

WSFS FINANCIAL CORP  
Form 10-Q  
August 09, 2016  
Table of Contents

**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 June 30, 2016**

**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 001-35638**

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

<b>Delaware</b> <b>(State or other jurisdiction of</b> <b>Incorporation or organization)</b>	<b>22-2866913</b> <b>(I.R.S. Employer</b> <b>Identification Number)</b>
<b>WSFS Bank Center, 500 Delaware Avenue, Wilmington, Delaware</b> <b>(Address of principal executive offices)</b> <b>(302) 792-6000</b>	<b>19801</b> <b>(Zip Code)</b>

**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.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 5, 2016.

**Common Stock, par value \$.01 per share**  
**(Title of Class)**

**29,550,150**  
**(Shares Outstanding)**

Table of Contents**WSFS FINANCIAL CORPORATION****FORM 10-Q****INDEX**

	Page
<b>PART I. Financial Information</b>	
Item 1.	Financial Statements (Unaudited)
	<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015</u>
	3
	<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2016 and 2015</u>
	4
	<u>Consolidated Statements of Condition as of June 30, 2016 and December 31, 2015</u>
	5
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015</u>
	6
	<u>Notes to the Consolidated Financial Statements for the Three and Six Months Ended June 30, 2016 and 2015</u>
	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	44
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	56
Item 4.	<u>Controls and Procedures</u>
	56
<b>PART II. Other Information</b>	
Item 1.	<u>Legal Proceedings</u>
	57
Item 1A.	<u>Risk Factors</u>
	57
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	57
Item 3.	<u>Defaults upon Senior Securities</u>
	57
Item 4.	<u>Mine Safety Disclosure</u>
	57
Item 5.	<u>Other Information</u>
	57
Item 6.	<u>Exhibits</u>
	57
	<u>Signatures</u>
	58
Exhibit 31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	Instance Document

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Exhibit 101.SCH Schema Document  
Exhibit 101.CAL Calculation Linkbase Document  
Exhibit 101.LAB Labels Linkbase Document  
Exhibit 101.PRE Presentation Linkbase Document  
Exhibit 101.DEF Definition Linkbase Document

Table of Contents

**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Three Months Ended June 30, 2016      2015      2016      2015  
(Unaudited)  
(In Thousands, Except Per Share Data)

**Interest income:**

Interest and fees on loans	\$ 44,505	\$ 37,090	\$ 88,022	\$ 73,334
Interest on mortgage-backed securities	3,910	3,523	7,804	6,956
Interest and dividends on investment securities:				
Taxable	85	60	162	121
Tax-exempt	1,141	792	2,284	1,591
Interest on reverse mortgage loans	1,478	1,166	2,523	2,402
Other interest income	384	424	754	1,502
	<b>51,503</b>	43,055	<b>101,549</b>	85,906

**Interest expense:**

Interest on deposits	2,204	1,825	4,322	3,767
Interest on Federal Home Loan Bank advances	1,124	751	2,172	1,464
Interest on trust preferred borrowings	397	339	768	666
Interest on senior debt	1,175	941	2,117	1,883
Interest on other borrowings	189	109	400	219
	<b>5,089</b>	3,965	<b>9,779</b>	7,999
Net interest income	<b>46,414</b>	39,090	<b>91,770</b>	77,907
Provision for loan losses	<b>1,254</b>	3,773	<b>2,034</b>	4,559
Net interest income after provision for loan losses	<b>45,160</b>	35,317	<b>89,736</b>	73,348

**Noninterest income:**

Credit/debit card and ATM income	7,253	6,462	14,154	12,489
Deposit service charges	4,342	4,099	8,618	8,004
Wealth management income	6,282	5,707	11,536	10,800
Mortgage banking activities, net	1,816	1,590	3,470	3,293
Securities gains, net	545	477	850	928
Loan fee income	480	469	957	932
Bank owned life insurance income	211	179	442	382
Other income	3,920	3,475	7,892	6,725
	<b>24,849</b>	22,458	<b>47,919</b>	43,553

**Noninterest expense:**

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Salaries, benefits and other compensation	<b>23,509</b>	20,345	<b>46,385</b>	41,355
Occupancy expense	<b>3,955</b>	3,637	<b>8,225</b>	7,515
Equipment expense	<b>2,516</b>	1,959	<b>4,989</b>	4,041
Data processing and operations expenses	<b>1,522</b>	1,459	<b>3,064</b>	2,881
Professional fees	<b>2,934</b>	1,753	<b>5,337</b>	3,225
FDIC expenses	<b>773</b>	687	<b>1,611</b>	1,356
Loan workout and OREO expenses	<b>45</b>	330	<b>548</b>	329
Marketing expense	<b>801</b>	1,007	<b>1,465</b>	1,591
Corporate development expense	<b>549</b>	686	<b>1,118</b>	1,282
Other operating expense	<b>7,423</b>	6,791	<b>14,484</b>	13,992
	<b>44,027</b>	38,654	<b>87,226</b>	77,567
Income before taxes	<b>25,982</b>	19,121	<b>50,429</b>	39,334
Income tax provision	<b>8,504</b>	6,887	<b>17,181</b>	14,211
Net income	<b>\$ 17,478</b>	\$ 12,234	<b>\$ 33,248</b>	\$ 25,123
<b>Earnings per share:</b>				
Basic	<b>\$ 0.59</b>	\$ 0.43	<b>\$ 1.12</b>	\$ 0.89
Diluted	<b>\$ 0.58</b>	\$ 0.43	<b>\$ 1.10</b>	\$ 0.88

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

Table of Contents

**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2016</b>	2015	<b>2016</b>	2015
	(Unaudited)		(Unaudited)	
	(In Thousands)		(In Thousands)	
Net Income	<b>\$ 17,478</b>	\$ 12,234	<b>\$ 33,248</b>	\$ 25,123
Other comprehensive income (loss):				
<b>Net change in unrealized gains (losses) on investment securities available-for-sale</b>				
Net unrealized gains (losses) arising during the period, net of tax expense (benefit) of \$2,870, \$(3,692), \$9,350 and (\$893), respectively	<b>4,683</b>	(6,024)	<b>15,255</b>	(1,457)
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$207, \$181, \$323 and \$352, respectively	<b>(338)</b>	(296)	<b>(527)</b>	(576)
	<b>4,345</b>	(6,320)	<b>14,728</b>	(2,033)
<b>Net change in securities held-to-maturity</b>				
Amortization of unrealized gain on securities reclassified to held-to-maturity, net of tax (benefit) of \$62, \$120, \$127, \$120, respectively	<b>(100)</b>	(37)	<b>(203)</b>	(208)
<b>Net change in unfunded pension liability</b>				
Change in unfunded pension liability related to unrealized (loss) gain, prior service cost and transition obligation, net of tax (benefit) expense of (\$13), (\$9), \$280 and (\$18), respectively	<b>(22)</b>	(15)	<b>456</b>	(30)
<b>Total other comprehensive income (loss)</b>	<b>4,223</b>	(6,372)	<b>14,981</b>	(2,271)
<b>Total comprehensive income</b>	<b>\$ 21,701</b>	\$ 5,862	<b>\$ 48,229</b>	\$ 22,852

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

**Table of Contents**

**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CONDITION**

(In Thousands, Except Per Share Data)	June 30, 2016	December 31, 2015
	(Unaudited)	
<b>Assets:</b>		
Cash and due from banks	\$ 104,507	\$ 83,065
Cash in non-owned ATMs	599,114	477,924
Interest-bearing deposits in other banks	272	190
<b>Total cash and cash equivalents</b>	<b>703,893</b>	561,179
Investment securities, available-for-sale	766,459	721,029
Investment securities, held-to-maturity at cost	166,398	165,862
Loans held-for-sale at fair value	32,625	41,807
Loans, net of allowance for loan losses of \$37,746 at June 30, 2016 and \$37,089 at December 31, 2015	3,801,240	3,729,050
Reverse mortgage loans	25,263	24,284
Bank-owned life insurance	91,491	90,208
Stock in Federal Home Loan Bank of Pittsburgh, at cost	37,939	30,519
Assets acquired through foreclosure	2,935	5,080
Accrued interest receivable	14,164	14,040
Premises and equipment	39,810	39,569
Goodwill	84,852	85,212
Intangible assets	9,221	10,083
Other assets	57,817	66,715
<b>Total assets</b>	<b>\$ 5,834,107</b>	<b>\$ 5,584,637</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing demand	\$ 977,154	\$ 958,238
Interest-bearing demand	796,294	784,619
Money market	1,091,305	1,090,050
Savings	427,843	439,918
Time	308,626	333,000
Jumbo certificates of deposit customer	231,791	254,011
<b>Total customer deposits</b>	<b>3,833,013</b>	<b>3,859,836</b>
Brokered deposits	159,126	156,730
<b>Total deposits</b>	<b>3,992,139</b>	<b>4,016,566</b>
Federal funds purchased and securities sold under agreements to repurchase	51,000	128,200
Federal Home Loan Bank advances	886,767	669,514



Trust preferred borrowings	<b>67,011</b>	67,011
Senior debt	<b>152,249</b>	53,675
Other borrowed funds	<b>11,775</b>	14,486
Accrued interest payable	<b>2,073</b>	801
Other liabilities	<b>53,897</b>	53,913
<b>Total liabilities</b>	<b>5,216,911</b>	5,004,166
<b>Stockholders Equity:</b>		
Common stock \$0.01 par value, 65,000,000 shares authorized; issued 56,090,521 at June 30, 2016 and 55,945,245 at December 31, 2015	<b>562</b>	560
Capital in excess of par value	<b>259,519</b>	256,435
Accumulated other comprehensive income	<b>15,677</b>	696
Retained earnings	<b>600,322</b>	570,630
Treasury stock at cost, 26,541,772 shares at June 30, 2016 and 26,182,401 shares at December 31, 2015	<b>(258,884)</b>	(247,850)
<b>Total stockholders equity</b>	<b>617,196</b>	580,471
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,834,107</b>	\$ 5,584,637

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

Table of Contents

**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,	
	2016	2015
	(Unaudited)	
	(In Thousands)	
<b>Operating activities:</b>		
Net Income	\$ 33,248	\$ 25,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,034	4,559
Depreciation of premises and equipment, net	3,699	3,054
Amortization of fees and discounts, net	8,239	7,173
Amortization of intangible assets	1,015	787
Increase in accrued interest receivable	(124)	(490)
(Increase) decrease in other assets	(2,440)	271
Origination of loans held-for-sale	(152,484)	(185,543)
Proceeds from sales of loans held-for-sale	160,686	168,397
Gain on mortgage banking activities, net	(3,470)	(3,293)
Gain on sale of securities, net	(850)	(928)
Stock-based compensation expense	1,480	2,345
Increase in accrued interest payable	1,272	875
(Increase) decrease in other liabilities	(473)	1,582
Loss on sale of other real estate owned and valuation adjustments, net	162	201
Deferred income tax expense	3,821	1,836
Increase in value of bank-owned life insurance	(1,283)	(430)
Increase in capitalized interest, net, on reverse mortgage loans	(2,688)	(2,405)
<b>Net cash provided by operating activities</b>	<b>\$ 51,844</b>	<b>\$ 23,114</b>
<b>Investing activities:</b>		
Purchases of investment securities held-to-maturity	(3,329)	
Maturities and calls of investment securities held-to-maturity	1,810	3,486
Sale of investment securities available-for-sale	101,348	84,529
Purchases of investment securities available-for-sale	(159,684)	(185,463)
Repayments of investment securities available-for-sale	35,570	55,084
Repayments on reverse mortgages	2,696	6,196
Disbursements for reverse mortgages	(987)	(438)
Net increase in loans	(76,288)	(149,214)
Net (increase) decrease in stock of FHLB	(7,420)	(8,554)
Sales of assets acquired through foreclosure, net	2,657	3,081
Investment in premises and equipment, net	(3,870)	(2,884)
<b>Net cash used for investing activities</b>	<b>\$ (107,497)</b>	<b>\$ (194,177)</b>



**Table of Contents**

	Six months ended June 30,	
	2016	2015
	(Unaudited)	
	(In Thousands)	
<b>Financing activities:</b>		
Net increase (decrease) in demand and saving deposits	17,446	(38,091)
Decrease in time deposits	(46,594)	(77,906)
Increase (decrease) in brokered deposits	2,396	(3,336)
(Decrease) increase in loan payable	(386)	41
Receipts from FHLB advances	57,591,203	14,455,050
Repayments of FHLB advances	(57,373,950)	(14,435,200)
Receipts from federal funds purchased and securities sold under agreement to repurchase	16,434,870	30,479,478
Repayments of federal funds purchased and securities sold under agreement to repurchase	(16,512,070)	(30,169,691)
Dividends paid	(3,556)	(2,823)
Issuance of common stock and exercise of common stock options	1,723	1,845
Issuance of Senior Debt	98,319	
Purchase of treasury stock	(11,034)	(12,652)
<b>Net cash provided by financing activities</b>	<b>\$ 198,367</b>	<b>\$ 196,715</b>
Increase in cash and cash equivalents	142,714	25,652
Cash and cash equivalents at beginning of period	561,179	508,039
Cash and cash equivalents at end of period	<b>\$ 703,893</b>	<b>\$ 533,691</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest during the period	\$ 8,507	\$ 7,124
Cash paid for income taxes, net	12,493	10,471
Loans transferred to other real estate owned	674	2,452
Loans transferred to portfolio from held-for-sale at fair value	3,670	171
Net change in accumulated other comprehensive income	14,981	(2,271)
Non-cash goodwill adjustments, net	(360)	336

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

**Table of Contents**

**WSFS FINANCIAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016**  
**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

*General*

Our unaudited 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 Cypress Capital Management, LLC (Cypress). We also have one unconsolidated affiliate, WSFS Capital Trust III (the Trust). WSFS Bank has three wholly-owned subsidiaries, WSFS Wealth Investments, 1832 Holdings, Inc. and Monarch Entity Services LLC (Monarch).

The acronyms and abbreviations below are used in the unaudited Notes to Consolidated Financial Statements as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer back to this page as you read this report.

AICPA: American Institute of Certified Public Accountants	FASB: Financial Accounting Standards Board
Allowance: Allowance for loan losses or ALLL	FDIC: Federal Deposit Insurance Corporation
Alliance: Alliance Bancorp Inc. of Pennsylvania	Federal Reserve: Board of Governors of the Federal Reserve System
Array: Formerly Array Financial Group (WSFS Mortgage)	Monarch: Monarch Entity Services, LLC
Arrow: Arrow Land Transfer	FHLB: Federal Home Loan Bank
ASC: Accounting standard codification	FHLMC: Federal Home Loan Mortgage Corporation
Associate: Employee	GAAP: U.S. Generally Accepted Accounting Principles
ASU: Accounting standard update	GNMA: Government National Mortgage Association
BCBS: Basel Committee on Banking Supervision	GSE: U.S. Government and government sponsored

C&I: Commercial & Industrial (loans)	enterprises
CMO: Collateralized mortgage obligation	NSFR: Net stable funding ratio
Cypress: Cypress Capital Management, LLC	MBS: Mortgage-backed securities
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	OCC: Office of the Comptroller of the Currency
DTA: Deferred tax asset	OREO: Other real estate owned
Exchange Act: Securities Exchange Act of 1934	OTTI: Other-than-temporary impairment

*Overview*

Founded in 1832, the Bank is the seventh oldest bank and trust company 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. Lending activities are funded primarily with customer deposits and borrowings. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our Wealth Management segment. The FDIC insures our customers' deposits to their legal maximums. We serve our customers primarily from our 63 offices located in Delaware (44), Pennsylvania (17), Virginia (1) and Nevada (1) and through our website at [www.wsfsbank.com](http://www.wsfsbank.com). Information on our website is not incorporated by reference into this quarterly report.

## **Table of Contents**

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

Our accounting and reporting policies conform to GAAP, prevailing practices within the banking industry for interim financial information and Rule 10-01 of SEC Regulation S-X (Rule 10-01). Rule 10-01 does not require us to include all information and notes that would be required in audited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2016. These unaudited, interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our 2015 Annual Report on Form 10-K that was filed with the SEC on February 29, 2016 and is available at [www.sec.gov](http://www.sec.gov) or on our website at <http://investors.wsfsbank.com/financials.cfm>.

