We do not undertake, and specifically disclaim any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### **CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these Consolidated Financial Statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those related to the allowance for loan losses, contingencies (including indemnifications), and deferred taxes. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following are critical accounting policies that involve more significant judgments and estimates:

#### **Allowance for Loan Losses**

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

resulting from examinations performed by regulatory authorities.

**Contingencies (Including Indemnifications)**

In the ordinary course of business we are subject to legal actions, which involve claims for monetary relief. Based upon information presently available to us and our counsel, it is our opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on our results of operations.

We maintain a loss contingency for standby letters of credit and charge losses to this reserve when such losses are realized. The determination of the loss contingency for standby letters of credit requires significant judgment reflecting management's best estimate of probable losses.

The Bank, as successor to originators of reverse mortgages is, from time to time, involved in arbitration or litigation with various parties including borrowers or the heirs of borrowers. Because reverse mortgages are a relatively new and uncommon product, there can be no assurances about how the courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of the Bank's reverse mortgage obligations.



## Deferred Taxes

We account for income taxes in accordance with Statement of Financial Account Standards (“SFAS”) No. 109, *Accounting for Income Taxes* (“SFAS 109”), which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We continually assess the need for valuation allowances on deferred income tax assets that may result from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences.

## Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. See Note 8, Fair Value of Financial Instruments.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

### Financial Condition

Our total assets increased \$110.7 million or 3% during the three months ended March 31, 2009. Total loans increased \$60.1 million, or 2%, attributable to a \$69.7 million, or 4%, increase in commercial and commercial real estate loans offset by a decrease in residential loans of \$8.0 million, or 2%. Mortgage-backed securities increased \$98.3 million, or 20%. These increases were partially offset by decreases of \$46.7 million, or 19%, in cash and cash equivalents. This included decreases of \$45.2 million, or 24%, in cash in non-owned ATMs. The decrease is attributable to the higher cash balances required for ATMs during the fourth quarter of 2008 due to seasonal demand.

Total liabilities increased \$51.9 million, or 2%, between December 31, 2008 and March 31, 2009, to \$3.3 billion. This increase was mainly due to an increase in deposits of \$135.8 million, or 6%. This included increases of \$139.1 million, or 8%, in customer deposits and \$22.9 million, or 7%, in brokered certificates of deposit. These increases were partially offset by a decrease in other jumbo certificates of deposit of \$26.2 million, or 25%. There were also increases in Federal funds purchased and securities sold under agreements to repurchase of \$25.0 million, or 33%, and other borrowed funds of \$7.0 million, or 6%. These increases were more than offset by a decrease in Federal Home Loan Bank (“FHLB”) advances of \$119.7 million, or 15%.

### Capital Resources

Stockholders’ equity increased \$58.8 million between December 31, 2008 and March 31, 2009. This increase was mainly due to the sale of senior preferred stock to the U. S. Department of the Treasury under its Capital Purchase Program (“CPP”) totaling \$52.6 million. In addition, accumulated other comprehensive income (loss) improved \$3.7 million during the first three months of 2009 mainly due to an increase of the fair value of securities available for sale. Also contributing to the increase was net income of \$2.9 million as well as an increase of \$583,000 from the issuance of common stock and employee stock option activity. Partially offsetting these increases was the declaration of cash dividends

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totaling \$740,000 during the three months ended March 31, 2009.

Below is a table comparing the Bank's consolidated capital position to the minimum regulatory requirements as of March 31, 2009 (dollars in thousands):

|   | <b>Consolidated<br/>Bank Capital</b> |                        | <b>For Capital<br/>Adequacy Purposes</b> |                        | <b>To be Well-Capitalized<br/>Under Prompt Corrective<br/>Action Provisions</b> |                        |
|---|--------------------------------------|------------------------|--|------------------------|---|------------------------|
|   | <b>Amount</b>                        | <b>% of<br/>Assets</b> | <b>Amount</b>                            | <b>% of<br/>Assets</b> | <b>Amount</b>   | <b>% of<br/>Assets</b> |
| Total Capital<br>(to Risk-Weighted Assets)  | \$ 323,462                           | 11.34 %                | \$ 228,137                               | 8.00 %                 | \$ 285,171  | 10.0 %                 |
| Core Capital (to Adjusted<br>Total Assets)  | 290,483                              | 8.21                   | 141,544                                  | 4.00                   | 176,930   | 5.00                   |
| Tangible Capital (to Tangible<br>Assets)    | 290,483                              | 8.21                   | 53,079                                   | 1.50                   | N/A   | N/A                    |
| Tier 1 Capital (to Risk-Weighted<br>Assets) | 290,483                              | 10.19                  | 114,068                                  | 4.00                   | 171,103   | 6.00                   |

