

WSFS FINANCIAL CORP  
Form 10-Q  
November 06, 2015  
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 September 30, 2015**

**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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
--	---

Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>
--	--

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 October 31, 2015.

<b>Common Stock, par value \$.01 per share</b> <b>(Title of Class)</b>	<b>29,853,215</b> <b>(Shares Outstanding)</b>
---	--



**Table of Contents**

**WSFS FINANCIAL CORPORATION**

**FORM 10-Q**

**INDEX**

**PART I. Financial Information**

	Page
Item 1.	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Condition as of September 30, 2015 and December 31, 2014</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	6
<u>Notes to the Consolidated Financial Statements for the Three and Nine Months Ended September 30, 2015 and 2014</u>	7
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	58
Item 4.	
<u>Controls and Procedures</u>	59

**PART II. Other Information**

Item 1.	<u>Legal Proceedings</u>	59
Item 1A.	<u>Risk Factors</u>	59
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3.	<u>Defaults upon Senior Securities</u>	59
Item 4.	<u>Mine Safety Disclosure</u>	59
Item 5.	<u>Other Information</u>	59
Item 6.	<u>Exhibits</u>	60

**Signatures**

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

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In Thousands, Except Per Share Data)			
<b>Interest income:</b>				
Interest and fees on loans	<b>\$ 38,437</b>	\$ 34,850	<b>\$ 111,771</b>	\$ 100,371
Interest on mortgage-backed securities	<b>3,588</b>	3,317	<b>10,544</b>	10,130
Interest and dividends on investment securities	<b>875</b>	837	<b>2,587</b>	2,443
Interest on reverse mortgage loans	<b>1,561</b>	1,323	<b>3,963</b>	3,917
Other interest income	<b>396</b>	472	<b>1,898</b>	1,136
	<b>44,857</b>	40,799	<b>130,763</b>	117,997
<b>Interest expense:</b>				
Interest on deposits	<b>1,587</b>	1,823	<b>5,354</b>	5,193
Interest on Federal Home Loan Bank advances	<b>868</b>	663	<b>2,332</b>	1,850
Interest on trust preferred borrowings	<b>343</b>	332	<b>1,009</b>	988
Interest on senior debt	<b>942</b>	941	<b>2,825</b>	2,824
Interest on bonds payable				15
Interest on other borrowings	<b>120</b>	293	<b>339</b>	859
	<b>3,860</b>	4,052	<b>11,859</b>	11,729
Net interest income	<b>40,997</b>	36,747	<b>118,904</b>	106,268
Provision for loan losses	<b>1,453</b>	333	<b>6,012</b>	3,013
Net interest income after provision for loan losses	<b>39,544</b>	36,414	<b>112,892</b>	103,255
<b>Noninterest income:</b>				
Credit/debit card and ATM income	<b>6,486</b>	6,219	<b>18,975</b>	17,995
Deposit service charges	<b>4,338</b>	4,477	<b>12,342</b>	13,092
Investment management and fiduciary revenue	<b>5,373</b>	4,332	<b>16,173</b>	12,453
Mortgage banking activities, net	<b>1,251</b>	1,229	<b>4,544</b>	3,066
Loan fee income	<b>405</b>	466	<b>1,337</b>	1,406
Bank-owned life insurance income	<b>162</b>	185	<b>544</b>	467
Investment securities gains, net	<b>76</b>	36	<b>1,004</b>	979
Other income	<b>3,574</b>	3,360	<b>10,299</b>	8,833
	<b>21,665</b>	20,304	<b>65,218</b>	58,291

<b>Noninterest expense:</b>				
Salaries, benefits and other compensation	<b>20,784</b>	19,292	<b>62,139</b>	56,434
Occupancy expense	<b>3,757</b>	3,456	<b>11,272</b>	10,754
Equipment expense	<b>2,059</b>	2,063	<b>6,100</b>	5,610
Data processing and operations expenses	<b>1,570</b>	1,609	<b>4,451</b>	4,611
Professional fees	<b>2,039</b>	1,762	<b>5,264</b>	5,083
FDIC expenses	<b>786</b>	666	<b>2,142</b>	2,011
Loan workout and OREO expenses	<b>166</b>	664	<b>495</b>	1,919
Marketing expense	<b>619</b>	643	<b>2,210</b>	1,584
Corporate development expense	<b>855</b>	2,620	<b>2,137</b>	3,032
Other operating expenses	<b>6,070</b>	6,388	<b>20,062</b>	17,234
	<b>38,705</b>	39,163	<b>116,272</b>	108,272
Income before taxes	<b>22,504</b>	17,555	<b>61,838</b>	53,274
Income tax provision	<b>8,078</b>	6,142	<b>22,289</b>	12,225
Net income	<b>\$ 14,426</b>	\$ 11,413	<b>\$ 39,549</b>	\$ 41,049
<b>Earnings per share:</b>				
Basic	<b>\$ 0.52</b>	\$ 0.42	<b>\$ 1.41</b>	\$ 1.53
Diluted	<b>\$ 0.51</b>	\$ 0.41	<b>\$ 1.39</b>	\$ 1.49

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 September 30,		Nine Months Ended September 30,	
	<b>2015</b>	2014	<b>2015</b>	2014
	(Unaudited)		(Unaudited)	
	(In Thousands)		(In Thousands)	
Net Income	<b>\$ 14,426</b>	\$ 11,413	<b>\$ 39,549</b>	\$ 41,049
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 \$3,787, \$(477), \$2,892 and \$11,060, respectively	<b>6,178</b>	(778)	<b>4,721</b>	18,046
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of (\$29), (\$13), (\$381) and (\$371), respectively	<b>(47)</b>	(23)	<b>(623)</b>	(608)
	<b>6,131</b>	(801)	<b>4,098</b>	17,438
<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 (\$55), \$0, (\$175), \$0, respectively	<b>(104)</b>		<b>(312)</b>	
<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 (\$9), \$3, (\$27) and \$39, respectively	<b>(15)</b>	5	<b>(45)</b>	65
Total other comprehensive income (loss)	<b>6,012</b>	(796)	<b>3,741</b>	17,503
Total comprehensive income	<b>\$ 20,438</b>	\$ 10,617	<b>\$ 43,290</b>	\$ 58,552

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)	September 30, 2015	December 31, 2014
	(Unaudited)	
<b>Assets</b>		
Cash and due from banks	\$ 94,756	\$ 93,717
Cash in non-owned ATMs	434,044	414,188
Interest-bearing deposits in other banks	237	134
<b>Total cash and cash equivalents</b>	<b>529,037</b>	508,039
Investment securities, available-for-sale	756,731	740,124
Investment securities, held-to-maturity at cost	138,060	126,168
Loans held-for-sale at fair value	33,979	28,508
Loans, net of allowance for loan losses of \$36,412 at September 30, 2015 and \$39,426 at December 31, 2014	3,324,020	3,156,652
Reverse mortgage loans	24,476	29,298
Bank-owned life insurance	77,053	76,509
Stock in Federal Home Loan Bank of Pittsburgh, at cost	27,943	23,278
Other real estate owned	3,299	5,734
Accrued interest receivable	11,770	11,782
Premises and equipment	35,304	35,074
Goodwill	48,787	48,651
Intangible assets	7,552	8,942
Other assets	49,931	54,561
<b>Total assets</b>	<b>\$ 5,067,942</b>	\$ 4,853,320
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing demand	\$ 904,896	\$ 804,678
Interest-bearing demand	727,816	688,370
Money market	1,015,985	1,066,224
Savings	388,213	402,032
Time	201,537	253,302
Jumbo certificates of deposit customer	182,573	247,671
<b>Total customer deposits</b>	<b>3,421,020</b>	3,462,277
Brokered deposits	223,582	186,958
<b>Total deposits</b>	<b>3,644,602</b>	3,649,235
Federal funds purchased and securities sold under agreements to repurchase	91,000	128,225

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Federal Home Loan Bank advances	<b>643,027</b>	405,894
Trust preferred borrowings	<b>67,011</b>	67,011
Senior debt	<b>55,000</b>	55,000
Other borrowed funds	<b>12,341</b>	11,645
Accrued interest payable	<b>1,760</b>	1,004
Other liabilities	<b>47,584</b>	46,255
<b>Total liabilities</b>	<b>4,562,325</b>	4,364,269
<b>Stockholders Equity:</b>		
Common stock \$0.01 par value, 65,000,000 shares authorized; issued 55,933,152 at September 30, 2015 and 55,697,124 at December 31, 2014	<b>559</b>	557
Capital in excess of par value	<b>206,887</b>	201,130
Accumulated other comprehensive income	<b>7,241</b>	3,500
Retained earnings	<b>558,438</b>	523,099
Treasury stock at cost, 28,541,521 shares at September 30, 2015 and 27,489,288 shares at December 31, 2014	<b>(267,508)</b>	(239,235)
<b>Total stockholders equity</b>	<b>505,617</b>	489,051
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,067,942</b>	\$ 4,853,320

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

Table of Contents

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

	Nine months ended September 30,	
	2015	2014
	(Unaudited)	
	(In Thousands)	
<b>Operating activities:</b>		
Net Income	\$ 39,549	\$ 41,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,012	3,013
Depreciation of premises and equipment, net	4,650	4,436
Amortization of fees and discounts, net	11,221	7,322
Amortization of intangible assets	1,258	879
Decrease (increase) in accrued interest receivable	12	(637)
(Increase) decrease in other assets	(253)	835
Origination of loans held-for-sale	(350,584)	(174,469)
Proceeds from sales of loans held-for-sale	348,760	180,794
Gain on mortgage banking activities, net	(4,544)	(3,066)
Gain on sale of securities, net	(1,004)	(979)
Stock-based compensation expense	3,319	3,637
Excess tax benefit from stock-based compensation	(785)	(551)
Increase in accrued interest payable	756	2,373
Increase (decrease) in other liabilities	1,524	(2,324)
(Gain) loss on sale of other real estate owned and valuation adjustments, net	(298)	91
Deferred income tax expense (benefit)	2,418	(5,198)
Increase in value of bank-owned life insurance	(527)	(467)
Increase in capitalized interest, net	(4,088)	(4,184)
<b>Net cash provided by operating activities</b>	<b>\$ 57,396</b>	<b>\$ 52,554</b>
<b>Investing activities:</b>		
Calls of investment securities held-to-maturity	3,881	
Purchases of investment securities held-to-maturity	(19,195)	
Repayments of investment securities held-to-maturity	970	
Maturities of investment securities available for sale		2,335
Sale of investment securities available-for-sale	117,380	200,734
Purchases of investment securities available-for-sale	(209,947)	(217,617)
Repayments of investment securities available-for-sale	80,293	54,328
Repayments on reverse mortgages	9,559	13,049
Disbursements for reverse mortgages	(649)	(929)
Net increase in loans	(181,290)	(67,824)

Acquisition of FNBW, net of cash acquired		(25,590)
Net (increase) decrease in stock of FHLB	(4,665)	6,087
Sales of assets acquired through foreclosure, net	5,278	3,807
Investment in premises and equipment, net	(4,968)	(2,370)
<b>Net cash used for investing activities</b>	<b>\$ (203,353)</b>	<b>\$ (33,990)</b>

**Financing activities:**

Net increase in demand and saving deposits	76,241	3,774
(Decrease) increase in time deposits	(116,863)	3,379
Increase in brokered deposits	36,624	74,440
Increase in loan payable	61	61
Repayment of reverse mortgage trust bonds payable		(21,990)
Receipts from FHLB advances	46,342,654	68,802,762
Repayments of FHLB advances	(46,105,521)	(68,928,745)
Receipts from federal funds purchased and securities sold under agreement to repurchase	22,843,325	19,040,751
Repayments of federal funds purchased and securities sold under agreement to repurchase	(22,855,550)	(19,037,751)
Maturity of repurchase agreement	(25,000)	
Dividends paid	(4,216)	(3,213)
Issuance of common stock and exercise of common stock options	2,688	1,376
Reissuance of Treasury Stock for FNBW purchase, net		32,916
Purchase of treasury stock	(28,273)	
Excess tax benefit from stock-based compensation	785	551
<b>Net cash provided by (used for) financing activities</b>	<b>\$ 166,955</b>	<b>\$ (31,689)</b>

