

WSFS FINANCIAL CORP
Form 10-Q
May 06, 2016
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 001-35638

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

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

Registrant's telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 29, 2016.

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

29,536,577
(Shares Outstanding)

Table of Contents

WSFS FINANCIAL CORPORATION

FORM 10-Q

INDEX

	Page
PART I. Financial Information	
Item 1.	Financial Statements (Unaudited)
	<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015</u>
	3
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015</u>
	4
	<u>Consolidated Statements of Condition as of March 31, 2016 and December 31, 2015</u>
	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>
	6
	<u>Notes to the Consolidated Financial Statements for the Three Months Ended March 31, 2016 and 2015</u>
	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	40
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	51
Item 4.	<u>Controls and Procedures</u>
	51
PART II. Other Information	
	51
Item 1.	<u>Legal Proceedings</u>
	51
Item 1A.	<u>Risk Factors</u>
	51
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	52
Item 3.	<u>Defaults upon Senior Securities</u>
	52
Item 4.	<u>Mine Safety Disclosure</u>
	52
Item 5.	<u>Other Information</u>
	52
Item 6.	<u>Exhibits</u>
	52
	<u>Signatures</u>
	53
Exhibit 31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	Instance Document
Exhibit 101.SCH	Schema Document

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

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 March 31, 2016 2015 (Unaudited) (In Thousands, Except Per Share Data)	
Interest income:		
Interest and fees on loans	\$ 43,517	\$ 36,244
Interest on mortgage-backed securities	3,894	3,433
Interest and dividends on investment securities:		
Taxable	77	61
Tax-exempt	1,143	799
Interest on reverse mortgage loans	1,045	1,236
Other interest income	370	1,078
	50,046	42,851
Interest expense:		
Interest on deposits	2,118	1,942
Interest on Federal Home Loan Bank advances	1,048	713
Interest on federal funds purchased and securities sold under agreements to repurchase	182	80
Interest on trust preferred borrowings	371	327
Interest on senior debt	942	942
Interest on other borrowings	29	30
	4,690	4,034
Net interest income	45,356	38,817
Provision for loan losses	780	786
Net interest income after provision for loan losses	44,576	38,031
Noninterest income:		
Credit/debit card and ATM income	6,901	6,027
Deposit service charges	4,276	3,905
Wealth management income	5,254	5,093
Mortgage banking activities, net	1,654	1,703
Securities gains, net	305	451
Loan fee income	477	463
Bank owned life insurance income	231	203
Other income	3,972	3,250
	23,070	21,095

Noninterest expense:		
Salaries, benefits and other compensation	22,876	21,010
Occupancy expense	4,270	3,878
Equipment expense	2,473	2,082
Data processing and operations expenses	1,542	1,422
Professional fees	2,403	1,472
FDIC expenses	838	669
Loan workout and OREO expenses	503	(1)
Marketing expense	664	584
Corporate development expense	569	596
Other operating expense	7,061	7,201
	43,199	38,913
Income before taxes	24,447	20,213
Income tax provision	8,677	7,324
Net income	\$ 15,770	\$ 12,889
Earnings per share:		
Basic	\$ 0.53	\$ 0.46
Diluted	\$ 0.52	\$ 0.45

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 31-Mar	
	2016	2015
	(Unaudited)	
	(In Thousands)	
Net Income	\$ 15,770	\$ 12,889
Other comprehensive income:		
Net change in unrealized gains (losses) on investment securities available-for-sale		
Net unrealized gains arising during the period, net of tax expense of \$6,479 and \$2,794, respectively	10,572	4,567
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$116 and \$171, respectively	(189)	(280)
	10,383	4,287
Net change in securities held-to-maturity		
Amortization of unrealized gain on securities reclassified to held-to-maturity, net of tax (benefit) of \$65 and \$0, respectively	(103)	(171)
Net change in unfunded pension liability		
Change in unfunded pension liability related to unrealized gain (loss), prior service cost and transition obligation, net of tax expense (benefit) of \$306 and (\$9), respectively	478	(15)
Total other comprehensive income	10,758	4,101
Total comprehensive income	\$ 26,528	\$ 16,990