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Under Office of Thrift Supervision (“OTS”) capital regulations, savings institutions such as our bank must maintain “tangible” capital equal to 1.5% of adjusted total assets, “core” capital equal to 4.0% of adjusted total assets, “Tier 1” capital equal to 4.0% of risk weighted assets and “total” or “risk-based” capital (a combination of core and “supplementary” capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our bank’s financial statements. At March 31, 2009 the Bank was in compliance with regulatory capital requirements and is considered a “well-capitalized” institution.

### **Liquidity**

We manage our liquidity risk and funding needs through our treasury function and our Asset/Liability Committee. We have a policy that separately addresses liquidity, and management monitors our adherence to policy limits. Also, liquidity risk management is a primary area of examination by the OTS. We comply with guidance promulgated under Thrift Bulletin 77 that requires thrift institutions to maintain adequate liquidity to assure safe and sound operations.

As a financial institution, the Bank has ready access to several sources to fund growth and meet its liquidity needs. Among these are: net income, deposit programs, loan repayments, borrowing from the FHLB, repurchase agreements and the brokered deposit market. The Bank’s branch expansion is intended to enter us into new, but contiguous, markets, attract new customers and provide funding for its business loan growth. In addition, we have a large portfolio of high-quality, liquid investments, primarily short-duration, AAA-rated, mortgage-backed securities and Agency notes that are positioned to provide a near-continuous source of cash flow to meet current cash needs, or can be sold to meet larger discrete needs for cash. Management believes these sources are sufficient to maintain the required and prudent levels of liquidity.

During the three months ended March 31, 2009, cash and cash equivalents decreased \$46.7 million to \$201.8 million. Net loan growth resulted in the use of \$69.9 million in cash, and was primarily the result of the successful implementation of specific strategies designed to increase corporate and small business lending. Also, during the three months ended March 31, 2009, net borrowings from the FHLB decreased \$119.7 million, resulting in a decrease in cash. Further, our mortgage-backed securities portfolio growth decreased cash by \$143.3 million. Partially offsetting these decreases was \$142.6 million in cash provided through the net increase in demand, savings and time deposits. In addition, we sold 52,625 shares of senior preferred stock, resulting in an increase in cash of \$52.6 million. Finally, \$13.6 million in cash was provided by operating activities.

### **NONPERFORMING ASSETS**

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



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|  | <b>March 31,<br/>2009</b> |                | <b>December 31,<br/>2008</b> |   |
|--|---------------------------|----------------|------------------------------|---|
|  |                           | (In Thousands) |                              |   |
| Nonaccruing loans:   |                           |                |                              |   |
| Commercial   | <b>\$ 1,455</b>           |                | \$ 986                       |   |
| Consumer   | <b>531</b>                |                | 352                          |   |
| Commercial mortgage  | <b>5,626</b>              |                | 5,748                        |   |
| Residential mortgage   | <b>4,010</b>              |                | 4,753                        |   |
| Construction   | <b>27,761</b>             |                | 16,595                       |   |
| <br>   |                           |                |                              |   |
| Total nonaccruing loans  | <b>39,383</b>             |                | 28,434                       |   |
| Assets acquired through foreclosure  | <b>8,023</b>              |                | 4,471                        |   |
| Restructured loans   | <b>8,385</b>              |                | 2,855                        |   |
| <br>   |                           |                |                              |   |
| Total nonperforming assets   | <b>\$ 55,791</b>          |                | \$ 35,760                    |   |
| <br>   |                           |                |                              |   |
| Past due loans: <sup>(1)</sup>   |                           |                |                              |   |
| Residential mortgages  | <b>1,796</b>              |                | 1,313                        |   |
| Commercial and commercial mortgages  | <b>43</b>                 |                | --                           |   |
| Consumer   | <b>346</b>                |                | 26                           |   |
| <br>   |                           |                |                              |   |
| Total past due loans   | <b>\$ 2,185</b>           |                | \$ 1,339                     |   |
| <br>   |                           |                |                              |   |
| Ratios:  |                           |                |                              |   |
| Nonaccruing loans to total loans <sup>(2)</sup>                                  | <b>1.55</b>               | %              | 1.15                         | % |
| Allowance for loan losses to total loans <sup>(2)</sup>                          | <b>1.41</b>               | %              | 1.26                         | % |
| Nonperforming assets to total assets   | <b>1.57</b>               | %              | 1.04                         | % |
| Loan loss allowance to nonaccruing loans <sup>(3)</sup>                          | <b>86.87</b>              | %              | 108.30                       | % |
| Loan and foreclosed asset allowance to total nonperforming assets <sup>(3)</sup> | <b>61.32</b>              | %              | 86.11                        | % |