Increase (decrease) in cash and cash equivalents	20,998	(13,125)
Cash and cash equivalents at beginning of period	508,039	484,426
Cash and cash equivalents at end of period	\$ 529,037	\$ 471,301

**Supplemental Disclosure of Cash Flow Information:**

Cash paid for interest during the period	\$ 11,103	\$ 9,126
Cash paid for income taxes, net	16,558	19,675
Loans transferred to other real estate owned	2,545	3,633
Loans transferred to portfolio from held-for-sale at fair value	104	2,169
Net change in accumulated other comprehensive income	3,741	17,503
Fair Value of assets acquired, net of cash received		245,910
Fair Value of liabilities assumed		236,787
Non-cash goodwill adjustments, net	136	46

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 NINE MONTHS ENDED SEPTEMBER 30, 2015**  
**(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  
Allowance: Allowance for loan losses or ALLL  
Alliance: Alliance Bancorp Inc. of Pennsylvania  
Array: Array Financial Group  
Arrow: Arrow Land Transfer  
ASC: Accounting standard codification  
Associate: Employee  
ASU: Accounting standard update  
BCBS: Basel Committee on Banking Supervision  
C&I: Commercial & Industrial (loans)  
CMO: Collateralized mortgage obligation  
Cypress: Cypress Capital Management, LLC  
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010  
DTA: Deferred tax asset  
Exchange Act: Securities Exchange Act of 1934

FASB: Financial Accounting Standards Board  
FDIC: Federal Deposit Insurance Corporation  
Federal Reserve: Board of Governors of the Federal Reserve System  
Monarch: Monarch Entity Services, LLC  
FHLB: Federal Home Loan Bank  
FHLMC: Federal Home Loan Mortgage Corporation  
GAAP: U.S. Generally Accepted Accounting Principles  
GNMA: Government National Mortgage Association  
GSE: U.S. Government and government sponsored enterprises  
NSFR: Net stable funding ratio  
MBS: Mortgage-backed securities  
OCC: Office of the Comptroller of the Currency  
OREO: Other real estate owned  
OTTI: Other-than-temporary impairment

## **Table of Contents**

### *Overview*

Founded in 1832, the Bank is the seventh oldest bank 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 55 offices located in Delaware (44), Pennsylvania (9), 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.

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 related assets, income taxes and OTTI. 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, 2015. These unaudited, interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our 2014 Annual Report on Form 10-K that was filed with the SEC on March 16, 2015 and is available at [www.sec.gov](http://www.sec.gov) or on our website at <http://investors.wsfsbank.com/releases.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 2014 Annual Report on Form 10-K. There have not been any material changes in our significant accounting policies from those contained in our 2014 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.

On May 18, 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.



---

**Table of Contents****RECENT ACCOUNTING PRONOUNCEMENTS***Accounting Guidance Adopted in 2015*

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The amendment in this update eliminates the requirement for an acquirer to adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of this accounting guidance does not have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In August 2014, the FASB issued ASU No. 2014-14, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including Federal Housing Administration or Veterans Affairs guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in this guidance require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The adoption of this accounting guidance does not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In June 2014, the FASB issued ASU No. 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. It eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The amendments in the ASU require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual reporting periods beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual reporting periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The adoption of this accounting guidance does not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (ASU 2014-04). The objective of this guidance is to clarify when an in



substance repossession or foreclosure occurs. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The adoption of this accounting guidance does not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

---

**Table of Contents**

In January 2014, the FASB, issued ASU No. 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323) - Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*. This ASU permits an entity to make an accounting policy election to account for its investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportionate amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The adoption does not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition. For additional discussion on the adoption of this guidance refer to the *Income Taxes* section of *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

*Accounting Guidance Pending Adoption at September 30, 2015*

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 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. 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 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 16, 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.

In April 2015, the FASB issued ASU No 2015-04 *Compensation - Retirement Benefits (Topic 715)*. The Board is issuing the amendments in this update as part of its initiative to reduce complexity in accounting standards. It provides that an entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations. The amendments in this update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not anticipate a material impact on its 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. 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 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. The Company does not anticipate a material impact on its consolidated financial statements or results of operations.

**Table of Contents****2. BUSINESS COMBINATIONS***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. For additional information see Note 16. Subsequent Events.

*First Wyoming Financial Corporation*

On September 5, 2014, the Company completed the merger of First Wyoming Financial Corporation (FNBW) into the Company and the merger of FNBW's wholly-owned subsidiary, The First National Bank of Wyoming into the Bank. In accordance with the terms of the Agreement and Plan of Merger, dated November 25, 2013, holders of shares of FNBW common stock received, in aggregate, \$32.0 million in cash and 1,357,983 shares (adjusted for our 3-for-1 stock split) of WSFS common stock. The transaction was valued at \$64.9 million based on WSFS' September 5, 2014 closing share price of \$24.23 (adjusted for our 3-for-1 stock split) as quoted on NASDAQ. The results of the combined entity's operations are included in our Consolidated Financial Statements since the date of the acquisition.

The acquisition of FNBW 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 excess of consideration paid over the preliminary fair value of net assets acquired was recorded as goodwill in the amount of \$16.5 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 \$3.2 million in core deposit intangibles which are being amortized over ten years using an accelerated depreciation method. For additional information regarding this business combination, please see Note 2 in our Annual Report on Form 10-K for the year ended December 31, 2014.

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 (1,357,983)	\$ 32,908
Cash paid to FNBW stockholders	32,028
Value of consideration	64,936
Assets acquired:	
Cash and due from banks	40,605
Investment securities	41,822
Loans	175,895
Premises and equipment	1,611
Deferred income taxes	3,216
Bank owned life insurance	12,576
Core deposit intangible	3,240
Other real estate owned	1,593
Other assets	4,659

Total assets	285,217
Liabilities assumed:	
Deposits	228,844
FHLB advances	5,052
Other liabilities	2,891
Total liabilities	236,787
Net assets acquired:	48,430
Goodwill resulting from acquisition of FNBW	\$ 16,506

**Table of Contents**

The following table details the changes to goodwill in 2015:

(In Thousands)	Fair Value
Goodwill resulting from the acquisition of FNBW reported as of December 31, 2014	\$ 16,370
Effects of adjustments to:	
Assets	236
Liabilities	(100)
Final purchase price	
Adjusted goodwill resulting from the acquisition of FNBW as of September 30, 2015	\$ 16,506

The adjustments made to goodwill during the first nine months of 2015, reflect a change in the fair value of the loans acquired, accrued expenses, bank owned life insurance, computer equipment, deferred federal income taxes, and OREO properties during the measurement period. The fair value of acquired assets and liabilities is now considered final.

Direct costs related to the acquisition were expensed as incurred. During the three and nine months ended September 30, 2015, the Company incurred \$12,000 and \$109,000 in merger expenses related to FNBW compared to \$2.5 million and \$2.9 million for the three and nine months ended September 30, 2014.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b><u>Numerator:</u></b>				
Net income	\$ 14,426	\$ 11,413	\$ 39,549	\$ 41,049
<b><u>Denominator:</u></b>				
Weighted average basic shares	27,721	27,182	28,035	26,882
Dilutive potential common shares	511	744	468	710
Weighted average fully diluted shares	28,232	27,926	28,503	27,592
<b><u>Earnings per share:</u></b>				
Basic	\$ 0.52	\$ 0.42	\$ 1.41	\$ 1.53
Diluted	\$ 0.51	\$ 0.41	\$ 1.39	\$ 1.49
Outstanding common stock equivalents having no dilutive effect	83	131	184	131



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

The following tables detail the amortized cost and the estimated fair value of our investment securities classified as available-for-sale and held-to-maturity. 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>September 30, 2015</b>				
GSE	\$ 31,044	\$ 64	\$ 1	\$ 31,107
CMO	251,729	2,538	600	253,667
FNMA MBS	296,373	3,838	439	299,772
FHLMC MBS	109,327	1,271	124	110,474
GNMA MBS	60,930	834	53	61,711
	\$ 749,403	\$ 8,545	\$ 1,217	\$ 756,731
<b>December 31, 2014</b>				
GSE	\$ 30,020	\$ 14	\$ 74	\$ 29,960
CMO	193,672	874	1,614	192,932
FNMA MBS	291,606	2,053	1,106	292,553
FHLMC MBS	146,742	672	532	146,882
GNMA MBS	77,364	701	268	77,797
	\$ 739,404	\$ 4,314	\$ 3,594	\$ 740,124

(In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<b>Held-to-Maturity Securities<sup>(a)</sup></b>				
<b>September 30, 2015</b>				
State and political subdivisions	\$ 138,060	\$ 670	\$ 592	\$ 138,138
<b>December 31, 2014</b>				
State and political subdivisions	\$ 126,168	\$ 3	\$	\$ 126,171

- <sup>(a)</sup> 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 \$3.1 million and \$3.6 million at September 30, 2015 and December 31, 2014, 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 September 30, 2015 and December 31, 2014 are presented in the table below:

(In Thousands)	Available-for-Sale	
	Amortized Cost	Fair Value
<b>September 30, 2015</b>		
<b>Within one year</b>	<b>\$ 3,995</b>	<b>\$ 4,000</b>
<b>After one year but within five years</b>	<b>30,032</b>	<b>30,112</b>
<b>After five years but within ten years</b>	<b>192,473</b>	<b>194,009</b>
<b>After ten years</b>	<b>522,903</b>	<b>528,610</b>
	<b>\$ 749,403</b>	<b>\$ 756,731</b>

December 31, 2014		
Within one year	\$ 10,000	\$ 10,014
After one year but within five years	20,020	19,946
After five years but within ten years	134,453	133,395
After ten years	574,931	576,769
	\$ 739,404	\$ 740,124

(In Thousands)	Held-to-Maturity	
	Amortized Cost	Fair Value
<b>September 30, 2015</b>		
<b>Within one year</b>	<b>\$ 1,712</b>	<b>\$ 1,714</b>
<b>After one year but within five years</b>	<b>3,925</b>	<b>3,913</b>
<b>After five years but within ten years</b>	<b>7,964</b>	<b>8,053</b>
<b>After ten years</b>	<b>124,459</b>	<b>124,458</b>
	<b>\$ 138,060</b>	<b>\$ 138,138</b>

December 31, 2014		
Within one year	\$ 3,608	\$ 3,608
After one year but within five years	6,217	6,217
After five years but within ten years	9,733	9,736
After ten years	106,610	106,610
	\$ 126,168	\$ 126,171

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 \$435.0 million and \$470.4 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of September 30, 2015 and December 31, 2014, respectively.

During the first nine months of 2015 and 2014, we sold \$117.3 million and \$170.4 million of investment securities categorized as available-for-sale, for a gain of \$1.0 million and \$979,000, respectively. We incurred \$1,000 in losses from sales during the first nine months of 2015. Sales resulted in no losses during the first nine months of 2014.