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)	March 31, 2016	December 31, 2015
	(Unaudited)	
Assets:		
Cash and due from banks	\$ 92,543	\$ 83,065
Cash in non-owned ATMs	497,322	477,924
Interest-bearing deposits in other banks	163	190
Total cash and cash equivalents	590,028	561,179
Investment securities, available-for-sale	774,712	721,029
Investment securities, held-to-maturity at cost	166,962	165,862
Loans held-for-sale at fair value	36,178	41,807
Loans, net of allowance for loan losses of 37,556 at March 31, 2016 and \$37,089 at December 31, 2015	3,757,729	3,729,050
Reverse mortgage loans	24,739	24,284
Bank-owned life insurance	90,439	90,208
Stock in Federal Home Loan Bank of Pittsburgh, at cost	30,711	30,519
Assets acquired through foreclosure	3,979	5,080
Accrued interest receivable	13,992	14,040
Premises and equipment	38,992	39,569
Goodwill	84,854	85,212
Intangible assets	9,718	10,083
Other assets	61,961	66,715
Total assets	\$ 5,684,994	\$ 5,584,637
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 964,487	\$ 958,238
Interest-bearing demand	786,780	784,619
Money market	1,107,421	1,090,050
Savings	449,061	439,918
Time	322,260	333,000
Jumbo certificates of deposit - customer	238,679	254,011
Total customer deposits	3,868,688	3,859,836
Brokered deposits	200,083	156,730
Total deposits	4,068,771	4,016,566
Federal funds purchased and securities sold under agreements to repurchase	127,525	128,200
Federal Home Loan Bank advances	707,826	669,514

Trust preferred borrowings	67,011	67,011
Senior debt	53,840	53,675
Other borrowed funds	15,062	14,486
Accrued interest payable	1,340	801
Other liabilities	46,039	53,913
Total liabilities	5,087,414	5,004,166
Stockholders Equity:		
Common stock \$0.01 par value, 65,000,000 shares authorized; issued 56,006,743 at March 31, 2016 and 55,945,245 at December 31, 2015	561	560
Capital in excess of par value	257,793	256,435
Accumulated other comprehensive income	11,454	696
Retained earnings	584,617	570,630
Treasury stock at cost, 26,484,272 shares at March 31, 2016 and 26,182,401 shares at December 31, 2015	(256,845)	(247,850)
Total stockholders equity	597,580	580,471
Total liabilities and stockholders equity	\$ 5,684,994	\$ 5,584,637

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

Table of Contents

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2016	2015
	(Unaudited)	
	(In Thousands)	
Operating activities:		
Net Income	\$ 15,770	\$ 12,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	780	786
Depreciation of premises and equipment, net	1,903	1,519
Amortization of fees and discounts, net	3,895	3,068
Amortization of intangible assets	549	466
Decrease (increase) in accrued interest receivable	48	(222)
(Increase) decrease in other assets	(3,534)	(4,275)
Origination of loans held-for-sale	(72,474)	(83,411)
Proceeds from sales of loans held-for-sale	77,834	66,225
Gain on mortgage banking activities, net	(1,654)	(1,703)
Gain on sale of securities, net	(305)	(451)
Stock-based compensation expense	758	1,364
Excess tax benefit from stock-based compensation	(419)	(522)
Increase in accrued interest payable	539	617
(Decrease) increase in other liabilities	(7,930)	(3,834)
Loss (gain) on sale of other real estate owned and valuation adjustments, net	76	75
Deferred income tax expense	3,293	2,389
Increase in value of bank-owned life insurance	(231)	(203)
Increase in capitalized interest, net, on reverse mortgage loans	(1,193)	(1,236)
Net cash provided by (used for) operating activities	\$ 17,705	\$ (6,459)
Investing activities:		
Purchases of investment securities held-to-maturity	(3,329)	
Repayments of investment securities held-to-maturity	1,335	
Maturities and calls of investment securities held-to-maturity	400	
Sale of investment securities available-for-sale	38,932	35,553
Purchases of investment securities available-for-sale	(91,963)	(94,300)
Repayments of investment securities available-for-sale	15,463	19,399
Maturities of investment securities available for sale		1,761
Repayments on reverse mortgages	1,582	3,743
Disbursements for reverse mortgages	(844)	(244)
Net increase in loans	(30,748)	(36,108)
Net (increase) decrease in stock of FHLB	(192)	(4,377)
Sales of assets acquired through foreclosure, net	1,442	1,184