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

<sup>(2)</sup> Total loans exclude loans held for sale.

<sup>(3)</sup> The applicable allowance represents general valuation allowances only.

Nonperforming assets increased \$20.0 million between December 31, 2008 and March 31, 2009. This increase was mainly due to a \$10.9 million net increase in nonaccruing loans and a \$5.5 million increase in restructured mortgage and home equity consumer debt comprised of 24 loans with an average size of approximately \$230,000. The increase in nonaccruing loans was largely due to four nonaccruing residential construction loans (net of \$2 million in writedowns on these loans). In addition there was a \$3.6 million increase in assets acquired through foreclosure due to one large residential construction and land development ("CLD") property.

The analysis of the change in nonperforming assets is presented on the following table:

|                                | <b>For the Three</b> | For the      |
|--------------------------------|----------------------|--------------|
|                                | <b>Months Ended</b>  | Year Ended   |
|                                | <b>March 31 2009</b> | December 31, |
|                                | (In Thousands)       | 2008         |
| Beginning balance              | <b>\$ 35,760</b>     | \$ 31,809    |
| Additions                      | <b>33,673</b>        | 48,152       |
| Collections                    | <b>(7,316)</b> )     | (26,574) )   |
| Transfers to accrua            | <b>(2,845)</b> )     | (1,345) )    |
| Charge-offs / write-downs, net | <b>(3,481)</b> )     | (16,282) )   |
| Ending balance                 | <b>\$ 55,791</b>     | \$ 35,760    |

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

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no assurance that the levels or the categories of problem loans and assets established by the Bank are the same as those which would result from a regulatory examination.

### INTEREST SENSITIVITY

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. Management regularly reviews our interest-rate sensitivity and adjusts the sensitivity within acceptable tolerance ranges established by management. At March 31, 2009, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by \$129.2 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window increased from 101% at December 31, 2008 to 107% at March 31, 2009. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to 3.65% at March 31, 2009 from 0.33% at December 31, 2008. The change in sensitivity since December 31, 2008 is the result of the current interest rate environment and our continuing effort to effectively manage interest rate risk.

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in its lending, investing, and funding activities. To that end, management actively monitors and manages its interest rate risk exposure. One measure, required to be performed by OTS-regulated institutions, is the test specified by OTS Thrift Bulletin No. 13a "Management of Interest Rate Risk, Investment Securities and Derivative Activities." This test measures the impact of an immediate change in interest rates in 100 basis point increments on the net portfolio value ratio. The net portfolio value ratio is defined as the net present value of the estimated cash flows from assets and liabilities as a percentage of net present value of cash flows from total assets (or the net present value of equity). The table below shows the estimated impact of immediate changes in interest rates on our net interest margin and net portfolio value ratio at the specified levels at March 31, 2009 and 2008, calculated in compliance with Thrift Bulletin No. 13a:

| Change in<br>Interest Rate<br>(Basis Points) | At March 31,<br>2009       |                            | 2008                       |                         |
|--|----------------------------|----------------------------|----------------------------|-------------------------|
|  | % Change in                |                            | % Change in                |                         |
|  | Net Interest<br>Margin (1) | Net Portfolio<br>Value (2) | Net Interest<br>Margin (1) | Net Portfolio Value (2) |
| +300   | 1%                         | 8.65%                      | 2%                         | 10.17%                  |
| +200   | -1%                        | 8.79%                      | 1%                         | 10.23%                  |
| +100   | -4%                        | 8.90%                      | 1%                         | 10.37%                  |
| 0  | 0%                         | 8.93%                      | 0%                         | 10.61%                  |
| -100   | -1%                        | 9.17%                      | -1%                        | 10.99%                  |
| -200 (3)                                     | NMF                        | NMF                        | -3%                        | 11.13%                  |
| -300 (3)                                     | NMF                        | NMF                        | -4%                        | 11.60%                  |