As of September 30, 2015 and December 31, 2014, our investment securities portfolio had remaining unamortized premiums of \$19.6 million and \$22.4 million and unaccreted discounts of \$234,000 and \$188,000, 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 September 30, 2015 and December 31, 2014:

	Duration of Unrealized Loss Position				Total	
	Less than 12 months		12 months or longer			
(In Thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>September 30, 2015</b>						
<b>GSE</b>	\$ 3,013	\$ 1	\$	\$	\$ 3,013	\$ 1
<b>CMO</b>	27,739	218	27,740	382	55,479	600
<b>FNMA MBS</b>	53,423	439			53,423	439
<b>FHLMC MBS</b>	4,814	3	4,149	121	8,963	124
<b>GNMA MBS</b>	1,943	1	2,409	52	4,352	53
<b>State and political subdivisions</b>	69,695	592			69,695	592
<b>Total temporarily impaired investments</b>	<b>\$ 160,627</b>	<b>\$ 1,254</b>	<b>\$ 34,298</b>	<b>\$ 555</b>	<b>\$ 194,925</b>	<b>\$ 1,809</b>
<b>December 31, 2014</b>						
<b>GSE</b>	\$ 19,945	\$ 74	\$	\$	\$ 19,945	\$ 74
<b>CMO</b>	15,492	108	61,630	1,506	77,122	1,614
<b>FNMA MBS</b>			103,207	1,106	103,207	1,106
<b>FHLMC MBS</b>	23,901	54	58,267	478	82,168	532
<b>GNMA MBS</b>			48,312	268	48,312	268
<b>Total temporarily impaired investments</b>	<b>\$ 59,338</b>	<b>\$ 236</b>	<b>\$ 271,416</b>	<b>\$ 3,358</b>	<b>\$ 330,754</b>	<b>\$ 3,594</b>

There were no held-to-maturity investment securities in an unrealized loss position as of December 31, 2014.

At September 30, 2015, we owned investment securities totaling \$194.9 million in which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$1.8 million at September 30, 2015. 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 two, were AA-rated or better at the time of purchase and remained investment grade at September 30, 2015. All securities were evaluated for OTTI at September 30, 2015 and December 31, 2014. The result of this evaluation showed no OTTI as of September 30, 2015 or December 31, 2014. The estimated weighted average duration of MBS was 4.3 years at September 30, 2015.



Table of Contents**5. LOANS**

The following details our loan portfolio by category:

(In Thousands)	September 30, 2015	December 31, 2014
Commercial and industrial	\$ 938,060	\$ 920,072
Owner occupied commercial	811,548	788,598
Commercial mortgages	874,316	805,459
Construction	203,161	142,497
Residential	199,696	218,329
Consumer	341,210	327,543
	<b>\$ 3,367,991</b>	<b>\$ 3,202,498</b>
Less:		
Deferred fees, net	\$ 7,559	\$ 6,420
Allowance for loan losses	36,412	39,426
Net loans	<b>\$ 3,324,020</b>	<b>\$ 3,156,652</b>

*Acquired Credit Impaired Loans*

The following table details the loans acquired through the FNBW merger on September 5, 2014 that are accounted for in accordance with FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30).

(In Thousands)	September 5, 2014
Contractually required principal and interest at acquisition	\$ 27,086
Contractual cash flows not expected to be collected (nonaccretable difference)	7,956
Expected cash flows at acquisition	19,130
Interest component of expected cash flows (accretable yield)	1,790
Fair value of acquired loans accounted for under FASB ASC 310-30	<b>\$ 17,340</b>

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 September 30, 2015:

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

(In Thousands)	September 30, 2015
Outstanding principal balance	\$ 18,546
Carrying amount	12,767
Allowance for loan losses	436

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

(In Thousands)	January 1 through September 30, 2015
Balance at beginning of period	\$ 1,498
Accretion	(822)
Reclassification from nonaccretable difference	1,827
Additions/adjustments	(363)
Balance at the end of the period	\$ 2,140



**Table of Contents****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. 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 nine months ended September 30, 2015, net charge-offs totaled \$9.0 million or 0.27% of average loans, compared to \$4.7 million, or 0.21% of average loans annualized, during the nine months ended September 30, 2014. A significant portion of the net charge-offs in 2015 was the result of one \$9.1 million substandard C&I relationship previously classified as an accruing TDR that was placed in nonaccrual status during the second quarter of 2015. This relationship included a net charge-off of \$5.7 million during the nine months ending September 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. During the nine months ended September 30, 2015, we increased the look-back period to 19 quarters from the 16 quarters used at December 31, 2014 and prior periods. This change in the look-back period resulted in an increase of \$1.3 million to

the total allowance at September 30, 2015.

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 19 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

**Table of Contents**

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.

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 September 30, 2015. Further, our residential mortgage and consumer LEP remained at four quarters as of September 30, 2015. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our LEP by commercial and retail portfolios at least annually.

The final component of the allowance is a 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. We review the qualitative estimates of valuation factors quarterly and management uses its judgment to make adjustments based on current trends. The model complexity risk factor remained at 3 basis points of total loans for September 30, 2015.

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 nine months ended September 30, 2015:

(In Thousands)	Owner-Occupied Commercial					Complexity Risk <sup>(1)</sup>		Total
	Commercial	Commercial Mortgages	Construction	Residential	Consumer			
<b>Three months ended September 30, 2015</b>								
Allowance for loan losses								
Beginning balance	\$ 14,512	\$ 6,733	\$ 6,831	\$ 3,313	\$ 2,709	\$ 5,788	\$ 959	\$ 40,845
Charge-offs	(4,147)	(26)	(804)		(130)	(1,499)		(6,606)
Recoveries	84	40	14	19	158	405		720
Provision (credit)	303	(62)	231	306	(362)	1,086	11	1,513
Provision for acquired loans			(71)	104	(92)	(1)		(60)
Ending balance	\$ 10,752	\$ 6,685	\$ 6,201	\$ 3,742	\$ 2,283	\$ 5,779	\$ 970	\$ 36,412
<b>Nine months ended September 30,</b>								

**2015**Allowance for  
loan losses

Beginning

balance	\$ 12,837	\$ 6,643	\$ 7,266	\$ 2,596	\$ 2,523	\$ 6,041	\$ 1,520	\$ 39,426
Charge-offs	(6,184)	(623)	(808)		(397)	(2,570)		(10,582)
Recoveries	198	62	83	179	195	839		1,556
Provision (credit)	3,485	574	(508)	863	50	1,460	(550)	5,374
Provision for acquired loans	416	29	168	104	(88)	9		638
Ending balance	\$ 10,752	\$ 6,685	\$ 6,201	\$ 3,742	\$ 2,283	\$ 5,779	\$ 970	\$ 36,412

**Period-end  
allowance  
allocated to:**

Loans

individually  
evaluated for  
impairment

\$ 993	\$	\$ 241	\$ 214	\$ 934	\$ 202	\$	\$ 2,584
--------	----	--------	--------	--------	--------	----	----------

Loans

collectively  
evaluated for  
impairment

9,406	6,657	5,907	3,527	1,348	5,577	970	33,392
-------	-------	-------	-------	-------	-------	-----	--------

Acquired loans  
evaluated for  
impairment

353	28	53	1	1			436
-----	----	----	---	---	--	--	-----

Ending balance	\$ 10,752	\$ 6,685	\$ 6,201	\$ 3,742	\$ 2,283	\$ 5,779	\$ 970	\$ 36,412
----------------	-----------	----------	----------	----------	----------	----------	--------	-----------

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

Loans

individually  
evaluated for  
impairment

\$ 5,775	\$ 1,170	\$ 6,805	\$ 1,419	\$ 14,613	\$ 7,749	\$	\$ 37,531 <sup>(2)</sup>
----------	----------	----------	----------	-----------	----------	----	--------------------------

Loans

collectively  
evaluated for  
impairment

900,660	770,246	836,556	190,925	169,566	327,524		3,195,477
---------	---------	---------	---------	---------	---------	--	-----------

Acquired  
nonimpaired  
loans

28,998	37,937	25,555	8,223	15,137	5,930		121,780
--------	--------	--------	-------	--------	-------	--	---------

Acquired  
impaired loans

2,627	2,195	5,400	2,594	380	7		13,203
-------	-------	-------	-------	-----	---	--	--------

Ending balance	\$ 938,060	\$ 811,548	\$ 874,316	\$ 203,161	\$ 199,696	\$ 341,210	\$	\$ 3,367,991 <sup>(3)</sup>
----------------	------------	------------	------------	------------	------------	------------	----	-----------------------------



**Table of Contents**

The following table provides the activity of the allowance for loan losses and loan balances for the three and nine months ended September 30, 2014:

(In Thousands)	Owner Occupied Commercial						Complexity	Total
	Commercial	Commercial	Mortgages	Construction	Residential	Consumer	Risk (1)	
<b>Three months ended September 30, 2014</b>								
Allowance for loan losses								
Beginning balance	\$ 13,346	\$ 7,986	\$ 7,617	\$ 2,319	\$ 2,759	\$ 6,299	\$ 1,055	\$ 41,381
Charge-offs	(1,840)	(272)	(101)		(147)	(372)		(2,732)
Recoveries	66	77	4	8	86	261		502
Provision (credit)	1,833	454	(1,097)	(897)	(6)	56	(10)	333
Ending balance	\$ 13,405	\$ 8,245	\$ 6,423	\$ 1,430	\$ 2,692	\$ 6,244	\$ 1,045	\$ 39,484
<b>Nine months ended September 30, 2014</b>								
Allowance for loan losses								
Beginning balance	\$ 12,751	\$ 7,638	\$ 6,932	\$ 3,326	\$ 3,078	\$ 6,494	\$ 1,025	\$ 41,244
Charge-offs	(3,335)	(593)	(261)	(88)	(674)	(2,095)		(7,046)
Recoveries	873	244	43	192	129	792		2,273
Provision (credit)	3,116	956	(291)	(2,000)	159	1,053	20	3,013
Ending balance	\$ 13,405	\$ 8,245	\$ 6,423	\$ 1,430	\$ 2,692	\$ 6,244	\$ 1,045	\$ 39,484
<b>Period-end allowance allocated to:</b>								
Loans individually evaluated for impairment	\$ 1,573	\$ 993	\$ 240	\$	\$ 850	\$ 211	\$	\$ 3,867
Loans collectively evaluated for impairment	11,832	7,252	6,183	1,430	1,842	6,033	1,045	35,617

Ending balance	\$ 13,405	\$ 8,245	\$ 6,423	\$ 1,430	\$ 2,692	\$ 6,244	\$ 1,045	\$ 39,484
----------------	-----------	----------	----------	----------	----------	----------	----------	-----------

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

Loans individually evaluated for impairment	\$ 3,683	\$ 3,390	\$ 8,760	\$ 1,419	\$ 16,807	\$ 6,610	\$ 40,669 <sup>(2)</sup>
Loans collectively evaluated for impairment	839,753	760,680	737,394	131,996	193,792	309,478	2,973,093
Acquired nonimpaired loans	35,300	41,858	41,071	10,666	18,105	9,671	156,671
Acquired impaired loans	3,534	2,329	6,687	4,135	517	27	17,229
Ending balance	\$ 882,270	\$ 808,257	\$ 793,912	\$ 148,216	\$ 229,221	\$ 325,786	\$ 3,187,662 <sup>(3)</sup>

- (1) Represents the portion of the allowance for loan losses established to account for the inherent complexity and uncertainty of estimates.
- (2) The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of \$13.6 million and \$11.8 million for the periods ending September 30, 2015 and 2014, respectively. Accruing troubled debt restructured loans are considered impaired loans.
- (3) Ending loan balances do not include deferred costs.

*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:

September 30, 2015	Greater Than				Total Past Due And Still Accruing	Accruing Current Balances	Acquired Impaired Loans	Nonaccrual Loans	Total Loans
	30 Days Past Due and Still Accruing	59 Days Past Due and Still Accruing	60 to 89 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing					
(In Thousands)									
<b>Commercial</b>	\$ 587	\$	\$	\$ 587	\$ 929,432	\$ 2,627	\$ 5,414	\$ 938,060	
<b>Owner-Occupied commercial</b>	1,300			1,300	806,883	2,195	1,170	811,548	
<b>Commercial mortgages</b>					862,196	5,400	6,720	874,316	
<b>Construction</b>					200,567	2,594		203,161	
<b>Residential</b>	4,436	1,081	423	5,940	186,788	380	6,588	199,696	
<b>Consumer</b>	1,034	245	495	1,774	335,405	7	4,024	341,210	
<b>Total <sup>(1)</sup></b>	<b>\$ 7,357</b>	<b>\$ 1,326</b>	<b>\$ 918</b>	<b>\$ 9,601</b>	<b>\$ 3,321,271</b>	<b>\$ 13,203</b>	<b>\$ 23,916</b>	<b>\$ 3,367,991</b>	
<b>% of Total Loans</b>	<b>0.22%</b>	<b>0.04%</b>	<b>0.03%</b>	<b>0.29%</b>	<b>98.61%</b>	<b>0.39%</b>	<b>0.71%</b>	<b>100%</b>	

(1) The balances of above include \$121.8 million of acquired nonimpaired loans.