Whenever necessary, reclassifications have been made to the prior period Consolidated Financial Statements to conform to the current period's presentation. All significant intercompany transactions were eliminated in consolidation.

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2015 Annual Report on Form 10-K. There have not been any material changes in our significant accounting policies from those contained in our 2015 Annual Report on Form 10-K.

### *Common Stock Split*

In March 2015, the Company's Board of Directors adopted an amendment to the Company's Certificate of Incorporation, to increase the number of shares of common stock the Company is authorized to issue from 20,000,000, par value \$0.01, to 65,000,000, par value \$0.01. This amendment to the Company's Certificate of Incorporation was approved by the Company's stockholders at the 2015 Annual Meeting held on April 30, 2015.

In May 2015, the Company effected a three-for-one stock split in the form of a stock dividend to shareholders of record as of May 4, 2015. All share and per share information has been retroactively adjusted to reflect the stock split. We retroactively adjusted stockholders' equity to reflect the stock split by reclassifying an amount equal to the par value, \$0.01, of the additional shares arising from the split from capital in excess of par value to common stock, resulting in no net impact to stockholders' equity on our Consolidated Statements of Condition.

### *Senior Unsecured Debt*

On June 13, 2016, the Company issued \$100 million of senior unsecured fixed-to-floating rate notes. The senior unsecured notes mature on June 15, 2026 and have a fixed coupon rate of 4.50% from issuance until June 15, 2021 and a variable coupon rate of three-month LIBOR plus 3.30% from June 15, 2021 until maturity. The senior unsecured notes may be redeemed beginning on June 15, 2021 at 100% of principal plus accrued and unpaid interest. The proceeds will be used for general corporate purposes.

---

**Table of Contents****RECENT ACCOUNTING PRONOUNCEMENTS***Accounting Guidance Adopted in 2016*

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting, Compensation – Stock Compensation* (Topic 718). ASU 2016-09 changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. The standard is effective for public business entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted if the entire standard is adopted. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company early adopted ASU 2016-09 during the three months ended June 30, 2016. As a result of the adoption, the Company recognized a \$688,000 tax benefit in the Consolidated Statements of Operations for the three and six months ended June 30, 2016. In addition, the Company presented excess tax benefits as an operating activity in the Consolidated Statement of Cash Flows using a retrospective transition method. The Company also made an accounting policy election to account for forfeitures as they occur. This policy election did not have a material impact on the Company's consolidated financial statements. Adoption of all other changes did not have an impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The standard update resolves the diverse accounting treatment for these share-based payments by requiring that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this accounting guidance did not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In April 2015, the FASB issued ASU No 2015-03, *Interest- Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015 and is applied retrospectively. The Company adopted ASU 2015-03 in the first quarter of 2016, and applied its provisions retrospectively. The adoption of ASU 2015-03 resulted in the reclassification at March 31, 2016 and December 31, 2015, of \$1.2 million and \$1.3 million of unamortized debt issuance costs related to the Company's senior debt from other assets to senior debt within its consolidated balance sheets. Other than this reclassification, the adoption of ASU 2015-03 did not have an impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This guidance provides an additional requirement for a limited partnership or similar entity to qualify as a voting interest entity and also amends the criteria for consolidating such an entity. In addition, it amends the criteria for evaluating fees paid to a decision maker or service provider as a variable interest and amends the criteria for evaluating the effect of fee arrangements and related parties on a VIE primary beneficiary determination. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. ASU No. 2015-02 requires entities to use a retrospective or a modified retrospective approach (recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year). The adoption of this accounting guidance did not have a material



effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

*Accounting Guidance Pending Adoption at June 30, 2016*

In May 2014, the FASB issued ASU No. 2014-9, *Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU No. 2014-9 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. This amendment defers the effective date of ASU 2014-09 by one year to financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

---

**Table of Contents**

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This amendment provides that equity investments will be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment's observable price. For financial liabilities that are measured at fair value, the amendment requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument specific credit risk. ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Entities may apply this guidance on a prospective or retrospective basis. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company's management is currently evaluating the impact of adopting ASU 2016-02 on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, *Contingent Put and Call Options in Debt Instruments, Derivatives and Hedging (Topic 815)*. ASU 2016-06 clarifies that determining whether the economic characteristics of a put or call are *clearly and closely related* to its debt host requires only an assessment of the *four-step decision sequence* outlined in FASB ASC paragraph 815-15-25-24. Additionally, entities are not required to separately assess whether the contingency itself is clearly and closely related. The standard is effective for public business entities in interim and annual periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim period for which the entity's financial statements have not been issued, but would be retroactively applied to the beginning of the year that includes the interim period. The standard requires a modified retrospective transition approach, with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. For instruments that are eligible for the fair value option, an entity has a one-time option to irrevocably elect to measure the debt instrument affected by the standard in its entirety at fair value with changes in fair value recognized in earnings. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In March 2016, the FASB issued ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting, Investments - Equity Method and Joint Ventures (Topic 323)*. ASU 2016-07 eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. The standard is effective for all entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied prospectively to changes in ownership (or influence) after the adoption date. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net, Revenue from Contracts with Customers (Topic 606))*. ASU 2016-08 amends the principal versus agent guidance in ASU 2014-09, *Revenue from Contracts with Customers*, and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. The amendments

in the standard affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods in fiscal years beginning after December 15, 2017. Early application is permitted for all entities, but not before annual reporting periods beginning after December 15, 2016. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

---

**Table of Contents**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company's management is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

## **2. BUSINESS COMBINATIONS**

### *Penn Liberty Financial Corporation*

On November 23, 2015, we along with Penn Liberty Financial Corporation (Penn Liberty), announced the signing of a definitive agreement and plan of reorganization whereby we would acquire Penn Liberty. Upon the closing of the transaction, Penn Liberty will merge into the Company and Penn Liberty Bank will merge into WSFS Bank. Penn Liberty is a locally managed institution with eleven branch locations and is headquartered in Wayne, Pennsylvania. It reported \$704 million in assets, \$510 million in loans and \$621 million in deposits as of December 31, 2015. We expect this acquisition to build our market share, expand our customer base and enhance our fee income. The transaction is valued at approximately \$101 million, has received all necessary approvals and is expected to close in August 2016.

### *Alliance Bancorp, Inc. of Pennsylvania*

On October 9, 2015 we completed the acquisition of Alliance and its wholly owned subsidiary, Alliance Bank, headquartered in Broomall, Pennsylvania. At that time Alliance merged into the Company and Alliance Bank merged into WSFS Bank. In accordance with the terms of the Agreement and Plan of Merger, dated March 2, 2015, holders of shares of Alliance common stock received, in aggregate, \$26.6 million in cash and 2,459,120 shares of WSFS common stock. The transaction was valued at \$97.9 million based on WSFS' October 9, 2015 closing share price of \$29.01 as quoted on The Nasdaq Global Select Market. The results of the combined entity's operations are included in our Consolidated Financial Statements since the date of the acquisition.

The acquisition of Alliance was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The fair values are preliminary estimates and are subject to adjustment during the one year measurement period after the acquisition. The excess of consideration paid over the preliminary fair value of net assets acquired was recorded as goodwill in the amount of \$36.1 million, which will not be amortizable and is not deductible for tax purposes. The Company allocated the total balance of goodwill to its WSFS Bank segment. The Company also recorded \$2.6 million in core deposit intangibles which are being amortized over ten years using the straight-line depreciation method and \$511,000 for non-compete covenants which are being amortized between six and eighteen months.

**Table of Contents**

In connection with the merger, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed, as of the date of acquisition, are summarized in the following table:

(In Thousands)	Fair Value
<b>Consideration Paid:</b>	
Common shares issued (2,459,120)	\$ 71,345
Cash paid to Alliance stockholders	26,576
Value of consideration	97,921
Assets acquired:	
Cash and due from banks	67,439
Investment securities	3,002
Loans	307,695
Premises and equipment	2,685
Deferred income taxes	7,669
Bank owned life insurance	12,923
Core deposit intangible	2,635
Other real estate owned	768
Other assets	3,641
Total assets	408,457
Liabilities assumed:	
Deposits	341,682
Other Borrowings	2,826
Other liabilities	2,093
Total liabilities	346,601
Net assets acquired:	61,856
Goodwill resulting from acquisition of Alliance	\$ 36,065

The following table details the changes to goodwill in 2016:

(In Thousands)	Fair Value
Goodwill resulting from the acquisition of Alliance reported as of December 31, 2015	\$ 36,425
Effects of adjustments to:	
Deferred income taxes	(125)
Other assets	(655)
Other liabilities	420
Adjusted goodwill resulting from the acquisition of Alliance as of June 30, 2016	\$ 36,065

The adjustments made to goodwill during the first six months of 2016, reflect a change in the fair value of leases acquired, accrued expenses and deferred federal income taxes. Direct costs related to the acquisition were expensed as incurred.

Table of Contents**3. EARNINGS PER SHARE**

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

(In Thousands, Except Per Share Data)	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2016</b>	2015	<b>2016</b>	2015
<b><u>Numerator:</u></b>				
Net income	<b>\$ 17,478</b>	\$ 12,234	<b>\$ 33,248</b>	\$ 25,123
<b><u>Denominator:</u></b>				
Weighted average basic shares	<b>29,545</b>	28,171	<b>29,608</b>	28,194
Dilutive potential common shares	<b>606</b>	433	<b>582</b>	443
Weighted average fully diluted shares	<b>30,151</b>	28,604	<b>30,190</b>	28,637
<b>Earnings per share:</b>				
Basic	<b>\$ 0.59</b>	\$ 0.43	<b>\$ 1.12</b>	\$ 0.89
Diluted	<b>\$ 0.58</b>	\$ 0.43	<b>\$ 1.10</b>	\$ 0.88
Outstanding common stock equivalents having no dilutive effect	<b>5</b>	184	<b>20</b>	184

**Table of Contents****4. INVESTMENT SECURITIES**

The following tables detail the amortized cost and the estimated fair value of our available-for-sale and held-to-maturity investment securities. None of our investment securities are classified as trading.

(In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<b>Available-for-Sale Securities:</b>				
<b>June 30, 2016</b>				
GSE	\$ 39,080	\$ 147	\$	\$ 39,227
CMO	259,834	6,520	32	266,322
FNMA MBS	336,103	11,144	23	347,224
FHLMC MBS	84,550	2,343		86,893
GNMA MBS	26,181	641	29	26,793
	\$ 745,748	\$ 20,795	\$ 84	\$ 766,459
<b>December 31, 2015</b>				
GSE	\$ 31,041	\$	\$ 127	\$ 30,914
CMO	253,189	713	2,414	251,488
FNMA MBS	320,105	1,081	2,715	318,471
FHLMC MBS	99,350	405	313	99,442
GNMA MBS	20,387	420	93	20,714
	\$ 724,072	\$ 2,619	\$ 5,662	\$ 721,029
<b>Held-to-Maturity Securities<sup>(a)</sup></b>				
<b>June 30, 2016</b>				
State and political subdivisions	\$ 166,398	\$ 6,654	\$ 20	\$ 173,032
<b>December 31, 2015</b>				
State and political subdivisions	\$ 165,862	\$ 1,943	\$ 62	\$ 167,743

- (a) Held-to-maturity securities transferred from available-for-sale are included in held-to-maturity at fair value at the time of transfer. The amortized cost of held-to-maturity securities included net unrealized gains of \$2.6 million and \$2.9 million at June 30, 2016 and December 31, 2015, respectively, related to securities transferred, which are offset in Accumulated Other Comprehensive Income, net of tax.





**Table of Contents**

The scheduled maturities of investment securities available-for-sale and held-to-maturity at June 30, 2016 and December 31, 2015 are presented in the table below:

(In Thousands)	<b>Available-for-Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
<b><u>June 30, 2016</u></b>		
<b>Within one year</b>	<b>\$ 10,994</b>	<b>\$ 11,009</b>
<b>After one year but within five years</b>	<b>28,086</b>	<b>28,218</b>
<b>After five years but within ten years</b>	<b>239,335</b>	<b>248,220</b>
<b>After ten years</b>	<b>467,333</b>	<b>479,012</b>
	<b>\$ 745,748</b>	<b>\$ 766,459</b>
<b><u>December 31, 2015</u></b>		
Within one year	\$ 3,997	\$ 3,995
After one year but within five years	30,009	29,840
After five years but within ten years	218,023	215,018
After ten years	472,043	472,176
	\$ 724,072	\$ 721,029
<b><u>June 30, 2016</u></b>		
<b>After one year but within five years</b>	<b>3,179</b>	<b>3,212</b>
<b>After five years but within ten years</b>	<b>9,520</b>	<b>9,796</b>
<b>After ten years</b>	<b>153,699</b>	<b>160,024</b>
	<b>\$ 166,398</b>	<b>\$ 173,032</b>
<b><u>December 31, 2015</u></b>		
Within one year	\$ 1,486	\$ 1,488
After one year but within five years	3,465	3,456
After five years but within ten years	7,939	8,045
After ten years	152,972	154,754
	\$ 165,862	\$ 167,743

MBS have expected maturities that differ from their contractual maturities. These differences arise because borrowers have the right to call or prepay obligations with or without a prepayment penalty.

Investment securities with fair market values aggregating \$447.2 million and \$457.0 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of June 30, 2016 and

December 31, 2015, respectively.

During the first six months of 2016 and 2015, we sold \$101.3 million and \$88.2 million of investment securities categorized as available-for-sale, for a gain of \$850,000 and \$928,000, respectively. No losses were incurred from sales during the first six months of 2016 and 2015.

As of June 30, 2016 and December 31, 2015, our investment securities portfolio had remaining unamortized premiums of \$18.0 million and \$18.3 million and unaccreted discounts of \$304,000 and \$306,000, respectively.

**Table of Contents**

For these investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at June 30, 2016.

(In Thousands)	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Available-for-sale securities:</b>						
CMO	4,992	15	5,383	17	10,375	32
FNMA MBS	4,119	23			4,119	23
GNMA MBS	8,539	29			8,539	29
<b>Total temporarily impaired investments</b>	<b>\$ 17,650</b>	<b>\$ 67</b>	<b>\$ 5,383</b>	<b>\$ 17</b>	<b>\$ 23,033</b>	<b>\$ 84</b>

(In Thousands)	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Held-to-maturity securities:</b>						
State and political subdivisions	\$	\$	\$ 2,449	\$ 20	\$ 2,449	\$ 20
<b>Total temporarily impaired investments</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,449</b>	<b>\$ 20</b>	<b>\$ 2,449</b>	<b>\$ 20</b>

For these investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2015.

(In Thousands)	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Available-for-sale securities:</b>						
GSE	\$ 30,914	\$ 127	\$	\$	\$ 30,914	\$ 127
CMO	139,486	1,703	26,536	711	166,022	2,414
FNMA MBS	214,465	2,715			214,465	2,715
FHLMC MBS	41,791	136	4,025	177	45,816	313
GNMA MBS	4,073	29	2,377	64	6,450	93
<b>Total temporarily impaired investments</b>	<b>\$ 430,729</b>	<b>\$ 4,710</b>	<b>\$ 32,938</b>	<b>\$ 952</b>	<b>\$ 463,667</b>	<b>\$ 5,662</b>

(In Thousands)	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>Held-to-maturity securities:</u>						
State and political subdivisions	\$ 9,845	\$ 62	\$	\$	\$ 9,845	\$ 62
<b>Total temporarily impaired investments</b>	<b>\$ 9,845</b>	<b>\$ 62</b>	<b>\$</b>	<b>\$</b>	<b>\$ 9,845</b>	<b>\$ 62</b>

At June 30, 2016, we owned investment securities totaling \$25.5 million in which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$104,000 at June 30, 2016. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Our investment portfolio is reviewed each quarter for indications of OTTI. This review includes analyzing the length of time and the extent to which the fair value has been lower than the amortized cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for full recovery of the unrealized loss. We evaluate our intent and ability to hold securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

All securities, with the exception of one, were AA-rated or better at the time of purchase and remained investment grade at June 30, 2016. All securities were evaluated for OTTI at June 30, 2016 and December 31, 2015. The result of this evaluation showed no OTTI as of June 30, 2016 or December 31, 2015. The estimated weighted average duration of MBS was 3.6 years at June 30, 2016.