- (1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.
- (2) The net portfolio value of the Company in a stable interest rate environment and the net portfolio value as projected under the various rate change environments.
- (3) Sensitivity indicated by a decrease of 200 and 300 basis points is not deemed meaningful at March 31, 2009 given the low absolute levels of interest rates at that time.

**COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008**

**Results of Operations**

We recorded net income of \$2.9 million (\$3.0 million pre-tax) or \$.39 per diluted share for the first quarter of 2009. This compares to \$7.2 million (\$10.0 million pre-tax) or \$1.15 per diluted share for the same quarter last year. Earnings per share were reduced by preferred stock dividends and discount accretion of \$513,000 resulting from the sale of the senior preferred stock to the U.S. Treasury under CPP. Earnings for the first quarter of 2009 were impacted by an increase in the provision for loan loss to \$7.7 million compared to \$2.4 million in the first quarter of 2008. This increase was the result of a risk grade migration in the commercial loan portfolio, charge-offs taken during the quarter, continuing declines in value of collateral and loan growth. In addition, noninterest expenses increased \$3.4 million due in large part to an increase in FDIC insurance premiums as a result of higher rates and deposits as well as the recording of certain immaterial items in 2009 that pertain to a billing methodology change from a prior period. Net interest income for the first quarter of 2009 was \$23.9 million, a \$2.9 million increase, compared to \$21.0 million for the first quarter of 2008.



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Net Interest Income

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

|  | Three Months Ended March 31,<br>2009 |                         |                   |   | 2008               |                         |                    |   |
|--|--------------------------------------|-------------------------|-------------------|---|--------------------|-------------------------|--------------------|---|
|  | Average<br>Balance                   | Interest &<br>Dividends | Yield<br>Rate (1) |   | Average<br>Balance | Interest &<br>Dividends | Yield/<br>Rate (1) |   |
| <b>Assets:</b>                               |                                      |                         |                   |   |                    |                         |                    |   |
| Interest-earning assets:                     |                                      |                         |                   |   |                    |                         |                    |   |
| Loans: (2) (3)                               |                                      |                         |                   |   |                    |                         |                    |   |
| Commercial real estate loans                 | \$ 810,238                           | \$ 9,463                | 4.67              | % | \$ 747,433         | \$ 13,236               | 7.08               | % |
| Residential real estate loans                | 425,165                              | 6,052                   | 5.69              |   | 445,681            | 6,497                   | 5.83               |   |
| Commercial loans                             | 973,088                              | 12,081                  | 5.08              |   | 795,136            | 13,247                  | 6.73               |   |
| Consumer loans                               | 298,306                              | 3,778                   | 5.14              |   | 277,402            | 4,702                   | 6.82               |   |
| Total loans                                  | 2,506,797                            | 31,374                  | 5.05              |   | 2,265,652          | 37,682                  | 6.70               |   |
| Mortgage-backed securities (4)               | 577,054                              | 7,336                   | 5.09              |   | 495,538            | 5,988                   | 4.83               |   |
| Investment securities (4)(5)                 | 48,971                               | 97                      | 0.79              |   | 29,707             | 338                     | 4.55               |   |
| Other interest-earning assets                | 39,782                               | —                       | 0.00              |   | 45,296             | 552                     | 4.90               |   |
| Total interest-earning assets                | 3,172,604                            | 38,807                  | 4.93              |   | 2,836,193          | 44,560                  | 6.32               |   |
| Allowance for loan losses                    | (32,687                              | )                       |                   |   | (25,496            | )                       |                    |   |
| Cash and due from banks                      | 56,194                               |                         |                   |   | 70,191             |                         |                    |   |
| Cash in non-owned ATMs                       | 173,316                              |                         |                   |   | 175,413            |                         |                    |   |
| Bank owned life insurance                    | 59,411                               |                         |                   |   | 57,749             |                         |                    |   |
| Other noninterest-earning assets             | 93,651                               |                         |                   |   | 65,478             |                         |                    |   |
| Total assets                                 | \$ 3,522,489                         |                         |                   |   | \$ 3,179,528       |                         |                    |   |
| <b>Liabilities and Stockholders' Equity:</b> |                                      |                         |                   |   |                    |                         |                    |   |
| Interest-bearing liabilities:                |                                      |                         |                   |   |                    |                         |                    |   |
| Interest bearing deposits:                   |                                      |                         |                   |   |                    |                         |                    |   |
| Interest-bearing demand                      | \$ 214,234                           | \$ 204                  | 0.39              |   | \$ 161,832         | \$ 326                  | 0.81               |   |
| Money market                                 | 334,810                              | 1,028                   | 1.25              |   | 304,226            | 2,172                   | 2.87               |   |
| Savings                                      | 216,187                              | 158                     | 0.30              |   | 194,440            | 257                     | 0.53               |   |
| Customer time deposits                       | 648,563                              | 5,486                   | 3.43              |   | 504,155            | 5,639                   | 4.50               |   |
| Total interest-bearing customer deposits     | 1,413,794                            | 6,876                   | 1.97              |   | 1,164,653          | 8,394                   | 2.90               |   |
| Other jumbo certificates of deposit          | 94,991                               | 504                     | 2.15              |   | 97,585             | 1,009                   | 4.16               |   |
| Brokered deposits                            | 329,943                              | 949                     | 1.17              |   | 256,454            | 2,726                   | 4.28               |   |
| Total interest-bearing deposits              | 1,838,728                            | 8,329                   | 1.84              |   | 1,518,692          | 12,129                  | 3.21               |   |
| FHLB of Pittsburgh advances                  | 750,158                              | 5,341                   | 2.85              |   | 911,647            | 8,968                   | 3.89               |   |
| Trust preferred borrowings                   | 67,011                               | 595                     | 3.55              |   | 67,011             | 1,018                   | 6.01               |   |
| Other borrowed funds                         | 228,386                              | 651                     | 1.14              |   | 170,538            | 1,476                   | 3.46               |   |
| Total interest-bearing liabilities           | 2,884,283                            | 14,916                  | 2.07              |   | 2,667,888          | 23,591                  | 3.54               |   |
| Noninterest-bearing demand deposits          | 351,864                              |                         |                   |   | 268,543            |                         |                    |   |