**Table of Contents**

December 31, 2014	Greater Than Total Past				Accruing Current Balances	Acquired Impaired Loans	Nonaccrual Loans	Total Loans
	30 Days Past Due and Still Accruing	60 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing	Due And Still Accruing				
(In Thousands)								
Commercial	\$ 715	\$	\$	\$ 715	\$ 913,382	\$ 3,269	\$ 2,706	\$ 920,072
Owner-occupied commercial	393			393	783,466	2,264	2,475	788,598
Commercial mortgages	203			203	791,035	5,976	8,245	805,459
Construction					138,634	3,863		142,497
Residential	3,879	604		4,483	206,266	512	7,068	218,329
Consumer	1,241	342	4	1,587	322,390	9	3,557	327,543
<b>Total <sup>(1)</sup></b>	<b>\$ 6,431</b>	<b>\$ 946</b>	<b>\$ 4</b>	<b>\$ 7,381</b>	<b>\$ 3,155,173</b>	<b>\$ 15,893</b>	<b>\$ 24,051</b>	<b>\$ 3,202,498</b>
% of Total Loans	0.20%	0.03%	0.00%	0.23%	98.52%	0.50%	0.75%	100%

<sup>(1)</sup> The balances of above include \$145.8 million of acquired nonimpaired loans  
*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 September 30, 2015 and December 31, 2014:

September 30, 2015	Ending Loan Balances	Loans with No Related Reserve <sup>(1)</sup>	Loans with Related Reserve	Related Reserve	Contractual Principal Balances	Average Loan Balances
(In Thousands)						
Commercial	\$ 6,138	\$ 3,783	\$ 2,355	\$ 1,346	\$ 12,836	\$ 8,900
Owner-occupied commercial	2,090	1,170	920	28	2,468	2,364
Commercial mortgages	7,896	3,524	4,372	294	11,269	8,361
Construction	1,492		1,492	215	1,520	1,448
Residential	14,711	8,185	6,526	935	17,187	15,483
Consumer	7,749	6,575	1,174	202	9,290	6,590
<b>Total <sup>(2)</sup></b>	<b>\$ 40,076</b>	<b>\$ 23,237</b>	<b>\$ 16,839</b>	<b>\$ 3,020</b>	<b>\$ 54,570</b>	<b>\$ 43,146</b>

December 31, 2014	Ending	Loans with No Related Reserve	Loans with Related Reserve	Related Reserve	Contractual Principal Balances	Average Loan Balances
(In Thousands)	Balances	(1)				
Commercial	\$ 12,381	\$ 580	\$ 11,801	\$ 3,034	\$ 20,924	\$ 5,952
Owner-occupied commercial	2,474	1,865	609	609	3,708	4,461
Commercial mortgages	8,335	4,732	3,603	319	14,383	11,005
Construction	1,419		1,419	334	1,419	1,013
Residential	15,666	7,068	8,598	790	18,967	17,296
Consumer	6,376	3,557	2,819	231	7,162	5,902
<b>Total</b>	<b>\$ 46,651</b>	<b>\$ 17,802</b>	<b>\$ 28,849</b>	<b>\$ 5,317</b>	<b>\$ 66,563</b>	<b>\$ 45,629</b>

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

(2) The above includes acquired impaired loans totaling \$2.5 million in the ending loan balance and \$3.3 million in the contractual principal balance.

Interest income of \$372,000 and \$1.3 million was recognized on impaired loans during the three and nine months ended September 30, 2015, respectively. Interest income of \$401,000 and \$1.1 million was recognized on impaired loans during the three and nine months ended September 30, 2014.

As of September 30, 2015, there were 37 residential loans and 13 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$4.3 million and \$2.2 million, respectively. As of December 31, 2014, there were 36 residential loans and 12 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$4.4 million and \$1.1 million, respectively.

## Table of Contents

### *Reserves on Acquired Nonimpaired Loans*

In accordance with FASB ASC 310, loans acquired by the Bank through its merger with FNBW 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.

### *Credit Quality Indicators*

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

*Pass.* These borrowers presently show no current or potential problems and their loans are considered fully collectible.

*Special Mention.* Borrowers have potential weaknesses that deserve management's close attention. Borrowers in this category may be experiencing adverse operating trends, 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.



**Table of Contents**

The tables below provide information about the credit quality of loans in our commercial and residential and consumer portfolios.

## Commercial Credit Exposure

Commercial		Owner-Occupied Commercial		Commercial Mortgages		Construction		Total Commercial <sup>(1)</sup>		
Sept. 30, 2015	Dec. 31 2014	Sept. 30, 2015	Dec. 31 2014	Sept. 30, 2015	Dec. 31 2014	Sept. 30, 2015	Dec. 31 2014	September 30, 2015		Dec. 31, 2014
								Amount	%	Amount
\$ 13,759	\$ 4,744	\$ 16,048	\$ 6,989	\$ 10,239	\$ 9,065	\$	\$	\$ 40,046		\$ 20,79
36,048	42,377	14,348	14,436	1,252	9,167	8,194	1,085	59,842		67,06
4,426	1,225	1,170	1,865	6,479	7,927			12,075		11,01
988	3,034		609	241	319		334	1,229		4,29
55,221	51,380	31,566	23,899	18,211	26,478	8,194	1,419	113,192	4%	103,17
2,627	3,269	2,195	2,264	5,400	5,976	2,594	3,863	12,816	0	15,37
880,212	865,423	777,787	762,435	850,705	773,005	192,373	137,215	2,701,077	96	2,538,07
\$ 938,060	\$ 920,072	\$ 811,548	\$ 788,598	\$ 874,316	\$ 805,459	\$ 203,161	\$ 142,497	\$ 2,827,085	100%	\$ 2,656,62

<sup>(1)</sup> Table includes \$100.7 million and \$119.8 million of acquired nonimpaired loans as of September 30, 2015 and December 31, 2014, respectively.

## Residential and Consumer Credit Exposure

(In Thousands)	Residential		Consumer		Total Residential and Consumer <sup>(2)</sup>			
	Sept. 30, 2015	Dec. 31 2014	Sept. 30, 2015	Dec. 31 2014	30-Sep-15		Dec. 31, 2014	
					Amount	Percent	Amount	Percent
Nonperforming <sup>(1)</sup>	\$ 14,613	\$ 15,666	\$ 7,749	\$ 6,376	\$ 22,362	4%	\$ 22,042	4%
Acquired impaired loans	380	512	7	9	387		521	
Performing	184,703	202,151	333,454	321,158	518,157	96	523,309	96
<b>Total</b>	<b>\$ 199,696</b>	<b>\$ 218,329</b>	<b>\$ 341,210</b>	<b>\$ 327,543</b>	<b>\$ 540,906</b>	<b>100%</b>	<b>\$ 545,872</b>	<b>100%</b>

- (1) Includes \$11.8 million as of September 30, 2015 and \$11.4 million as of December 31, 2014 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 \$21.1 million and \$26.0 million in acquired nonimpaired loans as of September 30, 2015 and December 31, 2014, respectively.

*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 September 30, 2015 and December 31, 2014 was \$32.5 million and \$36.2 million, respectively. The balance at September 30, 2015 included approximately \$18.9 million of TDRs in nonaccrual status and \$13.6 million of TDRs in accrual status compared to \$13.6 million in nonaccrual status and \$22.6 million in accrual status at December 31, 2014. Approximately \$2.3 million and \$4.2 million in related reserves have been established for these loans at September 30, 2015 and December 31, 2014, respectively.

During the nine months ended September 30, 2015, the terms of 23 loans were modified in TDRs. Sixteen modifications were for consumer loans in which seven had their maturity dates extended, six were discharged bankruptcies, one was a rate concession and two were HELOC conversions. Six were residential mortgages in which three were discharged bankruptcies, two were maturity date extensions and one was a forbearance agreement. One commercial loan received 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.

**Table of Contents**

The following table presents loans identified as TDRs during the three and nine months ended September 30, 2015 and 2014.

(In Thousands)	<b>Three Months Ended September 30, 2015</b>	Three Months Ended September 30, 2014	<b>Nine Months Ended September 30, 2015</b>	Nine Months Ended September 30, 2014
<b>Commercial</b>	\$	\$ 88	\$	\$ 209
<b>Owner Occupied Commercial</b>			<b>577</b>	
<b>Commercial mortgages</b>		3,430		3,430
<b>Construction</b>		1,419		1,419
<b>Residential</b>	<b>38</b>	72	<b>447</b>	1,916
<b>Consumer</b>	<b>643</b>	1,097	<b>1,306</b>	1,612
<b>Total</b>	<b>\$ 681</b>	\$ 6,106	<b>\$ 2,330</b>	\$ 8,586

During the nine months ended September 30, 2015, the TDRs set forth in the table above increased our allowance \$23,000 through the allocation of a related reserve, and resulted in charge-offs of \$69,000 compared to an increase in our allowance of \$395,000 and charge-offs of \$49,000 for the same period of 2014.

---

**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 \$24.5 million at September 30, 2015. The portfolio consists of 97 loans with an average borrowers' 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 \$47.1 million exceeds the outstanding book balance at September 30, 2015. 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 September 30, 2015, 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, 2010, published by the Office of the Actuary - Social Security in 2014, adjusted for expected prepayments and relocations which we adopted during 2014.
- 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 2015 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 September 30, 2015, the internal rate of return (IRR) of 18.58% 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.





**Table of Contents**

As of September 30, 2015, the Company's actuarially estimated cash payments to reverse mortgagors are as follows:

(In Thousands)	
<b>Year Ending</b>	
Remaining in 2015	\$ 152
2016	538
2017	429
2018	338
2019	264
Years 2020 - 2024	624
Years 2025 - 2029	131
Years 2030 - 2034	21
Thereafter	2
 Total <sup>(1)</sup>	 \$ 2,499

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

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 \$5.2 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 \$685,000 for the quarter ended September 30, 2015 with an IRR of 17.52%. If the future changes in collateral value were assumed to be reduced by 1%, income would decrease by \$315,000 with an IRR of 18.09%.

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 \$769,000. If the IRR decreased by 1%, the net present value would decrease by \$752,000.

Table of Contents**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 nine months ended September 30, 2015, 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	Trust & Wealth Management	Consolidated Company
<b>December 31, 2014</b>	<b>\$ 43,517</b>	<b>\$</b>	<b>\$ 5,134</b>	<b>\$ 48,651</b>
Changes in goodwill	136			136
<b>September 30, 2015</b>	<b>\$ 43,653</b>	<b>\$</b>	<b>\$ 5,134</b>	<b>\$ 48,787</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.

The following table summarizes intangible assets:

(In Thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
<b>September 30, 2015</b>			
<b>Core deposits</b>	<b>\$ 7,610</b>	<b>\$ (4,170)</b>	<b>\$ 3,440</b>
<b>CB&amp;T intangibles</b>	<b>3,142</b>	<b>(1,133)</b>	<b>2,009</b>
<b>Array and Arrow intangibles</b>	<b>2,353</b>	<b>(759)</b>	<b>1,594</b>
<b>Mortgage servicing rights</b>	<b>1,422</b>	<b>(913)</b>	<b>509</b>
<b>Total intangible assets</b>	<b>\$ 14,527</b>	<b>\$ (6,975)</b>	<b>\$ 7,552</b>
December 31, 2014			
Core deposits	\$ 7,610	\$ (3,321)	\$ 4,289
CB&T intangibles	3,142	(985)	2,157
Array and Arrow intangibles	2,353	(497)	1,856
Mortgage servicing rights	1,455	(815)	640
Total intangible assets	\$ 14,560	\$ (5,618)	\$ 8,942

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits, straight-line or accelerated methods of amortization. During the nine months ended September 30, 2015, we recognized amortization expense on other intangible assets of \$1.3 million.