Table of Contents**5. LOANS**

The following details our loan portfolio by category:

(In Thousands)	<b>June 30, 2016</b>	December 31, 2015
Commercial and industrial	<b>\$ 1,108,610</b>	\$ 1,061,597
Owner occupied commercial	<b>938,330</b>	880,643
Commercial mortgages	<b>990,245</b>	966,698
Construction	<b>199,039</b>	245,773
Residential	<b>236,657</b>	259,679
Consumer	<b>374,634</b>	360,249
	<b>\$ 3,847,515</b>	\$ 3,774,639
Less:		
Deferred fees, net	<b>\$ 8,529</b>	\$ 8,500
Allowance for loan losses	<b>37,746</b>	37,089
Net loans	<b>\$ 3,801,240</b>	\$ 3,729,050

The following is the outstanding principal balance and carrying amounts for acquired credit impaired loans for which the company applies ASC 310-30 as of the dates indicated:

(In Thousands)	<b>June 30, 2016</b>	December 31, 2015
Outstanding principal balance	<b>\$ 31,773</b>	38,067
Carrying amount	<b>26,777</b>	32,658
Allowance for loan losses	<b>295</b>	132

The following table presents the changes in accretable yield on the acquired credit impaired loans for the following six month period:

(In Thousands)	<b>January 1 through June 30, 2016</b>
Balance at beginning of period	<b>\$ 4,764</b>
Accretion	<b>(1,228)</b>
Reclassification from nonaccretable difference	<b>1,090</b>
Additions/adjustments	<b>(283)</b>
Disposals	<b>(7)</b>
Balance at the end of the period	<b>\$ 4,336</b>

**6. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION**

*Allowance for Loan Losses*

We maintain an allowance for loan losses and charge losses to this allowance when such losses are realized. We established our allowance for loan losses in accordance with guidance provided in the SEC's Staff Accounting Bulletin 102 (SAB 102) and FASB ASC 450, *Contingencies* (ASC 450). When we have reason to believe it is probable that we will not be able to collect all contractually due amounts of principal and interest, loans are evaluated for impairment on an individual basis and a specific allocation of the allowance is assigned in accordance with ASC 310-10. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition.

## **Table of Contents**

The determination of the allowance for loan losses requires significant judgment reflecting our best estimate of impairment related to specifically identified impaired loans as well as probable loan losses in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios. The following are included in our allowance for loan losses:

Specific reserves for impaired loans

An allowance for each pool of homogenous loans based on historical loss experience

Adjustments for qualitative and environmental factors allocated to pools of homogenous loans

Allowance for model estimation and complexity risk

When it is probable that the Bank will be unable to collect all amounts due (interest and principal) in accordance with the contractual terms of the loan agreement, it assigns a specific reserve to that loan, if necessary. Unless loans are well-secured and collection is imminent, loans greater than 90 days past due are deemed impaired and their respective reserves are generally charged-off once the loss has been confirmed. Estimated specific reserves are based on collateral values, estimates of future cash flows or market valuations. We charge loans off when they are deemed to be uncollectible. During the six months ended June 30, 2016, net charge-offs totaled \$1.3 million or 0.07% of average loans, compared to \$3.1 million, or 0.19% of average loans annualized, during the six months ended June 30, 2015.

Allowances for pooled homogeneous loans, that are not deemed impaired, are based on historical net loss experience. Estimated losses for pooled portfolios are determined differently for commercial loan pools and retail loan pools. Commercial loans are pooled into the following segments: commercial, owner-occupied, commercial real estate and construction. Each pool is further segmented by internally assessed risk ratings. Loan losses for commercial loans are estimated by determining the probability of default and expected loss severity upon default. Probability of default is calculated based on the historical rate of migration to impaired status during the last 22 quarters. During the six months ended June 30 2016, we increased the look-back period to 22 quarters from the 20 quarters used at December 31, 2015. This increase in the look-back period allows us to continue to anchor to the fourth quarter of 2010 to ensure that the core reserves calculated by the ALLL model are adequately considering the losses within a full credit cycle.

Loss severity upon default is calculated as the actual loan losses (net of recoveries) on impaired loans in their respective pool during the same time frame. Retail loans are pooled into the following segments: residential mortgage, consumer secured and consumer unsecured loans. Pooled reserves for retail loans are calculated based solely on average net loss rates over the same 22 quarter look-back period.

Qualitative adjustment factors consider various current internal and external conditions which are allocated among loan types and take into consideration the following:

Current underwriting policies, staff, and portfolio mix



Internal trends of delinquency, nonaccrual and criticized loans by segment

Risk rating accuracy, control and regulatory assessments/environment

General economic conditions - locally and nationally

Market trends impacting collateral values

A competitive environment as it could impact loan structure and underwriting

The above factors are based on their relative standing compared to the period in which historic losses are used in core reserve estimates and current directional trends. Qualitative factors in our model can add or subtract to core reserves. Continued economic improvement and continued refinement of the quantitative model have driven an overall reduction in qualitative factors during the period.

**Table of Contents**

The allowance methodology uses a loss emergence period (LEP), which is the period of time between an event that triggers the probability of a loss and the confirmation of the loss. We estimate the commercial LEP to be 8 quarters as of June 30, 2016. Further, our residential mortgage and consumer LEP remained at 4 quarters as of June 30, 2016. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our commercial LEP at least annually.

The final component of the allowance is reserve for model estimation and complexity risk. The calculation of this reserve is generally quantitative; however, qualitative estimates of valuations and risk assessment, and methodology judgments are necessary in order to capture factors not already included in other components in our allowance for loan losses methodology. We review qualitative estimates of valuation factors quarterly and management uses its judgement to make adjustments based on current trends. During the second quarter of 2016 as a result of continued improvement in the model and normal review of the factors, we removed the model estimation and complexity risk reserve from our calculation of the allowance of loan losses.

Our loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with individual problem loans. In addition, various regulatory agencies periodically review our loan ratings and allowance for loan losses and the Bank's internal loan review department performs loan reviews.

The following tables provide the activity of our allowance for loan losses and loan balances for three and six months ended June 30, 2016:

(thousands)	Owner-Occupied Commercial					Complexity Risk <sup>(1)</sup>		Total
	Commercial	Commercial	Mortgages	Construction	Residential	Consumer		
<b>Three months ended June 30, 2016</b>								
Allowance for loan losses								
Beginning balance	\$ 11,482	\$ 6,702	\$ 6,516	\$ 3,609	\$ 2,269	\$ 5,954	\$ 1,024	\$ 37,561
Provisions	(727)	(141)	(61)	(3)	(15)	(818)		(1,765)
Reversals	224	13	34		57	373		701
Net charge-offs (credit)	353	133	1,598	(352)	22	317	(1,024)	1,024
Provision for acquired loans	70	16	48	54	19			206
Ending balance	\$ 11,402	\$ 6,723	\$ 8,135	\$ 3,308	\$ 2,352	\$ 5,826	\$	\$ 37,746
<b>Six months ended June 30, 2016</b>								
Allowance for loan losses								
Beginning balance	\$ 11,156	\$ 6,670	\$ 6,487	\$ 3,521	\$ 2,281	\$ 5,964	\$ 1,010	\$ 37,089
Provisions	(906)	(141)	(78)	(29)	(29)	(1,449)		(2,632)
Reversals	334	51	113	46	79	632		1,295
Net charge-offs (credit)	837	127	1,561	(280)	2	717	(1,010)	1,954
Provision for acquired loans	(19)	16	52	50	19	(38)		100
Ending balance	\$ 11,402	\$ 6,723	\$ 8,135	\$ 3,308	\$ 2,352	\$ 5,826	\$	\$ 37,746
<b>Allowance allocated to:</b>								
Individually evaluated for impairment	\$ 426	\$	\$	\$ 211	\$ 992	\$ 205	\$	\$ 1,834

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

collectively evaluated for impairment	10,923	6,686	8,009	3,038	1,340	5,621	35,6
red loans evaluated for impairment	53	37	126	59	20		2
g balance	\$ 11,402	\$ 6,723	\$ 8,135	\$ 3,308	\$ 2,352	\$ 5,826	\$ 37,7

**End loan balances evaluated for:**

individually evaluated for impairment	\$ 2,558	\$ 838	\$ 1,702	\$ 1,419	\$ 14,416	\$ 7,965	\$ 28,8
collectively evaluated for impairment	1,045,918	857,270	869,771	181,440	153,811	352,675	3,460,8
red nonimpaired loans	58,423	70,465	108,212	12,086	67,484	13,990	330,0
red impaired loans	1,711	9,757	10,560	4,094	946	4	27,0
g balance	\$ 1,108,610	\$ 938,330	\$ 990,245	\$ 199,039	\$ 236,657	\$ 374,634	\$ 3,847,5

**Table of Contents**

The following table provides the activity of the allowance for loan losses and loan balances for the three and six months ended June 30, 2015:

(In Thousands)	Owner Occupied Commercial				Complexity Risk <sup>(1)</sup>			Total
	Commercial	Commercial	Mortgages	Constructio	Residential	Consumer		
<b>Three months ended June 30, 2015</b>								
Allowance for loan losses								
Beginning balance	\$ 13,048	\$ 7,039	\$ 6,524	\$ 2,952	\$ 2,380	\$ 6,026	\$ 1,538	\$ 39,507
Charge-offs	(1,903)	(272)			(147)	(620)		(2,942)
Recoveries	91	18	28	111	26	233		507
Provision (credit)	2,788	(80)	50	249	448	149	(579)	3,025
Provision for acquired loans	488	28	229	1	2			748
Ending balance	\$ 14,512	\$ 6,733	\$ 6,831	\$ 3,313	\$ 2,709	\$ 5,788	\$ 959	\$ 40,845
<b>Six months ended June 30, 2015</b>								
Allowance for loan losses								
Beginning balance	\$ 12,837	\$ 6,643	\$ 7,266	\$ 2,596	\$ 2,523	\$ 6,041	\$ 1,520	\$ 39,426
Charge-offs	(2,037)	(597)	(4)		(267)	(1,071)		(3,976)
Recoveries	114	22	69	160	37	434		836
Provision (credit)	3,110	637	(729)	556	414	384	(561)	3,811
Provision for acquired loans	488	28	229	1	2			748
Ending balance	\$ 14,512	\$ 6,733	\$ 6,831	\$ 3,313	\$ 2,709	\$ 5,788	\$ 959	\$ 40,845
<b>Period-end allowance allocated to:</b>								
Loans individually evaluated for impairment	\$ 4,819	\$ 75	\$ 177	\$ 214	\$ 1,178	\$ 188	\$	\$ 6,651
Loans collectively evaluated for	9,205	6,630	6,425	3,098	1,529	5,600	959	33,446

<b>impairment</b>								
Acquired loans evaluated for impairment	488	28	229	1	2			748
Ending balance	\$ 14,512	\$ 6,733	6,831	\$ 3,313	\$ 2,709	\$ 5,788	\$ 959	\$ 40,845

**Period-end loan balances evaluated for:**

<b>Loans individually evaluated for impairment</b>								
	\$ 9,938	\$ 1,389	\$ 7,329	\$ 1,419	\$ 15,198	\$ 6,055	\$	\$ 41,328 <sup>(2)</sup>
<b>Loans collectively evaluated for impairment</b>								
	893,774	750,514	827,381	188,251	181,169	316,213		3,157,302
<b>Acquired nonimpaired loans</b>								
	29,894	39,132	29,558	8,696	15,970	6,608		129,858
<b>Acquired impaired loans</b>								
	3,159	2,027	5,884	3,479	460	8		15,017
Ending balance	\$ 936,765	\$ 793,062	\$ 870,152	\$ 201,845	\$ 212,797	\$ 328,884	\$	\$ 3,343,505 <sup>(3)</sup>

- (1) Represents the portion of the allowance for loan losses established to capture factors not already included in other components in our allowance for loan losses methodology.
- (2) The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of \$14.1 million and \$13.6 million for the periods ending June 30, 2016 and 2015, respectively. Accruing troubled debt restructured loans are considered impaired loans.
- (3) Ending loan balances do not include deferred costs.

**Table of Contents***Nonaccrual and Past Due Loans*

Nonaccruing loans are those on which the accrual of interest has ceased. We discontinue accrual of interest on originated loans after payments become more than 90 days past due or earlier if we do not expect the full collection of principal or interest in accordance with the terms of the loan agreement. 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 accretion 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 our assessment of the ultimate collectability of principal and interest. Loans greater than 90 days past due and still accruing are defined as loans contractually past due 90 days or more as to principal or interest payments, but remain in accrual status because they are considered well secured and in the process of collection.

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

June 30, 2016	Greater Than				Accruing Current Balances	Acquired Impaired Loans	Nonaccrual Loans	Total Loans
	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing	Total Past Due And Still Accruing				
(In Thousands)								
Commercial	\$ 720	\$ 132	\$ 85	\$ 937	\$ 1,103,908	\$ 1,711	\$ 2,054	\$ 1,108,610
Owner-occupied commercial					927,735	9,757	838	938,330
Commercial mortgages	2,424	5,643		8,067	969,996	10,560	1,622	990,245
Construction					194,945	4,094		199,039
Residential	4,598	533	416	5,547	224,341	946	5,823	236,657
Consumer	734	224	219	1,177	369,209	4	4,244	374,634
<b>Total (1)</b>	<b>\$ 8,476</b>	<b>\$ 6,532</b>	<b>\$ 720</b>	<b>\$ 15,728</b>	<b>\$ 3,790,134</b>	<b>\$ 27,072</b>	<b>\$ 14,581</b>	<b>\$ 3,847,515</b>
<b>% of Total Loans</b>	<b>0.22%</b>	<b>0.17%</b>	<b>0.02%</b>	<b>0.41%</b>	<b>98.51%</b>	<b>0.70%</b>	<b>0.38%</b>	<b>100%</b>

(1) The balances of above include \$330.7 million of acquired nonimpaired loans.

December 31, 2015	Greater Than				Accruing Current Balances	Acquired Impaired Loans	Nonaccrual Loans	Total Loans
	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing	Total Past Due And Still Accruing				
(In Thousands)								
Commercial	\$ 1,686	\$ 270	\$ 12,355	\$ 14,311	\$ 1,028,973	\$ 12,985	\$ 5,328	\$ 1,061,597

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Owner-occupied commercial	713	217	4,886	5,816	869,048	4,688	1,091	880,643
Commercial mortgages	141	4	288	433	952,426	10,513	3,326	966,698
Construction					242,229	3,544		245,773
Residential	5,263	621	251	6,135	245,307	950	7,287	259,679
Consumer	1,222	36	252	1,510	354,599	7	4,133	360,249
<b>Total (1)</b>	<b>\$ 9,025</b>	<b>\$ 1,148</b>	<b>\$ 18,032</b>	<b>\$ 28,205</b>	<b>\$ 3,692,582</b>	<b>\$ 32,687</b>	<b>\$ 21,165</b>	<b>\$ 3,774,639</b>
<b>% of Total Loans</b>	<b>0.24%</b>	<b>0.03%</b>	<b>0.48%</b>	<b>0.75%</b>	<b>97.83%</b>	<b>0.86%</b>	<b>0.56%</b>	<b>100%</b>

(1) The balances of above include \$371.1 million of acquired nonimpaired loans.

**Table of Contents***Impaired Loans*

Loans for which it is probable we will not collect all principal and interest due according to their contractual terms, which is assessed based on the credit characteristics of the loan and/or payment status, are measured for impairment in accordance with the provisions of SAB 102 and FASB ASC 310, *Receivables* (ASC 310). The amount of impairment is required to be measured using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the fair value of collateral, if the loan is collateral dependent or (3) the loan's observable market price. If the measure of the impaired loan is less than the recorded investment in the loan, a related allowance is allocated for the impairment.