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|  |                     |                  |              |           |
|--|---------------------|------------------|--------------|-----------|
| Other noninterest-bearing liabilities                                  | <b>26,941</b>       |                  | 23,063       |           |
| Stockholders' equity   | <b>259,401</b>      |                  | 220,034      |           |
| Total liabilities and stockholders' equity                             | <b>\$ 3,522,489</b> |                  | \$ 3,179,528 |           |
| Excess of interest-earning assets<br>over interest-bearing liabilities | <b>\$ 288,321</b>   |                  | \$ 168,305   |           |
| Net interest and dividend income                                       |                     | <b>\$ 23,891</b> |              | \$ 20,969 |
| Interest rate spread   |                     | <b>2.86</b>      | <b>%</b>     | 2.78 %    |
| Net interest margin  |                     | <b>3.05</b>      | <b>%</b>     | 3.00 %    |

(1) Weighted average yields are annualized and have been computed on a tax-equivalent basis using a 35% effective tax rate.

(2) Nonperforming loans are included in average balance computations.

(3) Balances are reflected net of unearned income.

(4) Includes securities available-for-sale.

(5) Includes reverse mortgages.

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Net interest income for the first quarter of 2009 improved by \$2.9 million, or 14% compared to the first quarter of 2008. The net interest margin for the first quarter of 2009 was 3.05% compared to 3.00% for the first quarter of 2008. This increase resulted despite a \$323,000 unfavorable variance in interest from reverse mortgages. Loans, with a yield of 5.05%, increased \$241.1 million, while mortgage-backed securities, with a yield of 5.09% increased \$81.5 million. In addition, interest-bearing retail deposits, with a rate of 1.97% increased \$249.1 million, while FHLB advances, with a rate of 2.85%, declined \$161.5 million.