The following presents the estimated amortization expense of intangibles:

(In Thousands)	<b>Amortization of Intangibles</b>
Remaining in 2015	\$ 430
2016	1,434
2017	1,217
2018	1,137
2019	962
Thereafter	2,372
<b>Total</b>	<b>\$ 7,552</b>

Table of Contents**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.

The following are disclosures of the net periodic benefit cost components of postretirement benefits measured at January 1, 2015 and 2014.

(In Thousands)	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Service cost	\$ 15	\$ 49	\$ 44	\$ 147
Interest cost	22	48	66	146
Prior service cost amortization	(19)	(14)	(57)	(44)
Net (gain) loss recognition	(5)	22	(15)	66
Net periodic benefit cost	\$ 13	\$ 105	\$ 38	\$ 315

---

**Table of Contents****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.

As a result of the consolidation for accounting purposes of the SASCO reverse mortgage securitization trust during 2013, a deferred tax asset (DTA) of approximately \$4.9 million was recorded. In addition, we recorded a \$1.8 million deferred tax liability associated with our original investment in SASCO. However, because SASCO was not consolidated for income tax purposes, a full valuation allowance was also recorded on this DTA due to the uncertainty of its realization, as the realization was dependent on future taxable income. On January 27, 2014 the separate company SASCO tax structure was eliminated, which permits tax consolidation within the Bank's tax return filings on a prospective basis. At this date, the uncertainty surrounding the realization of the DTA was eliminated. Accordingly, we removed the \$4.9 million valuation allowance as well as eliminated the \$1.8 million deferred tax liability, which resulted in an overall income tax benefit of \$6.7 million in the quarter ended March 31, 2014.

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 September 30, 2015. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2012 through 2014 tax years are subject to examination as of September 30, 2015. No state income tax return examinations are currently in process. We do not expect to record or realize any material unrecognized tax benefits during 2015.

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, \$477,000 and \$1.4 million of such amortization has been reflected as income tax expense for the three and nine months ended September 30, 2015, respectively, compared to \$294,000 and \$881,000 for the same periods in 2014.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the nine months ended September 30, 2015 were \$1.5 million, \$1.4 million and \$223,000, respectively. The carrying value of the investment in affordable housing credits is \$11.4 million at September 30, 2015, compared to \$13.0 million at December 31, 2014.

**Table of Contents****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.

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy as of September 30, 2015 is set forth in the following table:

(In Thousands)	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets measured at fair value on a recurring basis</b>				
Collateralized mortgage obligations	\$	\$ 253,667	\$	\$ 253,667
FNMA		299,772		299,772
FHLMC		110,474		110,474
GNMA		61,711		61,711
U.S. Government and agencies		31,107		31,107
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$</b>	<b>\$ 756,731</b>	<b>\$</b>	<b>\$ 756,731</b>

**Assets measured at fair value on a nonrecurring basis**

<b>Other real estate owned</b>	\$	\$	\$ 3,299	\$ 3,299
<b>Loans held-for-sale</b>			33,979	33,979
<b>Impaired loans (collateral dependent)</b>			37,056	37,056

**Total assets measured at fair value on a nonrecurring basis**

\$	\$ 33,979	\$ 40,355	\$ 74,334
----	-----------	-----------	-----------

There were no material liabilities measured at fair value as of September 30, 2015.



**Table of Contents**

The table below presents the balances of assets measured at fair value as of December 31, 2014:

(In Thousands)	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Description</b>				
<b>Assets measured at fair value on a recurring basis</b>				
<i>Available-for-sale securities:</i>				
Collateralized mortgage obligations	\$	\$ 192,932	\$	\$ 192,932
FNMA		292,553		292,553
FHLMC		146,882		146,882
GNMA		77,797		77,797
U.S. Government and agencies		29,960		29,960
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$</b>	<b>\$ 740,124</b>	<b>\$</b>	<b>\$ 740,124</b>
<b>Assets measured at fair value on a nonrecurring basis</b>				
Other real estate owned	\$	\$	\$ 5,734	\$ 5,734
Loans held-for sale		28,508		28,508
Impaired loans			41,334	41,334
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$</b>	<b>\$ 28,508</b>	<b>\$ 47,068</b>	<b>\$ 75,576</b>

There were no material liabilities measured at fair value as of December 31, 2014.

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 September 30, 2015 securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately \$31.1 million in Federal Agency debentures, and \$725.6 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*

During 2014 we elected to record loans held-for-sale at their fair value. 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.

---

**Table of Contents***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 \$40.1 million and \$46.7 million at September 30, 2015 and December 31, 2014, respectively. The valuation allowance on impaired loans was \$3.0 million as of September 30, 2015 and \$5.3 million as of December 31, 2014.

*FAIR VALUE OF FINANCIAL INSTRUMENTS*

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

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

*Cash and 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. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional discussion of our internally developed models, see *Fair Value of Financial Assets* in this note.

*Loans held-for sale*

Loans held-for-sale are carried at their fair value.

*Loans*

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

## **Table of Contents**

### *Reverse mortgage loans*

For additional information on these reverse mortgage related assets, see Note 7, Reverse Mortgage Related Assets, 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*

WSFS holds 50,833 shares of Visa Class B stock. Following resolution of Visa's covered litigation, shares of Visa's Class B stock will be converted to Visa Class A shares (the current conversion rate is 1.6483 shares of Class A stock for each share of Class B stock). As our ownership is related to our prior participation in Visa's network, while Visa operated as a cooperative, this ownership is recorded on our books with zero basis.

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 \$5.8 million as of September 30, 2015.

### *Demand deposits, savings, deposits and time deposit*

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.

**Table of Contents**

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

(In Thousands)	Fair Value Measurement	September 30, 2015		December 31, 2014	
		Book Value	Fair Value	Book Value	Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	Level 1	\$ 529,037	529,037	\$ 508,039	\$ 508,039
Investment securities available-for-sale	See previous table	756,731	756,731	740,124	740,124
Investment securities held-to-maturity	Level 2	138,060	138,138	126,168	126,171
Loans, held-for-sale	See previous table	33,979	33,979	28,508	28,508
Loans, net	Level 2	3,324,020	3,281,986	3,156,652	3,121,855
Reverse mortgage loans	Level 3	24,476	24,476	29,298	29,298
Stock in FHLB of Pittsburgh	Level 2	27,943	27,943	23,278	23,278
Accrued interest receivable	Level 2	11,770	11,770	11,782	11,782
Other assets	Level 3		5,837		4,837
<b>Financial liabilities:</b>					
Deposits	Level 2	3,644,602	3,464,311	3,649,235	3,461,218
Borrowed funds	Level 2	868,379	871,082	667,775	672,850
Standby letters of credit	Level 3	191	191	151	151
Accrued interest payable	Level 2	1,760	1,760	1,004	1,004

At September 30, 2015 and December 31, 2014 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 through its 55 offices located in Delaware (44), Pennsylvania (9) Virginia (1) and Nevada (1). Retail and Commercial Banking, Commercial Real Estate Lending and other banking business units are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Bank. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment in accordance with ASC 280.

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

The 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 with approximately \$615 million in assets under management. Cypress' primary market segment is high net worth individuals, offering a balanced investment style focused on preservation of capital and providing for current income. Christiana Trust, with \$8.75 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.

**Table of Contents**

**For the three months ended September 30, 2015:**

**(In Thousands)**

	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 42,873	\$	\$ 1,984	\$ 44,857
Noninterest income	8,944	7,138	5,583	21,665
<b>Total external customer revenues</b>	<b>51,817</b>	<b>7,138</b>	<b>7,567</b>	<b>66,522</b>
Inter-segment revenues:				
Interest income	879		1,697	2,576
Noninterest income	2,028	219	26	2,273
<b>Total inter-segment revenues</b>	<b>2,907</b>	<b>219</b>	<b>1,723</b>	<b>4,849</b>
<b>Total revenue</b>	<b>54,724</b>	<b>7,357</b>	<b>9,290</b>	<b>71,371</b>
External customer expenses:				
Interest expense	3,688		172	3,860
Noninterest expenses	30,066	4,255	4,384	38,705
Provision for loan losses	1,345		108	1,453
<b>Total external customer expenses</b>	<b>35,099</b>	<b>4,255</b>	<b>4,664</b>	<b>44,018</b>
Inter-segment expenses:				
Interest expense	1,697	394	485	2,576
Noninterest expenses	245	624	1,404	2,273
<b>Total inter-segment expenses</b>	<b>1,942</b>	<b>1,018</b>	<b>1,889</b>	<b>4,849</b>
<b>Total expenses</b>	<b>37,041</b>	<b>5,273</b>	<b>6,553</b>	<b>48,867</b>
Income before taxes	\$ 17,683	\$ 2,084	\$ 2,737	\$ 22,504
Income tax provision				8,078
<b>Consolidated net income</b>				<b>\$ 14,426</b>
Capital expenditures	\$ 3,487	\$ 1,466	\$ 16	\$ 4,969
<b>As of September 30, 2015:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 78,209	\$ 448,594	\$ 2,234	\$ 529,037



Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Goodwill	<b>43,653</b>		<b>5,134</b>	<b>48,787</b>
Other segment assets	<b>4,305,469</b>		<b>184,649</b>	<b>4,490,118</b>
Total segment assets	<b>\$ 4,427,331</b>	<b>\$ 448,594</b>	<b>\$ 192,017</b>	<b>\$ 5,067,942</b>

**Table of Contents**

For the three months ended September 30, 2014:

(In Thousands)

	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 38,777	\$	\$ 2,022	\$ 40,799
Noninterest income	9,161	6,640	4,503	20,304
<b>Total external customer revenues</b>	<b>47,938</b>	<b>6,640</b>	<b>6,525</b>	<b>61,103</b>
Inter-segment revenues:				
Interest income	880		1,361	2,241
Noninterest income	1,602	204	32	1,838
<b>Total inter-segment revenues</b>	<b>2,482</b>	<b>204</b>	<b>1,393</b>	<b>4,079</b>
<b>Total revenue</b>	<b>50,420</b>	<b>6,844</b>	<b>7,918</b>	<b>65,182</b>
External customer expenses:				
Interest expense	3,952		100	4,052
Noninterest expenses	32,033	3,993	3,137	39,163
Provision for loan losses	198		135	333
<b>Total external customer expenses</b>	<b>36,183</b>	<b>3,993</b>	<b>3,372</b>	<b>43,548</b>
Inter-segment expenses				
Interest expense	1,361	360	520	2,241
Noninterest expenses	236	509	1,093	1,838
<b>Total inter-segment expenses</b>	<b>1,597</b>	<b>869</b>	<b>1,613</b>	<b>4,079</b>
<b>Total expenses</b>	<b>37,780</b>	<b>4,862</b>	<b>4,985</b>	<b>47,627</b>
<b>Income before taxes</b>	<b>\$ 12,640</b>	<b>\$ 1,982</b>	<b>\$ 2,933</b>	<b>\$ 17,555</b>
Income tax provision				6,142
<b>Consolidated net income</b>				<b>11,413</b>
Capital expenditures	\$ 914	\$ 67	\$	\$ 981
As of December 31, 2014:				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 73,395	\$ 431,527	\$ 3,117	\$ 508,039
Goodwill	43,517		5,134	48,651
Other segment assets	4,107,212	2,006	187,412	4,296,630

Total segment assets	\$ 4,224,124	\$ 433,533	\$ 195,663	\$ 4,853,320
----------------------	--------------	------------	------------	--------------