The following tables provide an analysis of our impaired loans at June 30, 2016 and December 31, 2015:

June 30, 2016 (In Thousands)	Ending Loan Balances	Loans with No Related		Related Reserve	Contractual Principal Balances	Average Loan Balances
		Reserve (1)	Loans with Related Reserve			
<b>Commercial</b>	<b>\$ 3,765</b>	<b>\$ 1,565</b>	<b>\$ 2,200</b>	<b>\$ 479</b>	<b>\$ 4,567</b>	<b>\$ 6,472</b>
Owner-occupied commercial	3,483	486	2,997	37	3,833	2,459
Commercial mortgages	3,765	1,703	2,062	126	6,271	5,903
Construction	2,856		2,856	270	2,979	1,736
Residential	15,254	7,823	7,431	1,012	17,768	15,316
Consumer	7,965	6,785	1,180	205	9,714	7,446
<b>Total (2)</b>	<b>\$ 37,088</b>	<b>\$ 18,362</b>	<b>\$ 18,726</b>	<b>\$ 2,129</b>	<b>\$ 45,132</b>	<b>\$ 39,332</b>

(1) Reflects loan balances at or written down to their remaining book balance.

(2) The above includes acquired impaired loans totaling \$8.2 million in the ending loan balance and \$9.4 million in the contractual principal balance.

December 31, 2015 (In Thousands)	Ending Loan Balances	Loans with No Related		Related Reserve	Contractual Principal Balances	Average Loan Balances
		Reserve (1)	Loans with Related Reserve			
<b>Commercial</b>	<b>\$ 6,137</b>	<b>\$ 951</b>	<b>\$ 5,186</b>	<b>\$ 1,168</b>	<b>\$ 20,206</b>	<b>\$ 9,391</b>
Owner-occupied commercial	2,127	1,090	1,037	22	2,947	2,111
Commercial mortgages	4,652	3,410	1,242	103	11,826	7,540
Construction	1,419		1,419	211	1,419	1,448
Residential	15,710	9,034	6,676	920	18,655	15,264
Consumer	7,665	6,498	1,167	200	9,353	6,801
<b>Total (2)</b>	<b>\$ 37,710</b>	<b>\$ 20,983</b>	<b>\$ 16,727</b>	<b>\$ 2,624</b>	<b>\$ 64,406</b>	<b>\$ 42,555</b>



- (1) Reflects loan balances at or written down to their remaining book balance.
- (2) The above includes acquired impaired loans totaling \$2.9 million in the ending loan balance and \$3.5 million in the contractual principal balance.

Interest income of \$180,000, and \$336,000 was recognized on impaired loans during the three and six months ended June 30, 2016, respectively. Interest income of \$449,000, and \$921,000 was recognized on impaired loans during the three and six months ended June 30, 2015.

As of June 30, 2016, there were 32 residential loans and 9 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$5.2 million and \$1.9 million, respectively. As of December 31, 2015, there were 32 residential loans and 3 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$5.0 million and \$675,000, respectively.

#### *Reserves on Acquired Nonimpaired Loans*

In accordance with FASB ASC 310, loans acquired by the Bank through its merger with FNBW and Alliance are required to be reflected on the balance sheet at their fair values on the date of acquisition as opposed to their contractual values. Therefore, on the date of acquisition establishing an allowance for acquired loans is prohibited. After the acquisition date the Bank performs a separate allowance analysis on a quarterly basis to determine if an allowance for loan loss is necessary. Should the credit risk calculated exceed the purchased loan portfolio's remaining credit mark, additional reserves will be added to the Bank's allowance. When a purchased loan becomes impaired after its acquisition, it is evaluated as part of the Bank's reserve analysis and a specific reserve is established to be included in the Bank's allowance.

## **Table of Contents**

### *Credit Quality Indicators*

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

*Pass.* These borrowers currently show no indication of deterioration or potential problems and their loans are considered fully collectible.

*Special Mention.* Borrowers have potential weaknesses that deserve management's close attention. Borrowers in this category may be experiencing adverse operating trends, for example, declining revenues or margins, high leverage, tight liquidity, or increasing inventory without increasing sales. These adverse trends can have a potential negative effect on the borrower's repayment capacity. These assets are not adversely classified and do not expose the Bank to significant risk that would warrant a more severe rating. Borrowers in this category may also be experiencing significant management problems, pending litigation, or other structural credit weaknesses.

*Substandard.* Borrowers have well-defined weaknesses that require extensive oversight by management. Borrowers in this category may exhibit one or more of the following: inadequate debt service coverage, unprofitable operations, insufficient liquidity, high leverage, and weak or inadequate capitalization. Relationships in this category are not adequately protected by the sound financial worth and paying capacity of the obligor or the collateral pledged on the loan, if any. The distinct possibility exists that the Bank will sustain some loss if the deficiencies are not corrected.

*Doubtful.* Borrowers have well-defined weaknesses inherent in the Substandard category with the added characteristic that the possibility of loss is extremely high. Current circumstances in the credit relationship make collection or liquidation in full highly questionable. A doubtful asset has some pending event that may strengthen the asset that defers the loss classification. Such impending events include: perfecting liens on additional collateral, obtaining collateral valuations, an acquisition or liquidation preceding, proposed merger, or refinancing plan.

*Loss.* Borrowers are uncollectible or of such negligible value that continuance as a bankable asset is not supportable. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical to defer writing off this asset even though partial recovery may be recognized sometime in the future.

### *Residential and Consumer Loans*

The residential and consumer loan portfolios are monitored on an ongoing basis using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed in the aggregate in these relatively homogeneous portfolios. Loans that are greater than 90 days past due are generally considered nonperforming and placed on nonaccrual status.

The following tables provide an analysis of loans by portfolio segment based on the credit quality indicators used to determine the Allowance for Loan Loss.

**Table of Contents**

## Commercial Credit Exposure

(In Thousands)	Commercial		Owner-Occupied Commercial		Commercial Mortgages		Construction		Total Commercial <sup>(1)</sup>	
	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016 Amount	Dec. 31, 2015 Amount
Commercial:	\$ 4,379	\$ 5,620	\$ 6,427	\$ 9,535	\$ 21,185	\$ 12,323	\$ -	\$ -	\$ 31,991	\$ 27,477
Commercial:	40,140	33,883	23,351	22,901	9,868	2,547	-	8,296	73,359	67,622
Commercial:	1,627	4,164	838	1,090	1,622	3,326	-	-	4,087	8,588
Commercial:	427	1,164	-	-	-	-	-	-	427	1,164
Commercial:	46,573	44,831	30,616	33,526	32,675	18,196	-	8,296	109,864	104,844
Commercial:	1,711	12,985	9,757	4,688	10,560	10,513	4,094	3,544	26,122	31,730
Commercial:	1,060,326	1,003,781	897,957	842,429	947,010	937,989	194,945	233,933	3,100,238	3,018,133
Commercial:	\$ 1,108,610	\$ 1,061,597	\$ 938,330	\$ 880,643	\$ 990,245	\$ 966,698	\$ 199,039	\$ 245,773	\$ 3,236,224	\$ 3,154,710

(1) Table includes \$249.2 million and \$277.0 million of acquired nonimpaired loans as of June 30, 2016 and December 31, 2015, respectively.

## Residential and Consumer Credit Exposure

(In Thousands)	Residential		Consumer		Total Residential and Consumer <sup>(2)</sup>			
	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	30-Jun-16		Dec. 31, 2015	
	Amount	Amount	Amount	Amount	Amount	Percent	Amount	Percent
Nonperforming(1)	\$ 14,416	\$ 15,548	\$ 7,965	\$ 7,664	\$ 22,381	4%	\$ 23,212	4%
Acquired impaired loans	946	950	4	7	950		957	
Performing	221,295	243,181	366,665	352,578	587,960	96	595,759	96
<b>Total</b>	<b>\$ 236,657</b>	<b>\$ 259,679</b>	<b>\$ 374,634</b>	<b>\$ 360,249</b>	<b>\$ 611,291</b>	<b>100%</b>	<b>\$ 619,928</b>	<b>100%</b>

(1) Includes \$14.1 million as of June 30, 2016 and \$13.6 million as of December 31, 2015 of troubled debt restructured mortgages and home equity installment loans that are performing in accordance with the loans modified terms and are accruing interest.

- (2) Total includes \$81.5 million and \$94.2 million in acquired nonimpaired loans as of June 30, 2016 and December 31, 2015, respectively.

**Table of Contents***Troubled Debt Restructurings (TDR)*

TDRs are recorded in accordance with FASB ASC 310-40, *Troubled Debt Restructuring by Creditors (ASC 310-40)*. The balance of TDRs at June 30, 2016 and December 31, 2015 was \$22.0 million and \$24.6 million, respectively. The balance at June 30, 2016 included approximately \$7.9 million of TDRs in nonaccrual status and \$14.1 million of TDRs in accrual status compared to \$11.0 million in nonaccrual status and \$13.6 million in accrual status at December 31, 2015. Approximately \$1.5 million and \$2.1 million in related reserves have been established for these loans at June 30, 2016 and December 31, 2015, respectively.

During the six months ended June 30, 2016, the terms of 14 loans were modified in TDRs. Nine modifications were for consumer loans of which eight were HELOC conversions with interest rate reductions and one loan was discharged in bankruptcy. Three were residential mortgages, two received forbearance agreements and one residential mortgage was discharged in bankruptcy. One commercial loan in bankruptcy was granted interest only payments and one commercial loan was granted a maturity date extension. Our concessions on restructured loans typically consist of forbearance agreements, reduction in interest rates or extensions of maturities. Principal balances are generally not forgiven when a loan is modified as a TDR. Nonaccruing restructured loans remain in nonaccrual status until there has been a period of sustained repayment performance, typically six months and payment is reasonably assured.

The following table presents loans identified as TDRs during the three and six months ended June 30, 2016 and 2015.

(In Thousands)	<b>Three Months Ended June 30, 2016</b>	Three Months Ended June 30, 2015	<b>Six Months Ended June 30, 2016</b>	Six Months Ended June 30, 2015
<b>Commercial</b>	<b>\$ 141</b>	\$ 557	<b>\$ 1,125</b>	\$ 557
<b>Owner Occupied Commercial</b>				
<b>Commercial mortgages</b>				
<b>Construction</b>				
<b>Residential</b>	<b>112</b>	197	<b>726</b>	409
<b>Consumer</b>	<b>240</b>	528	<b>455</b>	663
<b>Total</b>	<b>\$ 493</b>	\$ 1,282	<b>\$ 2,306</b>	\$ 1,629

During the six months ended June 30, 2016, the TDRs set forth in the table above had no change on our allowance for loan losses allocation of a related reserve, and resulted in charge-offs of \$80,000. For the same period of 2015, the TDRs set forth in the table above increased our allowance \$13,000 through the allocation of a related reserve and resulted in charge-offs of \$69,000.

---

**Table of Contents****7. REVERSE MORTGAGE LOANS**

Reverse mortgage loans are contracts in which a homeowner borrows against the equity in his/her home and receives cash in one lump sum payment, a line of credit, fixed monthly payments for either a specific term or for as long as the homeowner lives in the home, or a combination of these options. Since reverse mortgages are nonrecourse obligations, the loan repayments are generally limited to the sale proceeds of the borrower's residence and the mortgage balance consists of cash advanced, interest compounded over the life of the loan and some may include a premium which represents a portion of the shared appreciation in the home's value, if any, or a percentage of the value of the residence.

Our investment in reverse mortgages totaled \$25.3 million at June 30, 2016. The portfolio consists of 88 loans with an average borrower's age of 94 years old and there is currently significant overcollateralization in the portfolio, as the realizable collateral value (the lower of collectible principal and interest, or appraised value and annual broker price opinion of the home) of \$45.5 million exceeds the outstanding book balance at June 30, 2016. Broker price opinions are updated at least annually. Additional broker price opinions are obtained when our quarterly review indicates that a home's value has increased or decreased by at least 50% during any given period.

The carrying value of the reverse mortgages is calculated using a proprietary model that uses the income approach as described in FASB ASC 820-10, *Fair Value Measurements and Disclosure* (ASC 820-10). The model is a present value cash flow model which describes the components of a present value measurement. The model incorporates the projected cash flows of the loans (includes payouts and collections) and then discounts these cash flows using the effective yield required on the life of the portfolio to reduce the net investment to zero at the time the final reverse mortgage contract is liquidated. The inputs to the model reflect our expectations of what other market participants would use in pricing this asset in a current transaction and therefore is consistent with ASC 820 that requires an exit price methodology for determining fair value.

To determine the carrying value of these reverse mortgages as of June 30, 2016, we used the proprietary model described above and actual cash flow information to estimate future cash flows. There are three main drivers of cash flows; 1) move-out rates, 2) house price appreciation (HPA) forecasts, and 3) internal rate of return.

- 1) **Move-Out Rates** We used the actuarial estimates of contract termination provided in the United States Mortality Rates Period Life Table, 2011, published by the Office of the Actuary Social Security in 2015, adjusted for expected prepayments and relocations which we adopted during 2016.
- 2) **House Price Appreciation** We utilize house price forecasts from various market sources. Based on this information, we forecasted a 2.5% increase in housing prices during 2016 and a 2.0% increase in the following year and thereafter. We believe this forecast continues to be appropriate given the nature of reverse mortgage collateral and historical under-performance to the broad housing market. Annually, during the fourth quarter, current collateral values are updated through broker price opinions.
- 3) **Internal Rate of Return** As of June 30, 2016, the internal rate of return (IRR) of 19.62% was the effective yield required on the life of the portfolio to reduce the net investment to zero at the time the final reverse mortgage contract is liquidated.

As of June 30, 2016, the Company's actuarially estimated cash payments to reverse mortgagors are as follows:

(In thousands)

**Year Ending**

2016	\$ 398
2017	420
2018	331
2019	258
2020	200
Years 2021 - 2025	462
Years 2026 - 2030	94
Years 2031 - 2035	14
Thereafter	2
Total <sup>(1)</sup>	\$ 2,179

- (1) This table does not take into consideration cash inflow including payments from mortgagors or payoffs based on contractual terms.

**Table of Contents**

The amount of the contract value that would be forfeited if we were not to make cash payments to reverse mortgagors in the future is \$5.9 million.

The future cash flows depend on the HPA assumptions. If the future changes in collateral value were assumed to be zero, income would decrease by \$741,000 for the second quarter ended June 30, 2016 with an IRR of 18.81%. If the future changes in collateral value were assumed to be reduced by 1%, income would decrease by \$339,000 with an IRR of 19.25%.

The net present value of the projected cash flows depends on the IRR used. If the IRR increased by 1%, the net present value would increase by \$1,102,000. If the IRR decreased by 1%, the net present value would decrease by \$1,068,000.

**8. GOODWILL AND INTANGIBLES**

In accordance with FASB ASC 805, *Business Combinations* (ASC 805) and FASB ASC 350, *Intangibles-Goodwill and Other* (ASC 350), all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles are recorded at fair value.

During the six months ended June 30, 2016, we determined there were no events or other indicators of impairment as it relates to goodwill or other intangibles.

The following table shows the allocation of goodwill to our reportable operating segments for purposes of goodwill impairment testing:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Consolidated Company
<b>December 31, 2015</b>	<b>\$ 80,078</b>	<b>\$</b>	<b>\$ 5,134</b>	<b>\$ 85,212</b>
Changes in goodwill	(360)			(360)
<b>June 30, 2016</b>	<b>\$ 79,718</b>	<b>\$</b>	<b>\$ 5,134</b>	<b>\$ 84,852</b>

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



**Table of Contents**

The following table summarizes other intangible assets:

(In Thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
<b>June 30, 2016</b>			
Core deposits	\$ 10,245	\$ (5,067)	\$ 5,178
CB&T intangibles	3,142	(1,279)	1,863
Array and Arrow intangibles	2,353	(1,022)	1,331
Mortgage servicing rights	1,508	(1,013)	495
Alliance intangible assets	650	(296)	354
<b>Total intangible assets</b>	<b>\$ 17,898</b>	<b>\$ (8,677)</b>	<b>\$ 9,221</b>
<b>December 31, 2015</b>			
Core deposits	\$ 10,246	\$ (4,512)	\$ 5,734
CB&T intangibles	3,142	(1,181)	1,961
Array and Arrow intangibles	2,353	(847)	1,506
Mortgage servicing rights	1,430	(949)	481
Alliance intangible assets	511	(110)	401
<b>Total intangible assets</b>	<b>\$ 17,682</b>	<b>\$ (7,599)</b>	<b>\$ 10,083</b>

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits and either accelerated or straight-line methods of amortization. During the six months ended June 30, 2016, we recognized amortization expense on other intangible assets of \$1.0 million.