### Allowance for Loan Losses

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

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

Specific reserves are established for certain loans in cases where management has 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 and commercial real estate loans are calculated by applying estimated loss factors to outstanding loans based on the internal risk grade of loans. For lower risk commercial and commercial real estate loans the portfolio is pooled, based on internal risk grade, and estimates are based on a ten-year net charge-off history. Higher risk and criticized loans have loss factors that are derived from an analysis of both the probability of default and the probability of loss should default occur. Loss adjustment factors are applied based on criteria discussed below. As a result, changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance.

Pooled loans are loans that 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 based on a ten-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 estimated duration of the pool multiplied by the pool balances. These separate risk pools are then assigned a reserve for losses based upon this historical loss information and historical loss adjustment factors.

Historical loss adjustment factors are based upon management's 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,

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- 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, independent auditors and loan review consultants periodically review our allowance for such losses. The provision for loan losses was \$7.7 million in the first quarter of 2009 compared to \$2.4 million in the first quarter of 2008 and \$14.7 million in the fourth quarter of 2008. This level of provisioning reflects a risk grade migration in the commercial loan portfolio, charge-offs taken during the quarter, continuing declines in value of collateral and loan growth.

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

|  | Three months ended March 31, |           |      |   |
|--|------------------------------|-----------|------|---|
|  | 2009                         | 2006      |      |   |
|  | (Dollars in Thousands)       |           |      |   |
| Beginning balance  | \$ 31,189                    | \$ 25,252 |      |   |
| Provision for loan losses  | 7,653                        | 2,390     |      |   |
| Charge-offs:   |                              |           |      |   |
| Residential real estate  | 305                          | 70        |      |   |
| Commercial real estate (1)   | 2,060                        | -         |      |   |
| Commercial   | 446                          | 216       |      |   |
| Overdrafts   | 280                          | 285       |      |   |
| Consumer   | 317                          | 434       |      |   |
| Total charge-offs  | 3,408                        | 1,005     |      |   |
| Recoveries:  |                              |           |      |   |
| Residential real estate  | 24                           | 2         |      |   |
| Commercial real estate (1)   | 22                           | 4         |      |   |
| Commercial   | 17                           | 41        |      |   |
| Overdrafts   | 116                          | 140       |      |   |
| Consumer   | 18                           | 44        |      |   |
| Total recoveries   | 197                          | 231       |      |   |
| Net charge-offs  | 3,211                        | 774       |      |   |
| Ending balance   | \$ 35,631                    | \$ 26,868 |      |   |
| Net charge-offs to average gross loans outstanding, net of unearned income (2) | 0.51                         | %         | 0.14 | % |

(1) Includes commercial mortgage and construction loans.

(2) Ratios for the three months ended March 31, 2009 and March 31, 2008 are annualized.

### Noninterest Income

Noninterest income for the quarter ended March 31, 2009 was \$11.1 million compared to the \$12.5 million for the first quarter of 2008, a decrease of \$1.4 million or 11%. Contributing to the year-over-year decrease was a \$1.0 million reduction in revenues from our Cash Connect division, partially offset by \$556,000 in fees from 1<sup>st</sup> Reverse Financial Services, LLC (1<sup>st</sup> Reverse). WSFS acquired 1<sup>st</sup> Reverse during the second quarter of 2008. Adjusted for these businesses, noninterest income decreased \$1.0 million. This was caused by a decrease in securities gains, as gains recorded in the first quarter of 2008 (from the sale of Visa shares) exceeded gains recorded in the first quarter of 2009 by \$644,000. In addition, income from Bank Owned Life Insurance (BOLI) decreased \$364,000 in the first quarter of 2009, mainly due to lower yields on underlying investments funding this program.

### Noninterest Expense

Noninterest expense for the quarter ended March 31, 2009 was \$24.4 million for an increase of \$3.4 million, or 16%, over the \$20.9 million reported for the same period in 2008. Included in this increase was \$1.1 million in expenses related to 1<sup>st</sup> Reverse. Excluding the expenses related to 1<sup>st</sup> Reverse, expenses increased \$2.4 million or 11%. During the first quarter of 2009, WSFS recorded \$466,000 in write-downs of assets acquired through foreclosure (REO), resulting from updated appraisals and revised estimates of the net realizable values for these properties. Also during the first quarter of 2009, WSFS recorded an additional \$1.4 million of expenses related to FDIC insurance mainly due to an increase in rates and deposit balances combined with the recording of certain immaterial items in 2009 that pertain to a billing methodology change from a prior period. In addition, occupancy expense increased \$329,000 mostly due to branch acquisitions and de novo expansion.