**Table of Contents**

**For the nine months ended September 30, 2015:**

**(In Thousands)**

	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 124,739	\$	\$ 6,024	\$ 130,763
Noninterest income	27,615	20,845	16,758	65,218
<b>Total external customer revenues</b>	<b>152,354</b>	<b>20,845</b>	<b>22,782</b>	<b>195,981</b>
Inter-segment revenues:				
Interest income	2,626		4,782	7,408
Noninterest income	5,810	601	73	6,484
<b>Total inter-segment revenues</b>	<b>8,436</b>	<b>601</b>	<b>4,855</b>	<b>13,892</b>
<b>Total revenue</b>	<b>160,790</b>	<b>21,446</b>	<b>27,637</b>	<b>209,873</b>
External customer expenses:				
Interest expense	11,422		437	11,859
Noninterest expenses	91,066	12,780	12,426	116,272
Provision for loan losses	5,688		324	6,012
<b>Total external customer expenses</b>	<b>108,176</b>	<b>12,780</b>	<b>13,187</b>	<b>134,143</b>
Inter-segment expenses:				
Interest expense	4,782	1,156	1,470	7,408
Noninterest expenses	674	1,882	3,928	6,484
<b>Total inter-segment expenses</b>	<b>5,456</b>	<b>3,038</b>	<b>5,398</b>	<b>13,892</b>
<b>Total expenses</b>	<b>113,632</b>	<b>15,818</b>	<b>18,585</b>	<b>148,035</b>
Income before taxes	\$ 47,158	\$ 5,628	\$ 9,052	\$ 61,838
Income tax provision				22,289
<b>Consolidated net income</b>				<b>\$ 39,549</b>
Capital expenditures	\$ 4,603	\$ 4,036	\$ 29	\$ 8,668
<b>As of September 30, 2015:</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 78,209	\$ 448,594	\$ 2,234	\$ 529,037
Goodwill	43,653		5,134	48,787
Other segment assets	4,305,469		184,649	4,490,118

Total segment assets	\$ 4,427,331	\$ 448,594	\$ 192,017	\$ 5,067,942
----------------------	--------------	------------	------------	--------------

**Table of Contents**

For the nine months ended September 30, 2014:

(In Thousands)

	WSFS Bank	Cash Connect	Wealth Management	Total
<b>Statement of Operations</b>				
External customer revenues:				
Interest income	\$ 112,178	\$	\$ 5,819	\$ 117,997
Noninterest income	26,334	18,974	12,983	58,291
<b>Total external customer revenues</b>	<b>138,512</b>	<b>18,974</b>	<b>18,802</b>	<b>176,288</b>
Inter-segment revenues:				
Interest income	2,545		4,124	6,669
Noninterest income	5,041	601	85	5,727
<b>Total inter-segment revenues</b>	<b>7,586</b>	<b>601</b>	<b>4,209</b>	<b>12,396</b>
<b>Total revenue</b>	<b>146,098</b>	<b>19,575</b>	<b>23,011</b>	<b>188,684</b>
External customer expenses:				
Interest expense	11,413		316	11,729
Noninterest expenses	87,668	11,425	9,179	108,272
Provision for loan losses	2,320		693	3,013
<b>Total external customer expenses</b>	<b>101,401</b>	<b>11,425</b>	<b>10,188</b>	<b>123,014</b>
Inter-segment expenses:				
Interest expense	4,124	1,019	1,526	6,669
Noninterest expenses	686	1,688	3,353	5,727
<b>Total inter-segment expenses</b>	<b>4,810</b>	<b>2,707</b>	<b>4,879</b>	<b>12,396</b>
<b>Total expenses</b>	<b>106,211</b>	<b>14,132</b>	<b>15,067</b>	<b>135,410</b>
<b>Income before taxes</b>	<b>\$ 39,887</b>	<b>\$ 5,443</b>	<b>\$ 7,944</b>	<b>\$ 53,274</b>
Income tax provision				12,225
<b>Consolidated net income</b>				<b>\$ 41,049</b>
Capital expenditures	\$ 2,207	\$ 156	\$ 3	\$ 2,366
As of December 31, 2014:				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 73,395	\$ 431,527	\$ 3,117	\$ 508,039
Goodwill	43,517		5,134	48,651
Other segment assets	4,107,212	2,006	187,412	4,296,630

Total segment assets	\$ 4,224,124	\$ 433,533	\$ 195,663	\$ 4,853,320
----------------------	--------------	------------	------------	--------------

---

**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 ASC 815, *Derivatives and Hedging*.

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, first payment default by the borrower. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. These indemnifications may include our repurchase of the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. We had one FNMA repurchase for the nine months ended September 30, 2015.

*Swap Guarantees.*

We entered into agreements with three unrelated financial institutions whereby those financial institutions entered into interest rate derivative contracts (interest rate swap transactions) with customers referred to them by us. By the terms of the agreements, those financial institutions have recourse to us for any exposure created under each swap transaction in the event the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. This is a customary arrangement that allows smaller financial institutions like us to provide access to interest rate swap transactions for our customers without creating the swap ourselves. These swap guarantees are accounted for as credit derivatives under ASC 815.

At September 30, 2015 there were 114 variable-rate swap transactions between third party financial institutions and our customers, compared to 101 at December 31, 2014. The initial notional aggregated amount was approximately \$451.5 million at September 30, 2015 compared to \$417.9 million at December 31, 2014. At September 30, 2015 maturities ranged from approximately two months to 10.5 years. The aggregate market value of these swaps to the customers was a liability of \$21.7 million at September 30, 2015 and \$16.5 million at December 31, 2014. There were no loss reserves for swap guarantees as of September 30, 2015.



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

Accumulated other comprehensive income (loss) 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 (loss) 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 three and nine months periods 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, June 30, 2015</b>	\$ 620	\$ (208)	\$ 817	\$ 1,229
Other comprehensive income (loss) before reclassifications	6,178		(15)	6,163
Less: Amounts reclassified from accumulated other comprehensive income	(47)			(47)
Amortization of unrealized gain on securities reclassified to held-to-maturity		(104)		(104)
Net current-period other comprehensive income (loss)	6,131	(104)	(15)	6,012
<b>Balance, September 30, 2015</b>	\$ 6,751	\$ (312)	\$ 802	\$ 7,241
<b>Balance, June 30, 2014</b>	\$ (2,583)	\$	\$ (412)	\$ (2,995)
Other comprehensive (loss) income before reclassifications	(778)		5	(773)
Less: Amounts reclassified from accumulated other comprehensive loss	(23)			(23)
Net current-period other comprehensive (loss) income	(801)		5	(796)
<b>Balance, September 30, 2014</b>	\$ (3,384)	\$	\$ (407)	\$ (3,791)
(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, 2014</b>	\$ 2,653	\$	\$ 847	\$ 3,500
	4,721		(45)	4,676

Other comprehensive income (loss) before reclassifications					
Less: Amounts reclassified from accumulated other comprehensive income	(623)			(623)	
Amortization of unrealized gain on securities reclassified to held-to-maturity		(312)		(312)	
Net current-period other comprehensive income (loss)	4,098	(312)	(45)	3,741	
<b>Balance, September 30, 2015</b>	\$ 6,751	\$ (312)	\$ 802	\$ 7,241	
<b>Balance, December 31, 2013</b>	(20,822)		\$ (472)	\$ (21,294)	
Other comprehensive income (loss) before reclassifications	18,046		65	18,111	
Less: Amounts reclassified from accumulated other comprehensive loss	(608)			(608)	
Net current-period other comprehensive income	17,438		65	17,503	
<b>Balance, September 30, 2014</b>	\$ (3,384)	\$	\$ (407)	\$ (3,791)	

**Table of Contents**

The statements of operations impacted by components of other comprehensive income are presented in the table below:

(In Thousands)	<b>Three Months Ended September 30, 2015      2014</b>		<b>Affected line item in Statements of Operations</b>
<b>Securities available-for-sale:</b>			
Realized gains on securities transactions	\$ (76)	\$ (36)	Security gains, net
Income taxes	29	13	Income tax provision
<b>Net of tax</b>	<b>\$ (47)</b>	<b>\$ (23)</b>	
<b>Net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity:</b>			
Amortization of net unrealized gains to income during the period	\$ (159)	\$	Interest income on investment securities
Income taxes	55		Income tax provision
<b>Net of tax</b>	<b>\$ (104)</b>	<b>\$</b>	
<b>Amortization of Defined Benefit Pension items:</b>			
Prior service (credits) costs	\$ (19)	\$ 22	
Actuarial (gains) losses	(5)	(14)	
Total before tax	\$ (24)	\$ 8	Salaries, benefits and other compensation
Income taxes	9	(3)	Income tax provision
<b>Net of tax</b>	<b>(15)</b>	<b>5</b>	
<b>Total reclassifications</b>	<b>\$ (166)</b>	<b>\$ (18)</b>	
<b>Securities available-for-sale:</b>			
Realized gains on securities transactions	\$ (1,004)	\$ (979)	Security gains, net
Income taxes	381	371	Income tax provision

<b>Net of tax</b>	<b>\$ (623)</b>	<b>\$ (608)</b>
-------------------	-----------------	-----------------

**Net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity:**

Amortization of net unrealized gains to income during the period	\$ (487)	\$	Interest income on investment securities
Income taxes	175		Income tax provision

<b>Net of tax</b>	<b>\$ (312)</b>	<b>\$</b>
-------------------	-----------------	-----------

**Amortization of Defined Benefit Pension items:**

Prior service (credits) costs	\$ (57)	\$ 905
Transition obligation		245
Actuarial (gains) losses	(15)	(1,046)

Total before tax	\$ (72)	\$ 104	Salaries, benefits and other compensation
Income taxes	27	(39)	Income tax provision

<b>Net of tax</b>	<b>\$ (45)</b>	<b>\$ 65</b>
-------------------	----------------	--------------

<b>Total reclassifications</b>	<b>\$ (980)</b>	<b>\$ (543)</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. We believe we acted appropriately and we are vigorously defending ourselves against the complaint.

Based upon available information we believe the estimate of the aggregate range of reasonably possible losses for this legal proceeding is from approximately \$0 to approximately \$5.0 million at September 30, 2015. Costs of litigation were initially covered by insurance; however, such costs have now exceeded the limits of insurance coverage for this case. Cross motions for summary judgment are currently pending before the court.

Four purported shareholder derivative and class action complaints relating to the pending 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).

As previously disclosed, on June 11, 2015, solely to avoid the costs, risks and uncertainties inherent in litigation, Alliance, WSFS and the other Defendants entered into a Memorandum of Understanding (the MOU) with the plaintiffs (the Plaintiffs) regarding the settlement of the Alliance Action. Pursuant to the MOU, Alliance filed with the SEC and made publicly available to Alliance shareholders supplemental disclosures, and the Plaintiffs agreed to release Alliance, WSFS and the other Defendants from all claims related to the Merger Agreement and the proposed merger, subject to approval of the Court of Common Pleas of Delaware County (the Court). In the MOU, the parties agreed to negotiate in good faith to prepare a stipulation of settlement to be filed with the Court and other documentation as may be required to effectuate the settlement. There can be no assurance that the parties ultimately will enter into a stipulation of settlement or that the Court will approve the settlement even if the parties were to enter into such stipulation. The proposed settlement contemplated by the MOU will become void in the event that the parties do not enter into such stipulation or the Court does not approve the settlement.

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. Management does not anticipate that the ultimate liability, if any, arising out of such other proceedings will have a material effect on the Consolidated Financial Statements.

**Table of Contents**

**16. SUBSEQUENT EVENTS**

On October 9, 2015, the Company completed the merger of Alliance into the Company and Alliance Bank into WSFS Bank. Alliance is a locally-managed institution with eight branch locations headquartered in Broomall, PA. As of June 30, 2015, Alliance had approximately \$340 million in deposits and \$415 million in total assets. In accordance with the terms of the Agreement and Plan of Reorganization, dated March 2, 2015, holders of shares of Alliance common stock received, in aggregate, \$26.6 million in cash and 2,459,223 shares or approximately 9% of outstanding 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 NASDAQ. The results of the combined entity's operations will be included in our Consolidated Financial Statements from the date of acquisition.

The acquisition of Alliance will be accounted for as a business combination using the acquisition method of accounting, which includes estimating the fair value of assets acquired, liabilities assumed and consideration paid as of the acquisition date. These preliminary estimates will be completed during the fourth quarter of 2015 and will be subject to adjustments during the up to one year measurement period after the acquisition.