The following presents the estimated amortization expense of intangibles:

(In Thousands)	Amortization of Intangibles
Remaining in 2016	\$ 922
2017	1,577
2018	1,440
2019	1,372
2020	1,048
Thereafter	2,862
<b>Total</b>	<b>\$ 9,221</b>

**9. ASSOCIATE BENEFIT PLANS***Postretirement Benefits*

We share certain costs of providing health and life insurance benefits to eligible retired Associates and their eligible dependents. Previously, all Associates were eligible for these benefits if they reached normal retirement age while working for us. Effective March 31, 2014, we changed the eligibility of this plan to include only those Associates who have achieved ten years of service with us as of March 31, 2014. As of December 31, 2014, we began to use the mortality table issued by the Office of the Actuary of the United States Bureau of Census in October 2014 in our calculation.

We account for our obligations under the provisions of FASB ASC 715, *Compensation - Retirement Benefits* (ASC 715). ASC 715 requires that the costs of these benefits be recognized over an Associate's active working career. Amortization of unrecognized net gains or losses resulting from experience different from that assumed and from changes in assumptions is included as a component of net periodic benefit cost over the remaining service period of active employees to the extent that such gains and losses exceed 10% of the accumulated postretirement benefit obligation, as of the beginning of the year.

**Table of Contents**

The following are disclosures of the net periodic benefit cost components of postretirement benefits measured at January 1, 2016 and 2015.

(In Thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Service cost	\$ 14	\$ 14	\$ 29	\$ 29
Interest cost	19	22	38	44
Prior service cost amortization	(19)	(19)	(26)	(38)
Net gain recognition	(16)	(5)	(31)	(10)
Net periodic benefit cost	\$ (2)	\$ 12	\$ 10	\$ 25

**10. INCOME TAXES**

We account for income taxes in accordance with FASB ASC 740, *Income Taxes* (ASC 740). ASC 740 requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. We recognize, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the financial statements. Assessment of uncertain tax positions under ASC 740 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations.

There were no unrecognized tax benefits as of June 30, 2016. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2012 through 2015 tax years are subject to examination as of June 30, 2016. Pennsylvania is currently auditing our 2012 and 2013 state tax returns. We do not expect to record or realize any material unrecognized tax benefits during 2016.

As a result of the adoption of ASU No. 2014-01, *Investments-Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects*, the amortization of our low-income housing credit investments has been reflected as income tax expense. Accordingly, \$390,000 and \$780,000 of such amortization has been reflected as income tax expense for the three and six months ended June 30, 2016, respectively, compared to \$477,000 and \$971,000 for the same periods in 2015.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the six months ended June 30, 2016 were \$713,000, \$780,000 and \$189,000, respectively. The carrying value of the investment in affordable housing credits is \$11.2 million at June 30, 2016, compared to \$12.0 million at December 31, 2015.

**11. FAIR VALUE DISCLOSURES OF FINANCIAL ASSETS AND LIABILITIES**

*FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES*

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

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

**Table of Contents**

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.

The following tables present financial instruments carried at fair value as of June 30, 2016 and December 31, 2015 by valuation hierarchy (as described above):

(In Thousands)	Quoted Prices in Active Markets for Identical			Total Fair Value
	Asset (Level 1)	Observable Inputs (Level 2)	Significant Other Inputs (Level 3)	
<b>Description</b>				
<b>Assets measured at fair value on a recurring basis</b>				
<b>Available-for-sale securities:</b>				
<b>CMO</b>	\$	\$ 266,322	\$	\$ 266,322
<b>FNMA MBS</b>		347,224		347,224
<b>FHLMC MBS</b>		86,893		86,893
<b>GNMA MBS</b>		26,793		26,793
<b>GSE</b>		39,227		39,227
<b>Total assets measured at fair value on a recurring basis</b>	\$	\$ 766,459	\$	\$ 766,459
<b>Assets measured at fair value on a nonrecurring basis</b>				
<b>Other real estate owned</b>	\$	\$	\$ 2,935	\$ 2,935
<b>Loans held-for-sale</b>		32,625		32,625
<b>Impaired loans, net</b>			34,959	34,959
<b>Total assets measured at fair value on a nonrecurring basis</b>	\$	\$ 32,625	\$ 37,894	\$ 70,519

(In Thousands)	Quoted Prices in Active Markets for Identical			Total Fair Value
	Asset (Level 1)	Observable Inputs (Level 2)	Significant Other Inputs (Level 3)	
<b>Description</b>				

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

<b>Assets measured at fair value on a recurring basis</b>			
Available-for-sale securities:			
CMO	\$	\$ 251,488	\$ 251,488
FNMA MBS		318,471	318,471
FHLMC MBS		99,442	99,442
GNMA MBA		20,714	20,714
GSE		30,914	30,914
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$</b>	<b>\$ 721,029</b>	<b>\$ 721,029</b>
<b>Assets measured at fair value on a nonrecurring basis</b>			
Other real estate owned	\$	\$	\$ 5,080
Loans held-for sale		41,807	41,807
Impaired loans (collateral dependent)			35,086
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$</b>	<b>\$ 41,807</b>	<b>\$ 40,166</b>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ending June 30, 2016 and no material liabilities measured at fair value as of June 30, 2016 and December 31, 2015.

---

**Table of Contents**

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

*Available-for-sale securities*

As of June 30, 2016 securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately \$39.2 million in U.S. Treasury Notes and Federal Agency debentures, and \$727.2 million in Federal Agency MBS. We believe that this Level 2 designation is appropriate for these securities under ASC 820-10 as, with almost all fixed income securities, none are exchange traded, and all are priced by correlation to observed market data. For these securities we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors.

*Other real estate owned*

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

*Loans held-for-sale*

The fair value of our loans held-for-sale is based upon estimates using Level 2 inputs. These inputs are based upon pricing information obtained from secondary markets and brokers and applied to loans with similar interest rates and maturities.

*Impaired loans*

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

Impaired loans, which are measured for impairment by either calculating the expected future cash flows discounted at the loan's effective interest rate or determining the fair value of the collateral for collateral dependent loans has a gross

amount of \$37.1 million and \$37.7 million at June 30, 2016 and December 31, 2015, respectively. The valuation allowance on impaired loans was \$2.1 million as of June 30, 2016 and \$2.6 million as of December 31, 2015.

*FAIR VALUE OF FINANCIAL INSTRUMENTS*

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



## **Table of Contents**

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 cash equivalents*

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

### *Investment securities*

Fair value is estimated using quoted prices for similar securities, which we obtain from a third party vendor. We utilize one of the largest providers of securities pricing to the industry and management periodically assesses the inputs used by this vendor to price the various types of securities owned by us to validate the vendor's methodology.

### *Loans held-for sale*

Loans held-for-sale are carried at their fair value (see discussion earlier in the note).

### *Loans*

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

### *Reverse mortgage loans*

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 information on reverse mortgage loans, see Note 7, Reverse Mortgage Loans, to the unaudited Consolidated Financial Statements.

### *Stock in the Federal Home Loan Bank (FHLB) 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.

### *Other assets*

Other assets includes other real estate owned (see discussion earlier in this note) and our investment in Visa Class B stock. Our ownership includes shares acquired at no cost from our prior participation in Visa's network, while Visa operated as a cooperative. During 2015 and 2016 we purchased additional shares which are accounted for as non-marketable equity securities and carried at cost. We evaluated the shares carried at cost for OTTI as of June 30, 2016, and the evaluation showed no OTTI as of June 30, 2016. Following resolution of Visa's covered litigation,

shares of Visa's Class B stock will be converted to Visa Class A shares.

While only current owners of Class B shares are allowed to purchase other Class B shares, there have been several transactions between Class B shareholders. Based on these transactions we estimate the value of our Class B shares to be \$11.8 million as of June 30, 2016.

**Table of Contents***Deposits*

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

*Borrowed funds*

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

*Off-balance sheet instruments*

The fair value of off-balance sheet instruments, including commitments to extend credit and standby letters of credit, approximates the recorded net deferred fee amounts, which are not significant. Because commitments to extend credit and letters of credit are generally not assignable by either us or the borrower, they only have value to us and the borrower.

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

(In Thousands)	Fair Value Measurement	June 30, 2016		December 31, 2015	
		Book Value	Fair Value	Book Value	Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	Level 1	\$ 703,893	\$ 703,893	\$ 561,179	\$ 561,179
Investment securities available-for-sale	Level 2	766,459	766,459	721,029	721,029
Investment securities held-to-maturity	Level 2	166,398	173,032	165,862	167,743
Loans, held-for-sale	Level 2	32,625	32,625	41,807	41,807
Loans, net <sup>(1)</sup>	Level 2	3,766,281	3,752,905	3,693,964	3,637,714
Impaired loans, net	Level 3	34,959	34,959	35,086	35,086
Reverse mortgage loans	Level 3	25,263	25,263	24,284	24,284
Stock in FHLB of Pittsburgh	Level 2	37,939	37,939	30,519	30,519
Accrued interest receivable	Level 2	14,164	14,164	14,040	14,040
Other assets	Level 3	7,455	15,268	8,669	18,416
<b>Financial liabilities:</b>					
Deposits	Level 2	3,992,139	3,842,770	4,016,566	3,791,606
Borrowed funds	Level 2	1,168,802	1,172,972	932,886	933,905
Standby letters of credit	Level 3	264	264	195	195
Accrued interest payable	Level 2	2,073	2,073	801	801

<sup>(1)</sup> Excludes impaired loans, net.

At June 30, 2016 and December 31, 2015 we had no commitments to extend credit measured at fair value.



**Table of Contents**

**12. SEGMENT INFORMATION**

In accordance with FASB ASC 280, *Segment Reporting* (ASC 280) we discuss our business in three segments. An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying unaudited Consolidated Financial Statements. We have three segments: WSFS Bank, Cash Connect, and Wealth Management.

The WSFS Bank segment provides financial products to commercial and retail customers. Retail and Commercial Banking, Commercial Real Estate Lending and other banking business units are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Bank. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment in accordance with ASC 280.

Cash Connect provides ATM vault cash and smart safe and cash logistics services through strategic partnerships with several of the largest networks, manufacturers and service providers in the ATM industry. The balance sheet category Cash in non-owned ATMs includes cash from which fee income is earned through bailment arrangements with customers of Cash Connect.

The Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients through four business lines. WSFS Wealth Investments provides insurance and brokerage products primarily to our retail banking clients. Cypress Capital Management, LLC is a registered investment advisor. Cypress primary market segment is high net worth individuals, offering a balanced investment style focused on preservation of capital and current income. Christiana Trust provides fiduciary and investment services to personal trust clients, and trustee, agency, bankruptcy administration, custodial and commercial domicile services to corporate and institutional clients. WSFS Private Banking serves high net worth clients by delivering credit and deposit products and partnering with other business units to deliver investment management and fiduciary products and services.

Segment information for the three months ended June 30, 2016 and 2015 follows:

**Table of Contents**

For the three months ended June 30, 2016:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 49,492	\$	\$ 2,011	\$ 51,503
Noninterest income	10,173	8,138	6,538	24,849
<b>Total external customer revenues</b>	<b>59,665</b>	<b>8,138</b>	<b>8,549</b>	<b>76,352</b>
Inter-segment revenues:				
Interest income	1,135		1,652	2,787
Noninterest income	2,011	210	25	2,246
<b>Total inter-segment revenues</b>	<b>3,146</b>	<b>210</b>	<b>1,677</b>	<b>5,033</b>
<b>Total revenue</b>	<b>62,811</b>	<b>8,348</b>	<b>10,226</b>	<b>81,385</b>
External customer expenses:				
Interest expense	4,896		193	5,089
Noninterest expenses	34,462	4,831	4,734	44,027
Provision for loan losses	1,191		63	1,254
<b>Total external customer expenses</b>	<b>40,549</b>	<b>4,831</b>	<b>4,990</b>	<b>50,370</b>
Inter-segment expenses:				
Interest expense	1,652	628	507	2,787
Noninterest expenses	235	727	1,284	2,246
<b>Total inter-segment expenses</b>	<b>1,887</b>	<b>1,355</b>	<b>1,791</b>	<b>5,033</b>
<b>Total expenses</b>	<b>42,436</b>	<b>6,186</b>	<b>6,781</b>	<b>55,403</b>
Income before taxes	\$ 20,375	\$ 2,162	\$ 3,445	\$ 25,982
Income tax provision				8,504
<b>Consolidated net income</b>				<b>\$ 17,478</b>
Capital expenditures	\$ 2,235	\$ 404	\$ 6	\$ 2,645
<b>As of June 30, 2016:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 84,919	\$ 617,339	\$ 1,635	\$ 703,893
Goodwill	79,718		5,134	84,852
Other segment assets	4,843,166	3,419	198,777	5,045,362

Total segment assets	<b>\$ 5,007,803</b>	<b>\$ 620,758</b>	<b>\$ 205,546</b>	<b>\$ 5,834,107</b>
----------------------	---------------------	-------------------	-------------------	---------------------

**Table of Contents**

For the three months ended June 30, 2015:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 41,043	\$	\$ 2,012	\$ 43,055
Noninterest income	9,482	7,068	5,908	22,458
<b>Total external customer revenues</b>	<b>50,525</b>	<b>7,068</b>	<b>7,920</b>	<b>65,513</b>
Inter-segment revenues:				
Interest income	876		1,638	2,514
Noninterest income	1,998	214	29	2,241
<b>Total inter-segment revenues</b>	<b>2,874</b>	<b>214</b>	<b>1,667</b>	<b>4,755</b>
<b>Total revenue</b>	<b>53,399</b>	<b>7,282</b>	<b>9,587</b>	<b>70,268</b>
External customer expenses:				
Interest expense	3,822		143	3,965
Noninterest expenses	29,921	4,350	4,383	38,654
Provision for loan losses	3,610		163	3,773
<b>Total external customer expenses</b>	<b>37,353</b>	<b>4,350</b>	<b>4,689</b>	<b>46,392</b>
Inter-segment expenses				
Interest expense	1,638	389	487	2,514
Noninterest expenses	243	644	1,354	2,241
<b>Total inter-segment expenses</b>	<b>1,881</b>	<b>1,033</b>	<b>1,841</b>	<b>4,755</b>
<b>Total expenses</b>	<b>39,234</b>	<b>5,383</b>	<b>6,530</b>	<b>51,147</b>
<b>Income before taxes</b>	<b>\$ 14,165</b>	<b>\$ 1,899</b>	<b>\$ 3,057</b>	<b>\$ 19,121</b>
Income tax provision				6,887
<b>Consolidated net income</b>				<b>12,234</b>
Capital expenditures (1)	\$ 1,083	\$ 987	\$ 12	\$ 2,082
<b>As of December 31, 2015:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 65,663	\$ 493,165	\$ 2,351	\$ 561,179
Goodwill	80,078		5,134	85,212
Other segment assets	4,745,670		192,576	4,938,246



Total segment assets	\$ 4,891,411	\$ 493,165	\$ 200,061	\$ 5,584,637
----------------------	--------------	------------	------------	--------------

- (1) Capital expenditures amounts have been adjusted to correct errors that were not material to our Form 10-Q for the quarterly period ended June 30, 2015. Previously reported capital expenditures were \$299,000 for WSFS Bank, \$2,570,000 for Cash Connect, \$13,000 for Wealth Management, and \$2,882,000 for Total Consolidated Company.