#### **Income Taxes**

The Company and its subsidiaries file a consolidated Federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with SFAS 109, which requires the recording of deferred income taxes for tax

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consequences of temporary differences. We recorded a provision for income taxes of \$25,000 during the three months ended March 31, 2009 compared to a provision of \$2.9 million for the same period in 2008. The effective tax rate for the three-month periods ended March 31, 2009 and 2008 were 1% and 29%, respectively. The decreased effective tax rate in 2009 is primarily due to lower pretax income, but also due to reductions in unrecognized tax benefits related to the expiration of statutes of limitations during both quarters. Tax benefits recorded due to statute expirations were \$854,000 and \$723,000 for the three months ended March 31, 2009 and March 31, 2008, respectively. In addition, a tax benefit of \$85,000 was recorded during the quarter ended March 31, 2009 related to the successful appeal of the IRS examination of our 2004 through 2006 federal tax returns.

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

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

### **RISKS AND UNCERTAINTIES**

In April 2009, the Company was made aware of suspicious wire transfer activity affecting the accounts of two of our customers. An investigation of the activity and the recovery of losses are in their early stages. While we believe only two customers have been affected, no other conclusions have been reached concerning the responsibility by any party for any potential losses, nor has there been a determination of whether or not existing insurance policies of any party will cover all or part of any such losses. Should there be no additional recoveries, including from insurance, and the Company were to absorb all the known losses associated with this activity (excluding the costs of investigation), it would incur an expense of approximately \$1.3 million.

### **RECENT LEGISLATION**

The economy is experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year. Declines in the housing market during the past year, due to falling home prices and increased foreclosures and unemployment, have resulted in substantial declines in mortgage-related asset values, which has had a dramatic negative impact on government-sponsored entities and major commercial and investment banks.

Reflecting concern about the stability of the finance markets in general and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased, to provide funding and liquidity to borrowers, including other financial institutions. In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, specifically the Troubled Asset Relief Program ("TARP") thereunder, the U.S. Treasury will have the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced the Department of the Treasury will purchase equity stakes in a wide variety of banks and thrifts through TARP's CPP. Under this program, from the \$700 billion authorized by the EESA, the Treasury made

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\$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity in such institution issued under the CPP.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (the "TLGP"). The TLGP was announced by the FDIC on October 14, 2008, after the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLGP the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC insurance deposit insurance coverage for noninterest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts ("IOLTA") accounts held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points



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per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000.

On February 10, 2009, the U.S. Treasury and the federal bank regulatory agencies announced in a Joint Statement a new Financial Stability Plan which would include additional capital support for banks under a Capital Assistance Program, a public-private investment fund to address existing bank loan portfolios and expanded funding for the FRB's pending Term Asset-Backed Securities Loan Facility to restart lending and the securitization markets.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law by President Obama. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients until the institution has repaid the U.S. Treasury, which is now permitted under the ARRA without penalty and without the need to raise new capital, subject to the U.S. Treasury's consultation with the recipient's appropriate regulatory agency.

The executive compensation standards under ARRA are more stringent than those currently in effect under the CPP or those previously proposed by the U.S. Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee's total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the U.S. Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding "excessive or luxury expenditures," and (vii) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "Say on Pay" shareholder vote on the compensation of executives.

On February 23, 2009, the U.S. Treasury and the federal bank regulatory agencies issued a Joint Statement providing further guidance with respect to the Capital Assistance Program ("CAP") announced February 10, 2009, including: (i) that the CAP will be initiated on February 25, 2009 and will include "stress test" assessments of major banks and that should the "stress test" indicate that an additional capital buffer is warranted, institutions will have an opportunity to turn first to private sources of capital; otherwise the temporary capital buffer will be made available from the government; (ii) such additional government capital will be in the form of mandatory convertible preferred shares, which would be converted into common equity shares only as needed over time to keep banks in a well-capitalized position and can be retired under improved financial conditions before the conversion becomes mandatory; and (iii) previous capital injections under the CPP will also be eligible to be exchanged for the mandatory convertible preferred shares. The conversion of preferred shares to common equity shares would enable institutions to maintain or enhance the quality of their capital by increasing their tangible common equity capital ratios; however, such conversions would necessarily dilute the interests of existing shareholders.