Investment in premises and equipment, net	(1,234)	(817)
Net cash used for investing activities	\$ (69,156)	\$ (74,206)
Financing activities:		
Net increase in demand and saving deposits	35,907	(103,384)
(Decrease) increase in time deposits	(26,072)	(26,970)
Increase in brokered deposits	43,353	6,668
(Decrease) increase in loan payable	(407)	21
Receipts from FHLB advances	28,349,212	14,439,318
Repayments of FHLB advances	(28,310,900)	(14,221,453)
Receipts from federal funds purchased and securities sold under agreement to repurchase	8,710,770	6,981,250
Repayments of federal funds purchased and securities sold under agreement to repurchase	(8,711,445)	(6,995,625)
Dividends paid	(1,783)	(1,405)
Issuance of common stock and exercise of common stock options	241	498
Purchase of treasury stock	(8,995)	(879)
Excess tax benefit from stock-based compensation	419	522
Net cash provided by financing activities	\$ 80,300	\$ 78,561
Increase (decrease) in cash and cash equivalents	28,849	(2,104)
Cash and cash equivalents at beginning of period	561,179	508,039
Cash and cash equivalents at end of period	\$ 590,028	\$ 505,935
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest during the period	\$ 4,151	\$ 3,417
Cash paid for income taxes, net	9,554	8,566
Loans transferred to other real estate owned	417	1,613
Loans transferred to portfolio from held-for-sale at fair value	1,510	211
Net change in accumulated other comprehensive income	10,758	4,101
Non-cash goodwill adjustments, net	(358)	173

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 ENDED MARCH 31, 2016
(UNAUDITED)

1. BASIS OF PRESENTATION

General

Our unaudited Consolidated Financial Statements include the accounts of WSFS Financial Corporation (the Company, our Company, we, our or us), Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank) and Cypress Capital Management, LLC (Cypress). We also have one unconsolidated affiliate, WSFS Capital Trust III (the Trust). WSFS Bank has three wholly-owned subsidiaries, WSFS Wealth Investments, 1832 Holdings, Inc. and Monarch Entity Services LLC (Monarch).

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

AICPA: American Institute of Certified Public Accountants	FASB: Financial Accounting Standards Board
Allowance: Allowance for loan losses or ALLL	FDIC: Federal Deposit Insurance Corporation
Alliance: Alliance Bancorp Inc. of Pennsylvania	Federal Reserve: Board of Governors of the Federal Reserve System
Array: Array Financial Group	Monarch: Monarch Entity Services, LLC
Arrow: Arrow Land Transfer	FHLB: Federal Home Loan Bank
ASC: Accounting standard codification	FHLMC: Federal Home Loan Mortgage Corporation
Associate: Employee	GAAP: U.S. Generally Accepted Accounting Principles
ASU: Accounting standard update	GNMA: Government National Mortgage Association
BCBS: Basel Committee on Banking Supervision	GSE: U.S. Government and government sponsored enterprises
C&I: Commercial & Industrial (loans)	NSFR: Net stable funding ratio
CMO: Collateralized mortgage obligation	MBS: Mortgage-backed securities
Cypress: Cypress Capital Management, LLC	OCC: Office of the Comptroller of the Currency
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	OREO: Other real estate owned
DTA: Deferred tax asset	OTTI: Other-than-temporary impairment

Exchange Act: Securities Exchange Act of 1934

Overview

Founded in 1832, the Bank is the seventh oldest bank and trust company continuously operating under the same name in the United States. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. Lending activities are funded primarily with customer deposits and borrowings. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our Wealth Management segment. The FDIC insures our customers' deposits to their legal maximums. We serve our customers primarily from our 63 offices located in Delaware (44), Pennsylvania (17), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com. Information on our website is not incorporated by reference into this quarterly report.

Table of Contents

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

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

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

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

Common Stock Split

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

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

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with FASB ASC 718, Stock Compensation. Compensation expense relating to all share-based payments is recognized on a straight-line basis, over the applicable vesting period. Our Stock Incentive Plans provide for the granting of stock options, stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, and other awards that are payable in or valued by reference to our common shares. The number of shares reserved for issuance under our 2013 Incentive Plan is 2,096,535. At March 31, 2016, there were 749,825 shares available for future grants under the 2013 Incentive Plan.

Stock-based compensation expense related to awards granted to Associates is recorded in salaries, benefits and other compensation; expense related to awards granted to directors is recorded in other operating expense. Total stock-based

compensation expense recognized for the three months ended March 31, 2016 was \$758,000 pre-tax (\$430,000 after tax), or \$0.01 per share. This compares to \$842,000 pre-tax (\$593,000 after tax), or \$0.02 per share during the three months ended March 31, 2015.

Stock Options

Stock options are granted with an exercise price not less than the fair market value of our common stock on the date of the grant. All stock options are to be granted at not less than the market price of our common stock on the date of the grant. All stock options granted during 2016 and 2015 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire seven years from the grant date. Generally, all awards become exercisable immediately in the event of a change in control, as defined within the Stock Incentive Plans. We issue new shares upon the exercise of options.