---

**Table of Contents**

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

**OVERVIEW**

The Company is a thrift 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 continuously operating under the same name in the United States. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader fiduciary powers than many other types of financial institutions. A fixture in the community, WSFS has been in operation for more than 183 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 Service 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 \$2.8 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering a high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits. As of September 30, 2015, we service our customers primarily from our 55 offices located in Delaware (44), Pennsylvania (9), 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 Array and Arrow. Array is a mortgage banking company specializing in a variety of residential mortgage and refinancing solutions, and the related entity, Arrow, is an abstract and title company.

On October 9, 2015, we completed the acquisition of Alliance, the parent company of Alliance Bank. We expect this acquisition to build our market share, expand our customer base and enhance our fee income. Additional information regarding the acquisition can be found in Note 16. Subsequent Events.

Our Cash Connect segment is a premier provider of ATM Vault Cash and related services in the United States. It manages \$553 million in vault cash in over 16,000 ATMs nationwide and provides related services such as, online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates 452 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 14-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 \$615 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 \$8.75

billion in assets under 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.



---

**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. 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; 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, 2014 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 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 2015, 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, 2014 and Note 1, Basis of Presentation, to the unaudited Consolidated Financial Statements.

**FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY**

**Financial Condition**

Our total assets increased \$214.6 million, or 4%, to \$5.07 billion during the nine months ended September 30, 2015. Included in this increase was a \$167.4 million, or 5%, increase in net loans and a \$28.5 million, or 3%, increase in investment securities.

Total liabilities increased \$198.1 million, or 5%, to \$4.56 billion during the nine months ended September 30, 2015. This increase was primarily the result of an increase in Federal Home Loans Bank advances of \$237.1 million, or 58%. Partially offsetting this increase was a \$41.3 million decrease in total customer deposits primarily as a result of allowing older, higher-rate CDs to run-off as a part of continued net interest margin management.

**Capital Resources**

In the third quarter of 2015, WSFS repurchased 561,914 shares of common stock at an average price of \$27.75, effectively completing our 5% buyback program approved by the Board of Directors in the third quarter of 2014.

On October 29, 2015, the Board of Directors approved a new share buyback program of up to an additional 5% of common stock outstanding. At that time, the Board of Directors also approved a 20% increase in our quarterly cash dividend to \$0.06 per share.

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 on record as of May 4, 2015.

Stockholders' equity increased \$16.6 million between December 31, 2014 and September 30, 2015. This increase was primarily due to net income of \$39.5 million during the nine months ended September 30, 2015 which was partially offset by the repurchase of common stock for \$28.3 million during the nine months ended September 30, 2015.

Tangible common book value per share of common stock (a non-GAAP financial measure) was \$16.40 at September 30, 2015, an increase of \$1.10, or 7%, from \$15.30 at December 31, 2014. Book value per share of common stock was \$18.46 at September 30, 2015, an increase from \$17.34 at December 31, 2014.

**Table of Contents**

Below is a table comparing WSFS Bank's consolidated capital position to the minimum regulatory requirements as of September 30, 2015:

(In Thousands)	Consolidated Bank Capital		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	% of Assets	Amount	% of Assets	Amount	% of Assets
Total Capital (to Risk-Weighted Assets)	\$ 577,052	13.80%	\$ 334,622	8.00%	\$ 418,278	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	540,096	12.91	250,967	6.00	334,622	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	540,096	12.91	188,225	4.50	271,880	6.50
Tier 1 Leverage Capital (to Risk-Weighted Assets)	540,096	10.81	199,858	4.00	249,823	5.00

Under new guidelines issued by banking regulators effective January 1, 2015, savings institutions such as WSFS Bank must maintain a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, a minimum ratio of total capital to risk-weighted assets of 8.0%, and a minimum Tier 1 leverage ratio of 4.0%. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on WSFS Bank's financial statements. The Bank has chosen to opt-out of including Accumulated Other Comprehensive Income in regulatory capital.

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.

At September 30, 2015, WSFS Bank was in compliance with regulatory capital requirements and all of its regulatory capital ratios exceeded well-capitalized regulatory benchmarks. WSFS Bank's total risk based capital ratio was 13.80%, Tier 1 capital ratio was 12.91% and total common equity tier 1 capital was 12.91%. In addition, and not included in the WSFS Bank capital, WSFS separately held \$27.1 million in cash to support share repurchases, potential dividends, acquisitions, strategic growth plans and other general capital purposes.

**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.

During the nine months ended September 30, 2015, cash and cash equivalents increased \$21.0 million to \$529.0 million. This increase was primarily the result of a \$237.1 million increase in FHLB advances offset by a \$167.4 million increase in gross loans and a \$41.3 million decrease in customer deposits.

Table of ContentsNONPERFORMING 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)	September 30, 2015	December 31, 2014
<b>Nonaccruing loans:</b>		
Commercial	\$ 5,414	\$ 2,706
Owner-occupied commercial	1,170	2,475
Consumer	4,024	3,557
Commercial mortgages	6,720	8,245
Residential mortgages	6,588	7,068
Construction		
<b>Total nonaccruing loans</b>	<b>23,916</b>	24,051
Assets acquired through foreclosure	3,299	5,734
Troubled debt restructuring (accruing)	13,616	22,600
<b>Total nonperforming assets</b>	<b>\$ 40,831</b>	\$ 52,385
<b>Past due loans: <sup>(1)</sup></b>		
Residential mortgages	\$ 423	\$
Consumer	495	4
Commercial and commercial mortgages		
<b>Total past due loans</b>	<b>\$ 918</b>	\$ 4
<b>Ratio of allowance for loan losses to total loans <sup>(2)</sup></b>	<b>1.08 %</b>	1.23 %
<b>Ratio of nonaccruing loans to total loans <sup>(2)</sup></b>	<b>0.71</b>	0.75
<b>Ratio of nonperforming assets to total assets</b>	<b>0.81</b>	1.08
<b>Ratio of loan loss allowance to nonaccruing loans</b>	<b>152.25</b>	163.93

Ratio of loan loss allowance to total nonperforming assets	<b>89.18</b>	75.26
--	--------------	-------

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

(2) Total loans exclude loans held for sale.

Nonperforming assets decreased \$11.6 million between December 31, 2014 and September 30, 2015. As a result, nonperforming assets as a percentage of total assets decreased from 1.08% at December 31, 2014 to 0.81% at September 30, 2015. In addition to continued success in collections, this significant reduction is a result of a \$5.7 million net charge-off for one relationship.

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

(In Thousands)	<b>For the Nine Months Ended September 30, 2015</b>	For the Year Ended December 31, 2014
Beginning balance	\$ 52,385	\$ 47,814
Additions	8,212	38,322
Collections	(9,826)	(25,111)
Transfers to accrual	(95)	(96)
Charge-offs, net	(9,845)	(8,544)
Ending balance	\$ 40,831	\$ 52,385



**Table of Contents**

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

**INTEREST 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 September 30, 2015, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by \$180.1 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window increased from 101.2% at December 31, 2014 to 107.3% at September 30, 2015. The one-year interest-sensitive gap as a percentage of total assets changed to 3.55% at September 30, 2015 from 0.63% at December 31, 2014.

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 September 30, 2015 and December 31, 2014:

% Change in Interest Rate (Basis Points)	September 30, 2015		December 31, 2014	
	% Change in Net Interest Margin (1)	Economic Value of Equity (2)	% Change in Net Interest Margin (1)	Economic Value of Equity (2)
+300	7%	13.70%	4%	13.76%
+200	3%	13.70%	2%	13.81%
+100	0%	13.41%	-1%	13.59%
	%	13.06%	%	13.37%
-100	-1%	12.07%	-2%	12.51%
-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.

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.

**Table of Contents**

**COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

**Results of Operations**

We recorded net income of \$14.4 million, or \$0.51 per diluted common share, for the three months ended September 30, 2015, a \$3.0 million increase, or 26% increase from the \$11.4 million, or \$0.41 per share, recorded for the three months ended September 30, 2014. The increase in net income is primarily due to organic growth of our business. Earnings for the third quarter of 2015 were impacted by a \$4.3 million increase in net interest income primarily due to organic and acquisition growth as well as an improved balance sheet mix. Also favorably impacting earnings for the third quarter of 2015 was a \$1.4 million increase in noninterest income due primarily to growth in our Wealth Management segment and a \$500,000 decrease in noninterest expense reflecting lower corporate development costs and our continued focus on operating leverage and efficiency. Partially offsetting these increases was a \$1.1 million increase in the provision for loan losses.

Net income for the first nine months of 2015 was \$39.5 million, or \$1.39 per diluted common share, compared to \$41.0 million, or \$1.49 per share, for the first nine months of 2014. The most significant cause for the decrease in net income was a one-time income tax benefit of approximately \$6.7 million, or \$0.24 in diluted earnings per share in 2014. Excluding this item, net income would have increased \$5.2 million from \$34.3 million, or \$1.25 per share, for the nine months ended September 30, 2014. Net interest income increased \$12.6 million from the prior year as a result of organic and acquisition growth particularly in higher yielding loans combined with an increase in lower rate core deposits and a decrease in higher rate time deposits and broker deposits. Additionally, noninterest income increased \$6.9 million from the prior period due to continued growth in our Wealth Management segment as well as meaningful growth in our mortgage originations business and Cash Connect segment. Partially offsetting these increases was an \$8.0 million increase in noninterest expenses primarily due to salaries and benefits and other compensation expense reflecting our growth and recent acquisitions. Additionally, the provision for loans losses increased \$3.0 million.

**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:

	Three Months Ended September 30,			2014		
	2015			2014		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans <sup>(2)</sup> <sup>(3)</sup> :						
Commercial real estate loans	\$ 1,076,077	\$ 12,630	4.69%	\$ 885,953	\$ 10,670	4.82%
Residential real estate loans <sup>(4)</sup>	249,645	2,516	4.03	245,085	2,345	3.83
Commercial loans	1,738,824	19,484	4.52	1,639,318	18,276	4.40
Consumer loans	335,487	3,807	4.50	317,053	3,559	4.45
Total loans	3,400,033	38,437	4.54	3,087,409	34,850	4.53
Mortgage-backed securities <sup>(5)</sup> <sup>(6)</sup>	743,312	3,588	1.93	689,123	3,317	1.92
Investment securities <sup>(5)</sup> <sup>(6)</sup>	152,356	875	3.32	158,087	837	3.08
Reverse mortgages <sup>(5)</sup> <sup>(6)</sup>	25,485	1,561	24.50	31,435	1,323	16.83
Other interest-earning assets	31,346	396	5.01	34,535	472	5.42
Total interest-earning assets	4,352,532	44,857	4.14	4,000,589	40,799	4.13
Allowance for loan losses	(40,978)			(41,694)		
Cash and due from banks	88,855			84,647		
Cash in non-owned ATMs	415,652			377,879		
Bank-owned life insurance	76,947			67,089		
Other noninterest-earning assets	157,811			133,567		
Total assets	\$ 5,050,819			\$ 4,622,077		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 677,665	\$ 162	0.09%	\$ 640,401	\$ 155	0.10%
Money market	961,654	622	0.26	783,561	374	0.19
Savings	400,275	52	0.05	400,049	58	0.06
Customer time deposits	395,637	553	0.55	472,853	1,031	0.87
Total interest-bearing customer deposits	2,435,231	1,389	0.23	2,296,864	1,618	0.28
Brokered certificates of deposit	212,117	198	0.37	221,298	205	0.37