**Table of Contents**

Segment information for the six months ended June 30, 2016 and 2015 follows:

**For the six months ended June 30, 2016:**

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 97,530	\$	\$ 4,019	\$ 101,549
Noninterest income	20,025	15,811	12,083	47,919
<b>Total external customer revenues</b>	<b>117,555</b>	<b>15,811</b>	<b>16,102</b>	<b>149,468</b>
Inter-segment revenues:				
Interest income	2,196		3,547	5,743
Noninterest income	4,071	403	49	4,523
<b>Total inter-segment revenues</b>	<b>6,267</b>	<b>403</b>	<b>3,596</b>	<b>10,266</b>
<b>Total revenue</b>	<b>123,822</b>	<b>16,214</b>	<b>19,698</b>	<b>159,734</b>
External customer expenses:				
Interest expense	9,393		386	9,779
Noninterest expenses	68,274	9,681	9,271	87,226
Provision for loan losses	2,006		28	2,034
<b>Total external customer expenses</b>	<b>79,673</b>	<b>9,681</b>	<b>9,685</b>	<b>99,039</b>
Inter-segment expenses:				
Interest expense	3,547	1,183	1,013	5,743
Noninterest expenses	452	1,442	2,629	4,523
<b>Total inter-segment expenses</b>	<b>3,999</b>	<b>2,625</b>	<b>3,642</b>	<b>10,266</b>
<b>Total expenses</b>	<b>83,672</b>	<b>12,306</b>	<b>13,327</b>	<b>109,305</b>
Income before taxes	\$ 40,150	\$ 3,908	\$ 6,371	\$ 50,429
Income tax provision				17,181
<b>Consolidated net income</b>				<b>\$ 33,248</b>
Capital expenditures	\$ 3,446	\$ 424	\$ 8	\$ 3,878
<b>As of June 30, 2016:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 84,919	\$ 617,339	\$ 1,635	\$ 703,893
Goodwill	79,718		5,134	84,852

Other segment assets	<b>4,843,166</b>	<b>3,419</b>	<b>198,777</b>	<b>5,045,362</b>
Total segment assets	<b>\$ 5,007,803</b>	<b>\$ 620,758</b>	<b>\$ 205,546</b>	<b>\$ 5,834,107</b>

**Table of Contents**

For the six months ended June 30, 2015:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 81,866	\$	\$ 4,040	\$ 85,906
Noninterest income	18,671	13,707	11,175	43,553
<b>Total external customer revenues</b>	<b>100,537</b>	<b>13,707</b>	<b>15,215</b>	<b>129,459</b>
Inter-segment revenues:				
Interest income	1,747		3,085	4,832
Noninterest income	3,782	382	47	4,211
<b>Total inter-segment revenues</b>	<b>5,529</b>	<b>382</b>	<b>3,132</b>	<b>9,043</b>
<b>Total revenue</b>	<b>106,066</b>	<b>14,089</b>	<b>18,347</b>	<b>138,502</b>
External customer expenses:				
Interest expense	7,734		265	7,999
Noninterest expenses	61,000	8,525	8,042	77,567
Provision for loan losses	4,343		216	4,559
<b>Total external customer expenses</b>	<b>73,077</b>	<b>8,525</b>	<b>8,523</b>	<b>90,125</b>
Inter-segment expenses:				
Interest expense	3,085	762	985	4,832
Noninterest expenses	429	1,258	2,524	4,211
<b>Total inter-segment expenses</b>	<b>3,514</b>	<b>2,020</b>	<b>3,509</b>	<b>9,043</b>
<b>Total expenses</b>	<b>76,591</b>	<b>10,545</b>	<b>12,032</b>	<b>99,168</b>
<b>Income before taxes</b>	<b>\$ 29,475</b>	<b>\$ 3,544</b>	<b>\$ 6,315</b>	<b>\$ 39,334</b>
<b>Income tax provision</b>				<b>14,211</b>
<b>Consolidated net income</b>				<b>\$ 25,123</b>
<b>Capital expenditures</b>	<b>\$ 1,580</b>	<b>\$ 1,221</b>	<b>\$ 15</b>	<b>\$ 2,816</b>
<b>As of December 31, 2015:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 65,663	\$ 493,165	\$ 2,351	\$ 561,179
Goodwill	80,078		5,134	85,212
Other segment assets	4,745,670		192,576	4,938,246

Total segment assets	\$ 4,891,411	\$ 493,165	\$ 200,061	\$ 5,584,637
----------------------	--------------	------------	------------	--------------

- (1) Capital expenditures amounts have been adjusted to correct errors that were not material to our Form 10-Q for the six month period ended June 30, 2015. Previously reported capital expenditures were \$1,116,000 for WSFS Bank, \$2,570,000 for Cash Connect, \$13,000 for Wealth Management, and \$3,699,000 for Total Consolidated Company.

---

**Table of Contents****13. INDEMNIFICATIONS AND GUARANTEES***Secondary Market Loan Sales*

Given the current interest rate environment, coupled with our desire not to hold these assets in our portfolio, we generally sell newly originated residential mortgage loans in the secondary market to mortgage loan aggregators and on a more limited basis, to GSEs such as FHLMC, FNMA, and the FHLB. Loans held-for-sale are reflected on our unaudited Consolidated Statements of Condition at fair value with changes in the value reflected in our unaudited Consolidated Statements of Cash Flows and Comprehensive Income. Gains and losses are recognized at the time of sale. We periodically retain the servicing rights on residential mortgage loans sold which result in monthly service fee income and are included in our intangible assets in our unaudited Consolidated Statements of Condition. Otherwise, we sell loans with servicing released on a nonrecourse basis. Rate-locked loan commitments that we intend to sell in the secondary market are accounted for as derivatives under the guidance promulgated in FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815).

We generally do not sell loans with recourse, except for standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, early payment default by the borrower. These are customary repurchase provisions in the secondary market for residential mortgage loan sales. These provisions may include either an indemnification from loss or the repurchase of the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no such repurchases for the six months ended June 30, 2016.

*Swap Guarantees*

We entered into agreements with four 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. These swap guarantees are accounted for as credit derivatives under ASC 815.

At June 30, 2016 there were 130 variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, compared to 119 at December 31, 2015. The initial notional aggregated amount was approximately \$504.7 million at June 30, 2016 compared to \$481.6 million at December 31, 2015. At June 30, 2016 maturities ranged from one month to over 11 years. The aggregate market value of these swaps to the customers was a liability of \$31.1 million at June 30, 2016 and \$18.1 million at December 31, 2015. There were no reserves for the swap guarantees as of June 30, 2016.

Table of Contents**14. CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income includes unrealized gains and losses on available-for-sale investments and unrecognized prior service costs on defined benefit pension plans. Changes to accumulated other comprehensive income are presented net of tax effect as a component of equity. Reclassification out of accumulated other comprehensive income is recorded on the statement of operations either as a gain or loss.

Changes to accumulated other comprehensive income by component are shown net of taxes in the following tables for the period indicated:

(In Thousands)	Net change in investment securities available-for-sale	Net change in securities held-to- maturity	Net change in defined benefit plan	Total
<b>Balance, March 31, 2016</b>	\$ 8,496	\$ 1,692	\$ 1,266	\$ 11,454
Other comprehensive income before reclassifications	4,683			4,683
Less: Amounts reclassified from accumulated other comprehensive income	(338)	(100)	(22)	(460)
Net current-period other comprehensive income (loss)	4,345	(100)	(22)	4,223
<b>Balance, June 30, 2016</b>	\$ 12,841	\$ 1,592	\$ 1,244	\$ 15,677
<b>Balance, March 31, 2015</b>	\$ 4,733	\$ 2,036	\$ 832	\$ 7,601
Other comprehensive loss before reclassifications	(6,024)			(6,024)
Less: Amounts reclassified from accumulated other comprehensive loss	(296)	(37)	(15)	(348)
Net current-period other comprehensive (loss) income	(6,320)	(37)	(15)	(6,372)
<b>Balance, June 30, 2015</b>	\$ (1,587)	\$ 1,999	\$ 817	\$ 1,229

(In Thousands)	Net change in investment securities available-for-sale	Net change in securities held-to- maturity	Net change in defined benefit plan	Total
<b>Balance, December 31, 2015</b>	\$ (1,887)	\$ 1,795	\$ 788	\$ 696
Other comprehensive income before reclassifications	15,255			15,255
Less: Amounts reclassified from accumulated other comprehensive income	(527)	(203)	456	(274)
Net current-period other comprehensive income (loss)	14,728	(203)	456	14,981

<b>Balance, June 30, 2016</b>	<b>\$ 12,841</b>	<b>\$ 1,592</b>	<b>\$ 1,244</b>	<b>\$ 15,677</b>
<b>Balance, December 31, 2014</b>	\$ 446	\$ 2,207	\$ 847	\$ 3,500
Other comprehensive loss before reclassifications	(1,457)			(1,457)
Less: Amounts reclassified from accumulated other comprehensive loss	(576)	(208)	(30)	(814)
Net current-period other comprehensive loss	(2,033)	(208)	(30)	(2,271)
<b>Balance, June 30, 2015</b>	<b>\$ (1,587)</b>	<b>\$ 1,999</b>	<b>\$ 817</b>	<b>\$ 1,229</b>





Income taxes	127	120	Income tax provision
<b>Net of tax</b>	<b>\$ (203)</b>	<b>\$ (208)</b>	
<b>Amortization of Defined Benefit Pension items:</b>			
Prior service (credits) costs	\$ (26)	\$ (37)	
Transition obligation			
Actuarial (gains) losses	762	(10)	
<b>Total before tax</b>	<b>\$ 736</b>	<b>\$ (47)</b>	<b>Salaries, benefits and other compensation</b>
Income taxes	(280)	17	Income tax provision
<b>Net of tax</b>	<b>\$ 456</b>	<b>\$ (30)</b>	
<b>Total reclassifications</b>	<b>\$ (274)</b>	<b>\$ (814)</b>	

**Table of Contents**

**15. LEGAL AND OTHER PROCEEDINGS**

As initially disclosed in 2011, we were served with a complaint, filed in the U.S. Bankruptcy Court for the Eastern District of Pennsylvania, by a bankruptcy trustee relating to a former WSFS Bank customer. The complaint challenges the Bank's actions relating to the repayment of an outstanding loan and also seeks to avoid and recover the pre-bankruptcy repayment of that loan, approximately \$5.0 million. The matter has been captioned Goldstein v. Wilmington Savings Fund Society, FSB (In re: Universal Marketing, Inc.), Chapter 7, Case No. 09-15404 (ELF), Adv. Pro. No. 11-00512.

In late June, the parties reached a tentative settlement to resolve the case, subject to court approval. As part of the proposed settlement, WSFS will pay \$1.450 million in exchange for full releases. Based upon the high probability of settlement, we have reserved for the full amount of the payment as of June 30, 2016.

Four purported shareholder derivative and class action complaints relating to the October 2015 merger with Alliance were filed during the quarter ended June 30, 2015. These actions were consolidated under the caption In re: Alliance Bancorp, Inc. of Pennsylvania Derivative and Class Action Litigation, Court of Common Pleas of Delaware County, Pennsylvania, Consol. Action Lead Case No. 2015-3606 (Civil Div.) (the Alliance Action). The complaint named as defendants Alliance Bancorp, Inc. of Pennsylvania, its directors and certain of its officers, and the Company (the Defendants). On July 7, 2016, the Court approved a stipulation of settlement of this matter which included the payment of \$335,000 in legal fees for counsel to the Plaintiffs. These legal fees are to be paid by the Company's insurers and will not have a material impact on the Company's consolidated statement of operations or statement of condition.

Additionally, in 2013 a regulatory inquiry commenced into the registered transfer agent ( RTA ) activities of WSFS, as successor to Christiana Bank & Trust. As a result of issues arising from that inquiry, WSFS revamped Christiana Trust's RTA policies and procedures and remediated all identified deficiencies. We have included the estimated financial liability from the expected resolution of this inquiry, which is not material, in our Consolidated Financial Statements as of June 30, 2016.

From time-to-time we are brought into certain legal matters and/or disputes through our Wealth Management segment, as a result of sometimes highly complex documents and servicing requirements that are part of this business. While the outcomes carry some degree of uncertainty, management does not currently anticipate that the ultimate liability, if any, arising out of such other proceedings we are aware of, will have a material effect on the Consolidated Financial Statements.

There were no material changes or additions to other significant pending legal or other proceedings involving us other than those arising out of routine operations.

**16. SUBSEQUENT EVENTS**

We reviewed subsequent events and determined that no further disclosures or measurements were required.

---

**Table of Contents**

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

**OVERVIEW**

The Company is a savings and loan holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by the Company's subsidiary, Wilmington Savings Fund Society, FSB, or WSFS Bank, the seventh oldest bank and trust company continuously operating under the same name in the United States. At \$5.8 billion in assets and \$13.4 billion in fiduciary assets, WSFS Bank is also the largest bank and trust company headquartered in the Delaware Valley. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader fiduciary powers than most other types of financial institutions. A fixture in the community, the Bank has been in operation for more than 184 years. In addition to its focus on stellar customer service, the Bank has continued to fuel growth and remains a leader in our community. We are a relationship-focused, locally-managed, community banking institution. We state our mission simply: We Stand for Service. Our strategy of Engaged Associates delivering Stellar Experiences growing Customer Advocates and value for our Owners focuses on exceeding customer expectations, delivering stellar service and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a \$3.2 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering the high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits. As of June 30, 2016, we service our customers primarily from our 63 offices located in Delaware (44), Pennsylvania (17), Virginia (1) and Nevada (1) and through our website at [www.wsfsbank.com](http://www.wsfsbank.com). We also offer a broad variety of consumer loan products, retail securities and insurance brokerage through our retail branches and mortgage and title services through those branches and through Pennsylvania-based WSFS Mortgage. WSFS Mortgage is a mortgage banking company specializing in a variety of residential mortgage and refinancing solutions.

On November 23, 2015, we announced the signing of an Agreement and Plan of Reorganization with Penn Liberty Financial Corp. (Penn Liberty) whereby Penn Liberty will merge into the Company and Penn Liberty Bank, a Pennsylvania chartered bank and wholly owned subsidiary of Penn Liberty will merge into WSFS Bank. The company has obtained all required approvals to acquire Penn Liberty including Penn Liberty shareholder approval and regulatory approvals. The acquisition is subject to customary closing conditions and is expected to close in August 2016.

The Cash Connect segment is a premier provider of ATM Vault Cash and smart safe and cash logistics in the United States. It manages over \$700 million in vault cash in over 18,000 non-bank ATMs nationwide and provides related services such as online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing equipment sales and deposit safe cash logistics. Cash Connect also operates 445 ATMs for the Bank, which has the largest branded ATM network in Delaware.

As a provider of ATM Vault Cash to the U.S. ATM industry, Cash Connect is exposed to substantial operational risk, including theft of cash from ATMs, armored vehicles, or armored carrier terminals, as well as general risk of accounting errors or fraud. This risk is managed through a series of financial controls, automated tracking and settlement systems, contracts, and other risk mitigation strategies, including both loss prevention and loss recovery strategies. Throughout its 16-year history, Cash Connect periodically has been exposed to theft through theft from armored courier companies and consistently has been able to recover losses through its risk management strategies.

The Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients through four businesses. WSFS Wealth Investments provides insurance and brokerage products primarily to our retail banking clients. Cypress is a registered investment advisor with approximately \$649 million in assets under management. Cypress primary market segment is high net worth individuals and offers a balanced investment style focused on preservation of capital and providing for current income. Christiana Trust, with \$12.7 billion in assets under management and administration, provides fiduciary and investment services to personal trust clients, and trustee, agency, bankruptcy, custodial and commercial domicile services to corporate and institutional clients. WSFS Private Banking serves high net worth clients by delivering credit and deposit products and partnering with other business units to deliver investment management and fiduciary products and services.

The Company has two consolidated subsidiaries, WSFS Bank and Cypress, and one unconsolidated subsidiary, WSFS Capital Trust III. WSFS Bank has three wholly-owned subsidiaries, WSFS Wealth Investments, 1832 Holdings, Inc. and Monarch Entity Services LLC.