On February 25, 2009, the first day the CAP program was initiated, the U.S. Treasury released the actual terms of the program, stating that the purpose of the CAP is to restore confidence throughout the financial system that the nation's largest banking institutions have a sufficient capital cushion against larger than expected future losses, should they occur due to more a more severe economic environment, and to support lending to creditworthy borrowers. Under the CAP terms, eligible U.S. banking institutions with assets in excess of \$100 billion on a consolidated basis are required to participate in coordinated supervisory assessments, which are forward-looking "stress test" assessments to evaluate the capital needs of the institution under a more challenging economic environment. Should this assessment indicate the need for the bank to establish an additional capital buffer to withstand more stressful conditions, these institutions may access the CAP immediately as a means to establish any necessary additional buffer or they may delay the CAP funding for six months to raise the capital privately. Eligible U.S. banking institutions with assets below \$100 billion may also obtain capital from the CAP. The CAP program is an additional program from the CPP and is open to eligible institutions regardless of whether they participated in the CPP. The deadline to apply to the CAP is May 25, 2009. Recipients of capital under the CAP will be subject to the same executive compensation requirements as if they had received the CPP.

On February 27, 2009, the FDIC proposed amendments to the restoration plan for the Deposit Insurance Fund. This amendment proposes the imposition of a 20 basis point emergency special assessment on insured depository institutions as of June 30, 2009. On March 5, 2009, FDIC Chairman Sheila Bair announced that if Congress adopts legislation expanding the FDIC's line of credit with Treasury from \$30 billion to \$100 billion, the FDIC might have the flexibility to reduce the special emergency assessment, possibly from 20 to 10 basis points. The assessment is proposed to be collected on September 30, 2009. The interim rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to ten basis points if necessary to maintain



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public confidence in federal deposit insurance. This special assessment if implemented as proposed will have a significant impact on the results of operations of the Company for 2009.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). This Statement changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* ("SFAS 160"). This Statement requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities* ("SFAS 161"). This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedges are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedges affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement did not have a material impact on our Consolidated Financial Statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not believe the adoption of this standard will have a material impact on our Consolidated Financial Statements.

In April 2009, the FASB issued three FASB Staff Position (FSPs) to provide guidance and enhanced disclosures regarding fair value measurements of impairment securities. These FSPs are effective for periods ending after June 15, 2009, with an early adoption election permitted. We have elected early adoption and have determined the adoption did not have a material impact on our Consolidated Financial Statements:

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, changes the disclosure requirements of any financial instrument not currently reflected on the balance sheet. Prior to issuing this FSP, fair values for these financial instruments were only disclosed annually. Effective with adoption of this FSP, the fair value of these instruments are required to be disclosed on an interim and annual

basis.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, amends the guidance on other-than-temporary impairment for debt securities and modifies the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements.

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides additional guidance for estimating fair value under Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* when there is an inactive market or the market is not orderly.

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

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

**Item 4. Controls and Procedures**

- (a) **Evaluation of disclosure controls and procedures.** Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), our principal executive officer and the principal financial officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Commission's rules and forms is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.
- (b) **Changes in internal control over financial reporting.** During the quarter under report, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not engaged in any legal proceedings of a material nature at March 31, 2009. From time to time, we are party to legal proceedings in the ordinary course of business to enforce our security interest in loans.

**Item 1A. Risk Factors**

Our management does not believe there have been any material changes to the risk factors previously disclosed under Item 1A. of the Company's Form 10-K/A for the year ended December 31, 2008, previously filed with the Securities and Exchange Commission.

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

There were no shares repurchased during the quarter ended March 31, 2009.

In September 2007, the Board of Directors approved an authorization to repurchase up to an additional 10% of its outstanding shares of common stock, or 630,000 shares.

There is no expiration date under the Plan.

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable

**Item 5. Other Information**  
Not applicable

**Item 6. Exhibits**  
(a) Exhibit 31 – Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
(b) Exhibit 32 – Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

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

**WSFS FINANCIAL CORPORATION**

Date: May 11, 2009

/s/ MARK A TURNER  
Mark A. Turner  
President and Chief Executive Officer

Date: May 11, 2009

/s/ STEPHEN A. FOWLE  
Stephen A. Fowle  
Executive Vice President and  
Chief Financial Officer