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Total interest-bearing deposits	<b>2,647,348</b>	<b>1,587</b>	<b>0.24</b>	2,518,162	1,823	0.29
FHLB of Pittsburgh advances	<b>693,202</b>	<b>868</b>	<b>0.50</b>	611,327	663	0.42
Trust preferred borrowings	<b>67,011</b>	<b>343</b>	<b>2.03</b>	67,011	332	1.94
Senior Debt	<b>55,000</b>	<b>942</b>	<b>6.85</b>	55,000	941	6.84
Other borrowed funds <sup>(7)</sup>	<b>138,465</b>	<b>120</b>	<b>0.35</b>	149,939	293	0.79
<b>Total interest-bearing liabilities</b>	<b>3,601,026</b>	<b>3,860</b>	<b>0.43</b>	3,401,439	4,052	0.48
Noninterest-bearing demand deposits	<b>895,711</b>			734,490		
Other noninterest-bearing liabilities	<b>48,405</b>			37,137		
Stockholders equity	<b>505,677</b>			449,011		
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,050,819</b>			\$ 4,622,077		
<b>Excess of interest-earning assets over interest-bearing liabilities</b>	<b>\$ 751,506</b>			\$ 599,150		
<b>Net interest and dividend income</b>		<b>\$ 40,997</b>			<b>\$ 36,747</b>	
<b>Interest rate spread</b>			<b>3.71%</b>			<b>3.65%</b>
<b>Net interest margin <sup>(8)</sup></b>			<b>3.79%</b>			<b>3.70%</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**

	Nine Months Ended September 30,					
	2015			2014		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans <sup>(2) (3)</sup> :						
Commercial real estate loans	\$ 1,011,975	\$ 35,657	4.70%	\$ 857,146	\$ 29,541	4.60%
Residential real estate loans <sup>(8)</sup>	251,520	7,440	3.94	239,508	6,898	3.84
Commercial loans	1,724,712	57,613	4.49	1,624,710	53,497	4.37
Consumer loans	329,543	11,061	4.49	309,910	10,435	4.50
Total loans	3,317,750	111,771	4.51	3,031,274	100,371	4.41
Mortgage-backed securities <sup>(4) (6)</sup>	739,187	10,544	1.90	694,618	10,130	1.94
Investment securities <sup>(4)</sup>	154,689	2,587	3.22	147,752	2,443	3.28
Reverse mortgages <sup>(4) (5) (6)</sup>	26,879	3,963	19.66	34,365	3,917	15.20
Other interest-earning assets	30,560	1,898	8.30	35,083	1,136	4.33
Total interest-earning assets	4,269,065	130,763	4.14	3,943,092	117,997	4.04
Allowance for loan losses	(40,196)			(41,871)		
Cash and due from banks	81,036			79,692		
Cash in non-owned ATMs	415,652			366,302		
Bank-owned life insurance	76,769			64,579		
Other noninterest-earning assets	152,619			133,985		
Total assets	\$ 4,954,945			\$ 4,545,779		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 680,485	\$ 472	0.09%	\$ 632,498	\$ 449	0.09%
Money market	918,181	1,756	0.26	767,553	1,021	0.18
Savings	407,580	158	0.05	399,450	178	0.06
Customer time deposits	445,224	2,456	0.74	459,426	2,968	0.86
Total interest-bearing customer deposits	2,451,470	4,842	0.26	2,258,927	4,616	0.27
Brokered certificates of deposit	198,007	512	0.35	222,355	577	0.35
Total interest-bearing deposits	2,649,477	5,354	0.27	2,481,282	5,193	0.28
FHLB of Pittsburgh advances	647,129	2,332	0.48	650,215	1,850	0.38
Trust preferred borrowings	67,011	1,009	2.01	67,011	988	1.94
Senior Debt	55,000	2,825	6.85	55,000	2,824	6.77
Other borrowed funds <sup>(9)</sup>	131,347	339	0.34	150,886	874	0.77
Total interest-bearing liabilities	3,549,964	11,859	0.45	3,404,394	11,729	0.46

Noninterest-bearing demand deposits	<b>857,082</b>	682,651
Other noninterest-bearing liabilities	<b>42,865</b>	34,772
Stockholders equity	<b>505,034</b>	423,962
Total liabilities and stockholders equity	<b>\$ 4,954,945</b>	\$ 4,545,779
Excess of interest-earning assets over interest-bearing liabilities	<b>\$ 719,101</b>	\$ 538,698
Net interest income	<b>\$ 118,904</b>	\$ 106,268
Interest rate spread	<b>3.69%</b>	3.58%
Net interest margin	<b>3.77%</b>	3.65%

- (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 September 30, 2015, net interest income increased \$4.3 million, or 12% from the three months ended September 30, 2014, and the net interest margin was 3.79%, a nine basis point increase compared to 3.70% for the third quarter of 2014. The increase in net interest income and net interest margin from the third quarter of 2014 reflects a positive performance in our purchased loan portfolio and a strong performance in our reverse mortgage portfolio as well as an improved balance sheet mix due to successful organic and acquisition growth and an increase in lower rate core deposits along with a decrease in higher-rate time and brokered deposits overall.

The net interest margin for the nine months ended September 30, 2015 was 3.77%, compared to 3.65% for the same period in 2014, a 12 basis point increase. Compared to the nine months ended September 30, 2014, net interest income increased \$12.6 million, or 12% in the nine months ended September 30, 2015. This increase included an \$808,000 special FHLB dividend which added 4 basis points to the net interest margin for the first nine months of 2015. In addition and similar to the quarterly discussion above, the increase in net interest margin and income reflects a positive performance in our purchased loan portfolio and a strong performance in our reverse mortgage portfolio as well as improvement due to increases from higher yielding loans and improved 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 nine months ended September 30, 2015 and 2014, we recorded a provision for loan losses of \$6.0 million and \$3.0 million, respectively. The increase was primarily due to a \$9.1 million C&I problem loan relationship previously classified as an accruing TDR, which was moved to nonaccruing status during the second quarter of 2015 and resulted in an incremental increase in the provision for loan losses of \$3.6 million during the second quarter of 2015.

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 \$36.4 million at September 30, 2015 decreased from \$39.4 million at December 31, 2014, reflecting overall improved credit quality notwithstanding the problem loan discussed above. The ratio of allowance for loan losses to total gross loans was 1.08% at September 30, 2015, compared to 1.23% at December 31, 2014. The allowance for loan losses and provision reflect the following:

Total gross loans increased \$165.5 million, or 5%, at September 30, 2015 when compared to December 31, 2014.

Total loan delinquency decreased to 0.53% as of September 30, 2015, compared to 0.55% as of December 31, 2014.

Classified loans declined and the ratio of total classified loans to Tier 1 capital ALLL also improved to 17.00% from 20.5% as of December 31, 2014.



Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Net charge-offs were \$9.0 million for the nine months ended September 30, 2015 (including \$5.7 million for the C&I relationship mentioned above) compared to \$4.8 million for the nine months ended September 30, 2014.

Total nonperforming assets declined \$8.4 million to \$40.8 million during the nine months ended September 30, 2015.

**Table of Contents**

The table below represents a summary of changes in the allowance for loan losses for the nine months ended September 30, 2015 and 2014, respectively.

(In Thousands)	For the Nine Months Ended	
	September 30,	
	2015	2014
Beginning balance	\$ 39,426	\$ 41,244
Provision for loan losses	6,012	3,013
Charge-offs:		
Commercial	6,184	674
Owner-occupied commercial	623	261
Commercial real estate	808	88
Construction		3,335
Residential real estate	397	593
Consumer	2,074	702
Overdrafts	496	1,393
<b>Total charge-offs</b>	<b>10,582</b>	<b>7,046</b>
Recoveries:		
Commercial	198	129
Owner-occupied commercial	62	43
Commercial real estate	83	192
Construction	179	873
Residential real estate	195	244
Consumer	591	370
Overdrafts	248	422
<b>Total recoveries</b>	<b>1,556</b>	<b>2,273</b>
<b>Net charge-offs</b>	<b>9,026</b>	<b>4,773</b>
Ending balance	\$ 36,412	\$ 39,484
Net charge-offs to average gross loans outstanding, net of unearned income <sup>(1)</sup>	<b>0.36%</b>	0.21%

<sup>(1)</sup> Ratios for the nine months ended September 30, 2015 and 2014 are annualized.

**Noninterest (fee) Income**

During the third quarter of 2015, the company earned fee income of \$21.7 million, an increase of \$1.4 million, or 7%, compared to \$20.3 million the third quarter of 2014. Excluding net security gains in both periods, fee income increased \$1.3 million. This increase is a result of continued organic growth in the Wealth Management and Cash Connect segments, including Wealth Management revenue of \$1.0 million and credit/debit card and ATM income of

\$267,000.

For the nine months ended September 30, 2015, the company earned fee income of \$65.2 million, an increase of \$6.9 million, or 12%, compared to the \$58.3 million of fee income for the nine months ended September 30, 2014. This overall increase also reflects our expansion in the Wealth Management and the Cash Connect segments as well as increased mortgage banking activities. The increase in fee income included increases in Wealth Management of \$3.7 million, mortgage banking activities of \$1.5 million, and credit/debit card and ATM income of \$980,000.

**Table of Contents****Noninterest Expense**

Noninterest expense for the third quarter of 2015 was \$38.7 million, a decrease of \$458,000, or 1%, from \$39.2 million in the third quarter of 2014 as corporate development costs were \$1.8 million higher in the third quarter of 2014. This was related to the closing of our merger with FNBW in that period. Offsetting the decrease in corporate development costs was a \$1.5 million increase in salaries, benefits and other compensation to support our significant organic and acquisition growth. Excluding corporate development costs in both periods, noninterest expense increased \$1.3 million, or 4%, primarily due to expenses related to our organic growth and recent acquisitions.

For the nine months ended September 30, 2015, noninterest expense was \$116.3 million, an increase of \$8.0 million, or 7%, from \$108.3 million at September 30, 2014. Excluding corporate development costs in both periods, noninterest expense increased \$8.9 million, or 8%, due primarily to increases in salaries, benefits and other compensation expense of \$5.7 million, marketing expense of \$626,000, and occupancy expenses of \$518,000 due to our significant organic and acquisition growth.

**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 \$8.1 million and \$22.3 million during the three months and nine months ended September 30, 2015 respectively, compared to an income tax expense of \$6.1 million and \$12.2 million for the same periods in 2014.

The first quarter of 2014 included the recognition of \$6.7 million of tax benefits related to the legal call of our reverse mortgage trust bonds as more fully discussed in Note 10, Income Taxes to our unaudited Consolidated Financial Statements. Our effective tax rate was 35.9% and 36.0% for the three and nine months September 30, 2015, respectively, compared to 35.0% and 22.9% during the same periods in 2014. Excluding the reverse mortgage tax benefit, our effective tax rate was 35.6% for the nine months ended September 30, 2014.

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)	<b>September 30, 2015</b>	December 31, 2014
--	-------------------------------	----------------------

**Tangible Common Book Value per Share of  
Common Stock**

End of period balance sheet data:

<b>Stockholders equity</b>	<b>\$ 505,617</b>	<b>\$ 489,051</b>
Goodwill and other intangible assets	(56,339)	(57,593)

<b>Tangible common equity (numerator)</b>	<b>\$ 449,278</b>	<b>\$ 431,458</b>
---	-------------------	-------------------

<b>Shares of common stock outstanding (denominator)</b>	<b>27,392</b>	<b>27,419</b>
---	---------------	---------------

<b>Book value per share of common stock</b>	<b>\$ 18.46</b>	<b>\$ 17.34</b>
Goodwill and other intangible assets	(2.06)	(2.04)

<b>Tangible book value per share of common stock</b>	<b>\$ 16.40</b>	<b>\$ 15.30</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 September 30, 2015 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.



**Table of Contents****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 September 30, 2015, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Our management does not believe there have been any material changes to the risk factors previously disclosed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, 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 September 30, 2015.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
2015				
July	21,200	\$ 28.15	21,200	548,618
August	262,216	27.94	262,216	286,402



September	278,498	27.54	278,498	7,904
Total	561,914	\$ 27.75	561,914	

- (1) During the third quarter of 2014, 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. This program was completed in September 2015.

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Table of Contents**

**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: November 6, 2015

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

Date: November 6, 2015

/s/ Rodger Levenson  
Rodger Levenson  
Executive Vice President and  
  
Chief Financial Officer  
(Principal Financial and Accounting Officer)