---

**Table of Contents****FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains estimates, predictions, opinions, projections and other forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to the Company's predictions or expectations of future business or financial performance as well as its goals and objectives for future operations, financial and business trends, business prospects, and management's outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words such as believe, expect, anticipate, intend, target, estimate, continue, positions, potential, by future conditional verbs such as will, would, should, could or may, or by variations of such words or similar expressions. Such forward-looking statements are based on various assumptions (some of which may be beyond the Company's control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to, those related to difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which the Company operates and in which its loans are concentrated, including the effects of declines in housing markets, an increase in unemployment levels and slowdowns in economic growth; the Company's level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs; changes in market interest rates may increase funding costs and reduce earning asset yields thus reducing margin; the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of the Company's investment securities portfolio; the credit risk associated with the substantial amount of commercial real estate, construction and land development, and commercial and industrial loans in our loan portfolio; the extensive federal and state regulation, supervision and examination governing almost every aspect of the Company's operations including the changes in regulations affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations being issued in accordance with this statute and potential expenses associated with complying with such regulations; possible additional loan losses and impairment of the collectability of loans; the Company's ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations; any impairment of the Company's goodwill or other intangible assets; failure of the financial and operational controls of the Company's Cash Connect division; conditions in the financial markets that may limit the Company's access to additional funding to meet its liquidity needs; the success of the Company's growth plans, including the successful integration of past and future acquisitions; the Company's ability to complete the pending merger with Penn Liberty on the terms and conditions proposed which are subject to a number of conditions, risks and uncertainties delay in closing the merger, difficulties and delays in integrating the Penn Liberty business or fully realizing cost savings and other benefits of the merger, Penn Liberty's customer acceptance of the Company's products and services and related customer disintermediation; negative perceptions or publicity with respect to the Company's trust and wealth management business; system failure or cybersecurity breaches of the Company's network security; the Company's ability to recruit and retain key employees; the effects of problems encountered by other financial institutions that adversely affect the Company or the banking industry generally; the effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes as well as effects from geopolitical instability and man-made disasters including terrorist attacks; possible changes in the speed of loan prepayments by the Company's customers and loan origination or sales volumes; possible acceleration of prepayments of mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on prepayments on mortgage-backed securities due to low interest rates; regulatory limits on the Company's ability to receive dividends from its subsidiaries and pay dividends to its shareholders; the effects of any reputational, credit, interest rate, market, operational, legal, liquidity, regulatory and compliance risk resulting from developments related to any of the risks discussed above; and the costs associated with resolving any problem

loans, litigation and other risks and uncertainties, discussed in the Company's Form 10-K for the year ended December 31, 2015 and other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward looking statements are as of the date they are made, and the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

**Table of Contents**

**CRITICAL ACCOUNTING POLICIES**

The preparation of the unaudited Consolidated Financial Statements in accordance with U.S. GAAP, requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those used to determine the allowance for loan losses, investment in reverse mortgages, deferred taxes, fair value measurements, goodwill and other intangible assets. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Although our current estimates contemplate current economic conditions and how we expect them to change in the future, for the remainder of 2016, it is reasonably possible that actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Actual results may differ from these estimates under different assumptions or conditions.

See further discussion of these critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 1, Basis of Presentation, to the unaudited Consolidated Financial Statements.

**FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY**

**Financial Condition**

Our total assets increased \$249.5 million, or 4%, to \$5.8 billion during the six months ended June 30, 2016. Included in this increase was a \$142.7 million, or 25% increase in cash and cash equivalents, a \$72.2 million, or 2%, increase in net loans, and a \$46.0 million, or 5%, increase in investment securities. Partially offsetting this increase was a \$9.4 million decrease in other assets and a \$2.1 million decrease in assets acquired through foreclosure.

Total liabilities increased \$212.7 million, or 4%, to \$5.2 billion during the six months ended June 30, 2016. This increase was primarily the result of an increase in FHLB advances of \$217.3 million, or 32%. The increase in FHLB advances was due to loan growth and ongoing portfolio management. This increase was partially offset by a decrease of \$2.7 million in other borrowed funds.

**Capital Resources**

During the first quarter of 2015, the WSFS Board of Directors declared a three-for-one stock split of our common stock in the form of a stock dividend. On May 4, 2015, stockholders approved an increase in the authorized shares of common stock from 20.0 million to 65.0 million. The stock dividend was paid on May 18, 2015 to stockholders of record as of May 4, 2015.

During the second quarter of 2016, WSFS issued \$100.0 million in aggregate principal amount of 4.50% Fixed-to-Floating Rate Senior Notes due 2026. The Company intends to use the net proceeds from the offering for general corporate purposes, including financing organic growth, acquisitions, repurchases of common stock and redemption of outstanding indebtedness.

In the second quarter of 2016, WSFS repurchased 57,500 shares of common stock at an average price of \$35.40 as part of our 5% buyback program approved by the Board of Directors during the fourth quarter of 2015. WSFS has 1,041,194 shares, or over 3% of outstanding shares, remaining to repurchase under this current authorization.



Stockholders' equity increased \$36.7 million between December 31, 2015 and June 30, 2016. This increase was primarily due to net income of \$33.2 million during the six months ended June 30, 2016 combined with an increase in the value of our available-for-sale securities portfolio. Partially offsetting these increases was the payment of common stock dividends and stock buybacks during the quarter.

**Table of Contents**

Below is a table comparing the Bank and the Company's consolidated capital position to the minimum regulatory requirements as of June 30, 2016:

(In Thousands)	Consolidated Bank Capital		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Total Capital (to Risk-Weighted Assets)</b>						
Wilmington Savings Fund Society, FSB	\$ 629,945	13.05%	\$ 386,099	8.00%	\$ 482,624	10.00%
WSFS Financial Corporation	618,107	12.79	386,620	8.00	483,275	10.00
<b>Tier 1 Capital (to Risk-Weighted Assets)</b>						
Wilmington Savings Fund Society, FSB	591,492	12.26	289,574	6.00	386,099	8.00
WSFS Financial Corporation	579,654	11.99	289,965	6.00	386,620	8.00
<b>Common Equity Tier 1 Capital (to Risk-Weighted Assets)</b>						
Wilmington Savings Fund Society, FSB	591,492	12.26	217,181	4.50	313,706	6.50
WSFS Financial Corporation	515,205	10.66	217,474	4.50	314,129	6.50
<b>Tier 1 Leverage Capital</b>						
Wilmington Savings Fund Society, FSB	591,492	10.48	225,653	4.00	282,066	5.00
WSFS Financial Corporation	579,654	10.27	225,758	4.00	282,197	5.00

Book value per share of common stock was \$20.89 at June 30, 2016, an increase of \$0.65, or 3% from \$20.24 at March 31, 2016. Tangible common book value per share of common stock (a non-GAAP financial measure) was \$17.70 at June 30, 2016, an increase of \$0.66, or 4%, from \$17.04 at March 31, 2016. For a reconciliation of tangible common book value per share to book value per share in accordance with GAAP, see Reconciliation of Non-GAAP Measurement to GAAP.

Regulators have established five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized. A depository institution's capital tier depends upon its capital levels in relation to various relevant capital measures, which include leveraged and risk-based capital measures and certain other factors. Depository institutions that are not classified as well-capitalized are subject to various restrictions regarding capital distributions, payment of management fees, acceptance of brokered deposits and other operating activities.

Regulatory capital requirements for the Bank and the Company include a minimum common equity Tier 1 capital ratio of 4.50% of risk-weighted assets, a Tier 1 capital ratio of 6.00% of risk-weighted assets, a minimum Total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets.

Not included in the Bank's capital, the Company separately held \$137.8 million in cash to support share repurchases, potential dividends, acquisitions, strategic growth plans and other general corporate purposes.

As of June 30, 2016, the Bank and the Company were in compliance with regulatory capital requirements and exceeded the amounts required to be considered well capitalized as defined in the regulations.

**Liquidity**

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

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

**Table of Contents**

During the six months ended June 30, 2016, cash and cash equivalents increased \$142.7 million to \$703.9 million from \$561.2 as of December 31, 2015. This increase included increased cash in non-owned ATMs as a result of growth in Cash Connect (ATM division) as well as a \$217.3 million increase in FHLB advances, a \$2.4 million increase in brokered deposits, and a \$29.7 million increase in retained earnings primarily due to net income for the six months ended June 30, 2016. These increases were partially offset by a \$63.0 million increase in net loans and a \$45.4 million increase in investment securities, available-for-sale.

**NONPERFORMING ASSETS**

Nonperforming assets include nonaccruing loans, nonperforming real estate, assets acquired through foreclosure and restructured commercial, 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 defined as loans contractually past due 90 days or more as to principal or interest payments but which remain in accrual status because they are considered well secured and in the process of collection.

The following table shows our nonperforming assets and past due loans at the dates indicated:

(In Thousands)	June 30, 2016	December 31, 2015
Nonaccruing loans:		
Commercial	\$ 2,054	\$ 5,328
Owner-occupied commercial	838	1,091
Consumer	4,244	4,133
Commercial mortgages	1,622	3,326
Residential mortgages	5,823	7,287
Construction		
Total nonaccruing loans	14,581	21,165
Assets acquired through foreclosure	2,935	5,080
Troubled debt restructuring (accruing)	14,070	13,647
Total nonperforming assets	\$ 31,586	\$ 39,892
Past due loans: <sup>(1)</sup>		
Residential mortgages	\$ 416	\$ 251
Consumer	219	252
Commercial and commercial mortgages	85	17,529
Total past due loans	\$ 720	\$ 18,032

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Ratio of allowance for loan losses to total loans <sup>(2)</sup>	<b>0.98%</b>	0.99%
Ratio of nonaccruing loans to total loans <sup>(2)</sup>	<b>0.38</b>	0.56
Ratio of nonperforming assets to total assets	<b>0.54</b>	0.71
Ratio of loan loss allowance to nonaccruing loans	<b>258.87</b>	175.27
Ratio of loan loss allowance to total nonperforming assets	<b>1.20</b>	0.93

(1) Accruing loans only which includes acquired nonimpaired loans. Nonaccruing TDR s are included in their respective categories of nonaccruing loans.

(2) Total loans exclude loans held for sale.

Nonperforming assets decreased \$8.3 million between December 31, 2015 and June 30, 2016. As a result, nonperforming assets as a percentage of total assets decreased from 0.71% at December 31, 2015 to 0.54% at June 30, 2016. This decrease is due to significant collections and workout activity. One relationship in particular accounted for \$3.4 million of the reduction through a combination of charge-offs and refinance of \$2 million after the sale of the company. During the first six months of 2016, assets acquired through foreclosure decreased by \$2.1 million as a result of sales of existing REO properties during the period.

**Table of Contents**

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

(In Thousands)	<b>For the Six Months Ended June 30, 2016</b>	<b>For the Year Ended December 31, 2015</b>
Beginning balance	\$ 39,892	\$ 52,385
Additions	4,602	12,897
Collections	(10,248)	(14,167)
Transfers to accrual	(287)	(95)
Charge-offs, net	(2,373)	(11,128)
Ending balance	\$ 31,586	\$ 39,892

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

**INTEREST RATE SENSITIVITY**

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. We regularly review our interest rate sensitivity and adjust the sensitivity within acceptable tolerance ranges. At June 30, 2016, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by \$129.7 million. Our interest-sensitive liabilities as a percentage of interest-sensitive assets within the one-year window increased from 103.9% at December 31, 2015 to 104.5% at June 30, 2016. Likewise, the one-year interest-sensitive gap as a percentage of total assets increased slightly to 2.22% at June 30, 2016 from 1.96% at December 31, 2015. The low rate level of sensitivity reflects our continuing efforts 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 our lending, investing, and funding activities. To that end, we actively monitor and manage our interest rate risk exposure. One measure, required to be performed by federal regulation, measures the impact of an immediate change in interest rates in 100 basis point increments on the economic value of equity ratio. The economic value of the equity ratio is defined as the economic value of the estimated cash flows from assets and liabilities as a percentage of economic value of cash flows from total assets.

The following table shows the estimated impact of immediate changes in interest rates on our net interest margin and economic value of equity ratio at the specified levels at June 30, 2016 and December 31, 2015:

% Change in	<b>June 30, 2016</b>	December 31, 2015
-------------	----------------------	-------------------

Interest Rate (Basis Points)	% Change in Net Interest Margin (1)	Economic Value of Equity (2)	% Change in Net Interest Margin (1)	Economic Value of Equity (2)
+300	5%	13.94%	6%	13.96%
+200	3%	13.86%	3%	13.99%
+100	%	13.49%	%	13.81%
	%	12.85%	%	13.56%
-100	%	11.73%	-1%	12.72%
-200 <sup>(3)</sup>	NMF	NMF	NMF	NMF
-300 <sup>(3)</sup>	NMF	NMF	NMF	NMF

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

**Table of Contents**

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

**COMPARISON OF THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

**Results of Operations**

We recorded net income of \$17.5 million, or \$0.58 per diluted common share, for the three months ended June 30, 2016, a \$5.3 million, or 43% increase from the \$12.2 million, or \$0.43 per share, recorded for the three months ended June 30, 2015. The increase in net income reflected both strong organic and acquisition growth of our business. Net interest income increased by \$7.3 million in the quarter ending June 30, 2016 as compared to the same period last year, due to growth in our loan portfolio, an improved balance sheet mix and the positive purchase accounting impacts from recent acquisitions. Also favorably impacting earnings for the second quarter of 2016 was a \$2.4 million increase in noninterest income due primarily to organic growth in our Cash Connect and Wealth Management segments. Partially offsetting these increases was a \$5.4 million increase in noninterest expenses primarily due to higher salary expense, benefits and operating costs due to our significant organic and acquisition growth and higher legal fees for our Wealth Management segment, including \$950,000 related to a legal settlement during the second quarter of 2011.

Net income for the first six months of 2016 was \$33.2 million, or \$1.10 per diluted common share, compared to \$25.1 million, or \$0.88 per share, for the first six months of 2015. Net interest income increased \$13.9 million from the prior year as a result of growth in loan portfolio, due to organic growth and the acquisition of Alliance Bank in the third quarter of 2015. Additionally, noninterest income increased \$4.4 million from the prior period due to continued growth in our banking related businesses of Wealth Management and Cash Connect. Partially offsetting these increases was a \$9.6 million increase in noninterest expenses mainly due to growth in the Company and the related infrastructure.



**Table of Contents****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:

	<b>Three Months Ended June 30,</b>					
	<b>2016</b>			<b>2015</b>		
	<b>Average Balance</b>	<b>Interest</b>	<b>Yield/ Rate (1)</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Yield/ Rate (1)</b>
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans (2) (3):						
Commercial real estate loans	\$ 1,207,324	\$ 14,952	4.98%	\$ 1,002,843	\$ 11,803	4.71%
Residential real estate loans (4)	278,418	3,146	4.52	255,302	2,510	3.93
Commercial loans	2,016,975	22,333	4.49	1,733,950	19,090	4.44
Consumer loans	367,769	4,074	4.46	327,581	3,687	4.51
<b>Total loans</b>	<b>3,870,486</b>	<b>44,505</b>	<b>4.64</b>	<b>3,319,676</b>	<b>37,090</b>	<b>4.49</b>
Mortgage-backed securities (5) (6)	727,359	3,910	2.15	751,006	3,523	1.88
Investment securities (5) (6)	205,944	1,226	3.48	153,742	852	3.19
Reverse mortgages (5) (6)	25,273	1,478	23.39	26,931	1,166	17.32
Other interest-earning assets	32,465	384	4.73	28,715	424	5.92
<b>Total interest-earning assets</b>	<b>4,861,527</b>	<b>51,503</b>	<b>4.32</b>	<b>4,280,070</b>	<b>43,055</b>	<b>4.08</b>
Allowance for loan losses	(37,351)			(39,924)		
Cash and due from banks	96,784			88,124		
Cash in non-owned ATMs	510,684			413,977		
Bank-owned life insurance	91,310			76,774		
Other noninterest-earning assets	207,305			151,506		
<b>Total assets</b>	<b>\$ 5,730,259</b>			<b>\$ 4,970,527</b>		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 784,507	\$ 254	0.13%	\$ 689,773	\$ 158	0.09%
Money market	1,100,449	787	0.29	916,666	596	0.26
Savings	436,929	113	0.10	414,001	54	0.05
Customer time deposits	550,661	750	0.55	450,997	855	0.76
<b>Total interest-bearing customer deposits</b>	<b>2,872,546</b>	<b>1,904</b>	<b>0.27</b>	<b>2,471,437</b>	<b>1,663</b>	<b>0.27</b>
Brokered certificates of deposit	231,509	300	0.52	200,940	162	0.32
<b>Total interest-bearing deposits</b>	<b>3,104,055</b>	<b>2,204</b>	<b>0.29</b>	<b>2,672,377</b>	<b>1,825</b>	<b>0.27</b>

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

FHLB of Pittsburgh advances	<b>714,271</b>	<b>1,124</b>	<b>0.63</b>	636,327	751	0.47
Trust preferred borrowings	<b>67,011</b>	<b>397</b>	<b>2.38</b>	67,011	339	2.03
Senior Debt	<b>74,114</b>	<b>1,175</b>	<b>6.34</b>	55,000	941	6.84
Other borrowed funds (7)	<b>135,017</b>	<b>189</b>	<b>0.56</b>	128,126	109	0.34
Total interest-bearing liabilities	<b>4,094,468</b>	<b>5,089</b>	<b>0.50</b>	3,558,841	3,965	0.45
Noninterest-bearing demand deposits	<b>981,033</b>			863,241		
Other noninterest-bearing liabilities	<b>48,543</b>			39,483		
Stockholders equity	<b>606,215</b>			508,962		
Total liabilities and stockholders equity	<b>\$ 5,730,259</b>			\$ 4,970,527		
Excess of interest-earning assets over interest-bearing liabilities	<b>\$ 767,059</b>			\$ 721,229		
Net interest and dividend income		<b>\$ 46,414</b>			<b>\$ 39,090</b>	
Interest rate spread			<b>3.82%</b>			<b>3.63%</b>
Net interest margin (8)			<b>3.90%</b>			<b>3.71%</b>

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes residential mortgage loans HFS.
- (5) Includes securities available-for-sale at fair value.
- (6) Average Balances and related yield are calculated using the fair value of available-for-sale securities.
- (7) Includes federal funds purchased and securities sold under agreement to repurchase.
- (8) Beginning in 2015, the annualization method used to calculate net interest margin was changed to actual/actual from 30/360. All net interest margin calculations were updated to reflect this change.

**Table of Contents**

	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans (2) (3):						
Commercial real estate loans	\$ 1,200,017	\$ 29,232	4.90%	\$ 979,392	\$ 23,027	4.70%
Residential real estate loans (8)	282,634	6,326	4.48	252,473	4,925	3.90
Commercial loans	1,993,828	44,297	4.51	1,717,540	38,128	4.47
Consumer loans	364,405	8,167	4.51	326,521	7,254	4.48
Total loans	3,840,884	88,022	4.63	3,275,926	73,334	4.50
Mortgage-backed securities (4) (6)	719,356	7,804	2.17	737,090	6,956	1.89
Investment securities (4)	204,804	2,446	3.50	155,873	1,712	3.17
Reverse mortgages (4) (5) (6)	25,205	2,523	20.02	27,588	2,402	17.41
Other interest-earning assets	31,512	754	4.79	30,161	1,502	10.04
Total interest-earning assets	4,821,761	101,549	4.30	4,226,638	85,906	4.15
Allowance for loan losses	(37,448)			(39,799)		
Cash and due from banks	95,189			78,736		
Cash in non-owned ATMs	481,570			413,977		
Bank-owned life insurance	91,208			76,774		
Other noninterest-earning assets	211,475			149,889		
Total assets	\$ 5,663,755			\$ 4,906,215		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 775,358	\$ 499	0.13%	\$ 681,918	\$ 310	0.09%
Money market	1,099,522	1,537	0.28	896,084	1,134	0.26
Savings	440,375	251	0.11	411,293	106	0.05
Customer time deposits	562,541	1,495	0.53	470,429	1,903	0.82
Total interest-bearing customer deposits	2,877,796	3,782	0.26	2,459,724	3,453	0.28
Brokered certificates of deposit	199,242	540	0.55	190,835	314	0.33
Total interest-bearing deposits	3,077,038	4,322	0.28	2,650,559	3,767	0.29
FHLB of Pittsburgh advances	694,259	2,172	0.63	623,711	1,464	0.47
Trust preferred borrowings	67,011	768	2.30	67,011	666	2.00
Senior Debt	64,557	2,117	6.56	55,000	1,883	6.85
Other borrowed funds (9)	145,014	400	0.55	127,727	219	0.34
Total interest-bearing liabilities	4,047,879	9,779	0.49	3,524,008	7,999	0.46

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Noninterest-bearing demand deposits	<b>965,320</b>	837,447
Other noninterest-bearing liabilities	<b>51,424</b>	40,052
Stockholders equity	<b>599,132</b>	504,708
Total liabilities and stockholders equity	<b>\$ 5,663,755</b>	\$ 4,906,215
Excess of interest-earning assets over interest-bearing liabilities	<b>\$ 773,882</b>	\$ 702,630
Net interest income	<b>\$ 91,770</b>	\$ 77,907
Interest rate spread	<b>3.81%</b>	3.69%
Net interest margin	<b>3.89%</b>	3.76%

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.
- (6) Average balances and related yield are calculated using fair value of available-for-sale securities.
- (7) Represents loans held for sale in conjunction with asset disposition strategies.
- (8) Includes residential mortgage loans HFS.
- (9) Includes bonds payable related to the reverse mortgage securitization trust consolidation.

## **Table of Contents**

During the three months ended June 30, 2016, net interest income increased \$7.3 million, or 19% from the three months ended June 30, 2015, and the net interest margin was 3.90%, a 19 basis point increase compared to 3.71% for the second quarter of 2015. These year-over-year increases in margin dollars and percentages reflect the impact of organic and acquisition growth, continued pricing discipline while improving balance sheet mix and positive performance of purchased loans and reverse mortgages.

The net interest margin for the six months ended June 30, 2016 was 3.89%, compared to 3.76% for the same period in 2015, a 13 basis point increase. The six months ended June 30, 2015 included an \$808,000 special FHLB dividend which added 4 basis points to the net interest margin. Compared to the six months ended June 30, 2015, net interest income increased \$13.9 million, or 18% in the six months ended June 30, 2016. In addition, and similar to the quarterly discussion above, the increase in net interest margin and income reflects improvement due to increases in higher yielding loans and deposit pricing management.

### **Provision/Allowance for Loan Losses**

We maintain an allowance for loan losses at an appropriate level based on our assessment of estimable and probable losses in the loan portfolio, pursuant to GAAP, which is discussed in *Nonperforming Assets*. Our evaluation is based upon a review of the portfolio and requires significant, complex and difficult judgments. For the six months ended June 30, 2016 and 2015, we recorded a provision for loan losses of \$2.0 million and \$4.6 million, respectively.

Our allowance for loan losses is based on the inherent risk of our loans and various other factors including but not limited to, collateral values, trends in asset quality, level of delinquent loans and concentrations. In addition, regional economic conditions are taken into consideration. The allowance for loan losses of \$37.7 million at June 30, 2016 increased slightly from \$37.1 million at December 31, 2015, and reflects continued strong credit quality metrics in our loan portfolio, with most metrics at or near their historic lows. The ratio of allowance for loan losses to total gross loans was 0.98% at both June 30, 2016 and December 31, 2015. The allowance for loan losses and provision reflect the following:

Total net loans increased \$63.0 million at June 30, 2016 when compared to December 31, 2015.

Total loan delinquency decreased to 0.64% as of June 30, 2016, compared to 1.17% as of December 31, 2015.

Net charge-offs were \$1.4 million for the six months ended June 30, 2016 compared to \$3.1 million for the six months ended June 30, 2015.

Total nonperforming assets declined \$8.3 million to \$31.6 million during the six months ended June 30, 2016.

**Table of Contents**

The table below represents a summary of changes in the allowance for loan losses for the six months ended June 30, 2016 and 2015, respectively.

(In Thousands)	For the Six Months Ended June 30,	
	2016	2015
Beginning balance	\$ 37,089	\$ 39,426
Provision for loan losses	2,034	4,559
Charge-offs:		
Commercial	906	2,037
Owner-occupied commercial	141	597
Commercial real estate	78	4
Construction	29	
Residential real estate	29	267
Consumer	1,129	755
Overdrafts	320	316
Total charge-offs	2,632	3,976
Recoveries:		
Commercial	334	114
Owner-occupied commercial	51	22
Commercial real estate	113	69
Construction	46	160
Residential real estate	79	37
Consumer	472	258
Overdrafts	160	176
Total recoveries	1,255	836
Net charge-offs	1,377	3,140
Ending balance	\$ 37,746	\$ 40,845
Net charge-offs to average gross loans outstanding, net of unearned income <sup>(1)</sup>	0.07%	0.19%

<sup>(1)</sup> Ratios for the six months ended June 30, 2016 and 2015 are annualized.

**Noninterest (fee) Income**

During the second quarter of 2016, the company earned fee income of \$24.9 million, an increase of \$2.4 million, or 11%, compared to \$22.5 million in the second quarter of 2015. Excluding net security gains in both periods, fee income increased \$2.3 million, or 11%. This increase is a result of continued organic growth in the Cash Connect and Wealth Management segments, including increases of \$791,000 in credit/debit card and ATM income and \$575,000 in

investment management and fiduciary revenue. Compared to the first quarter of 2016, fee income (excluding securities gains in both periods) increased \$1.5 million, or 7% (not annualized). Key growth drivers included an increase of \$1.0 million in investment management and fiduciary revenue driven by seasonal client tax return preparation fees, an increase in credit/debit card and ATM income of \$352,000, and an increase in mortgage banking activities of \$162,000.

For the six months ended June 30, 2016, the company earned fee income of \$48.0 million, an increase of 10% compared to the \$43.6 million of fee income for the six months ended June 30, 2015. This overall increase reflects organic growth in the Wealth Management and the Cash Connect segments. The increase in fee income included increases in credit/debit card ATM income of \$1.7 million, investment management and fiduciary revenue of \$736,000, and deposit service charges of \$614,000.

### **Noninterest Expense**

Noninterest expense for the second quarter of 2016 was \$44.0 million, an increase of \$5.3 million, or 14%, from \$38.7 million in the second quarter of 2015. Excluding corporate development costs in both periods, noninterest expense increased \$5.5 million compared to the second quarter of 2015. This increase included a \$3.2 million increase in salary expense, benefits and other compensation to support our significant organic and acquisition growth, and a \$1.2 million increase in professional fees primarily due to higher legal fees in our Wealth Management segment, including \$950,000 related to the settlement of a legal matter initiated in 2011. In addition, the acquisition of Alliance during the third quarter of 2015 drove a \$1.4 million increase in operating costs during the second quarter of 2016 compared to the second quarter of 2015.

**Table of Contents**

For the six months ended June 30, 2016, noninterest expense was \$87.2 million, an increase of \$9.6 million, or 12%, from \$77.6 million at June 30, 2015. During the six months ending June 30, 2016, professional fees increased \$2.1 million, primarily due to higher legal fees in our Wealth Management segment. Year-over-year expense growth also included increases in salary expense and benefits, and other compensation expense of \$5.0 million. The addition of the Alliance franchise contributed \$3.2 million to higher year-over-year ongoing operating costs.

**Income Taxes**

We and our subsidiaries file a consolidated federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded an income tax expense of \$8.5 million and \$17.2 million during the three months and six months ended June 30, 2016, respectively, compared to an income tax expense of \$6.9 million and \$14.2 million for the same periods in 2015.

Our effective tax rate was 32.7% and 34.1% for the three and six months ended June 30, 2016, respectively, compared to 36.0% and 36.1% during the same periods in 2015. The reduction in the effective tax rate is due to lower nondeductible acquisition costs in the 2016 periods combined with increased tax-exempt income. The effective tax rates in 2016 were also positively impacted by the \$688,000 tax benefit associated with the adoption of ASU No. 2016-09 as more fully discussed in Note 1, Recent Accounting Pronouncements.

The effective tax rate reflects the recognition of certain tax benefits in the financial statements including those benefits from tax-exempt interest income, federal low-income housing tax credits, and BOLI income. These tax benefits are offset by the tax effect of stock-based compensation expense related to incentive stock options, nondeductible acquisition costs 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.

**RECONCILIATION OF NON-GAAP MEASUREMENT TO GAAP**

The following table provides a reconciliation of tangible common book value per share of common stock to book value per share of common stock, the most directly comparable GAAP financial measure. We believe this measure is important to management and investors to better understand and assess changes from period to period in stockholders equity exclusive of changes in intangible assets.

(In Thousands, except for value per share amounts)	June 30, 2016	December 31, 2015
<b><u>Tangible Common Book Value per Share of Common Stock</u></b>		
End of period balance sheet data:		
<b>Stockholders equity</b>	<b>\$ 617,196</b>	\$ 580,471
Goodwill and other intangible assets	<b>(94,073)</b>	(95,295)
<b>Tangible common equity (numerator)</b>	<b>\$ 523,123</b>	\$ 485,176
<b>Shares of common stock outstanding (denominator)</b>	<b>29,549</b>	29,763



<b>Book value per share of common stock</b>	<b>\$ 20.89</b>	<b>\$ 19.50</b>
Goodwill and other intangible assets	(3.19)	(3.20)
<b>Tangible book value per share of common stock</b>	<b>\$ 17.70</b>	<b>\$ 16.30</b>

---

**Table of Contents****RECENT LEGISLATION****General**

As a federally chartered savings institution the Bank is subject to regulation by the FHFA, an independent agency in the executive branch of the U.S. government, the FDIC, the Federal Reserve and the OCC (collectively, the Federal banking agencies). The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OCC periodically examines the Bank for compliance with regulatory requirements. The FDIC also has the authority to conduct special examinations of the Bank. The Bank must file reports with the OCC describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the FHFA and the Federal Reserve.

**CEO pay ratio disclosure**

On August 5, 2015, the SEC adopted a new rule requiring public companies to disclose the CEO's annual total compensation, the annual total compensation of the company's median employee, and the ratio of these two amounts in certain SEC Filings that require executive compensation information. With certain exceptions, registrants must comply with this rule for the first fiscal year beginning on or after January 1, 2017.

**Basel III**

In 2013, the Federal banking agencies approved the final rules implementing the BCBS capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of total capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. The final rules also establish a new capital conservation buffer, comprised of common equity Tier 1 capital, above the regulatory minimum capital requirements. This capital conservation buffer will be phased-in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. The final rules also revise the standards for an insured depository institution to be "well-capitalized" under the banking agencies' prompt corrective action framework, requiring a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0% and total capital ratio of 10.0%, while leaving unchanged the existing 5.0% leverage ratio requirement. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. Newly issued trust preferred securities and cumulative perpetual preferred stock may no longer be included in Tier 1 capital. However, for depository institution holding companies of less than \$15 billion in total consolidated assets, such as the Company, most outstanding trust preferred securities and other non-qualifying securities issued prior to May 19, 2010 are permanently grandfathered to be included in Tier 1 capital (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments).

The phase-in period for the final rules began for us on January 1, 2015, with full compliance with all of the final rules' requirements phased in over a multi-year schedule and should be fully phased-in by January 1, 2019. Our capital levels at June 30, 2016 remain in excess of the "well-capitalized" regulatory benchmarks under the new rules.

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

Incorporated herein by reference from Item 2 Part I 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 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 Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.
- (b) **Changes in internal control over financial reporting.** During the quarter ended June 30, 2016, 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.

**Table of Contents****Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

Incorporated herein by reference to Note 15 Legal Proceedings to the Consolidated Financial Statements

**Item 1A. Risk Factors**

There have not been any material changes to the risk factors previously disclosed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, previously filed with the SEC.

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

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended June 30, 2016.

	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
2016				
April	3,082	\$ 33.31		1,098,694
May	25,000	35.00	25,000	1,073,694
June	32,500	35.72	32,500	1,041,194
Total	60,582	\$ 35.30	57,500	

- (1) Amounts include shares repurchased that were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by employees as payment for taxes on vesting of restricted stock.
- (2) During the fourth quarter of 2015, the Board of Directors approved a stock buyback program of up to 5% of total outstanding shares of common stock. Under the program, purchases may be made from time to time in the open market or through negotiated transactions, subject to market conditions and other factors, and in accordance with applicable securities laws. There is no fixed termination date for the repurchase program, and the repurchase program may be suspended or discontinued at any time.

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

- (a) Exhibit 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (b) Exhibit 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (c) Exhibit 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (d) Exhibit 101.INS XBRL Instance Document
- (e) Exhibit 101.SCH XBRL Schema Document
- (f) Exhibit 101.CAL XBRL Calculation Linkbase Document
- (g) Exhibit 101.LAB XBRL Labels Linkbase Document
- (h) Exhibit 101.PRE XBRL Presentation Linkbase Document
- (i) Exhibit 101.DEF XBRL Definition Linkbase Document

Table of Contents

**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: August 09, 2016

/s/ Mark A. Turner  
Mark A. Turner  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 09, 2016

/s/ Dominic C. Canuso  
Dominic C. Canuso  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)