Table of Contents

We determine the grant date fair value of stock options using the Black-Scholes option-pricing model. The model requires the use of numerous assumptions, many of which are subjective. For stock options granted during 2016 we utilized our historical share option exercise experience to estimate the expected term of options. For stock options granted in 2015 we used the simplified method provided for in Staff Accounting Bulletin (SAB) Topic 14.D.2 to estimate the expected term of options as we did not believe our historical share option exercise experience was sufficient to provide a reasonable basis upon which to estimate expected term at that time. Other significant assumptions to determine 2016 and 2015 grant date fair value included volatility measured using the fluctuation in month end closing stock prices over a period which corresponds with the average expected option life; a weighted-average risk-free rate of return (zero coupon treasury yield); and a dividend yield indicative of our current dividend rate

The assumptions for options issued during the three months ended 2016 and 2015 are presented below:

	2016	2015
Expected term (in years)	5.3	4.9
Volatility	29.6%	25.0%
Weighted-average risk-free interest rate	1.24%	1.54%
Dividend yield	0.80%	0.76%

The following table provides information about our stock options outstanding as of March 31, 2016:

	March 31, 2016	
	Shares	Weighted-Average Exercise Price
Stock Options:		
Outstanding at beginning of period	1,647,878	\$ 17.08
Granted	67,591	29.86
Exercised	(60,770)	15.52
Forfeited	(2,622)	14.75
Outstanding at end of period	1,652,077	17.67
Exercisable at end of period	901,777	16.53
Weighted-average fair value of awards granted	\$ 7.84	

The following table provides information about our nonvested stock options outstanding at March 31, 2016:

	March 31, 2016	
	Shares	Weighted-Average Exercise Price
Stock Options:		
Unvested at beginning of period	1,028,142	\$ 17.58
Granted	67,591	29.86

Forfeited	(1,461)	14.97
Vested	(343,972)	16.83

Unvested at end of period **750,300** \$ **19.03**

The total amount of unrecognized compensation cost related to nonvested stock options as of March 31, 2016 was \$3.2 million. The weighted-average period over which the expense is expected to be recognized is 2.2 years.

Table of Contents*Restricted Stock and Restricted Stock Units*

Restricted stock awards (RSAs) and restricted stock units (RSUs) are granted at no cost to the recipient and generally vest over a four year period. RSA recipients are entitled to voting rights and generally entitled to dividends on the common stock during the vesting period. The fair value of RSAs and RSUs is equal to the fair value of the Company's common stock on the date of grant. We recognize the expense related to RSAs and RSUs granted to Associates into salaries, benefits and other compensation expense and granted to directors into other operating expense on an accrual basis over the requisite service period for the entire award. When we award restricted stock to individuals from whom we may not receive services in the future, we recognize the expense of restricted stock grants when we make the award, instead of amortizing the expense over the vesting period of the award.

The Long-Term Performance-Based Restricted Stock Unit program (Long-Term Program) provided for awards up to an aggregate of 233,400 RSUs to participants, only after the achievement of targeted levels of return on assets (ROA) in any year through 2013. During 2013, the company achieved the 1.00% ROA performance level. In accordance with the Long-Term Program, the Company issued 108,456 RSUs to the plan's participants in 2014. The RSUs vest in 25% increments over four years and we recognize expense over the implicit service period associated with the performance condition. During the first quarter of 2016, we recognized \$92,000 of compensation expense related to this program.

The following table summarizes the Company's RSAs and RSUs, including performance awards, and changes during the three months ended March 31, 2016:

	March 31, 2016	
	Units (in whole)	Weighted Average Grant-Date Fair Value per Unit
Outstanding at beginning of period	171,834	\$ 19.00
Granted	44,186	29.86
Vested	(71,932)	16.45
Forfeited	(402)	25.17
Outstanding at end of period	143,686	\$ 23.60

The total amount of compensation cost to be recognized relating to non-vested restricted stock, including performance awards, as of March 31, 2016, was \$2.9 million. The weighted-average period over which the expense is expected to be recognized is 3.0 years.

RECENT ACCOUNTING PRONOUNCEMENTS*Accounting Guidance Adopted in 2016*

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. ASU 2014-12 may be adopted either prospectively for

share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach applies to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statement at adoption, and to all new or modified awards thereafter. The adoption of this accounting guidance did not have a material effect on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

Table of Contents

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

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

Accounting Guidance Pending Adoption at March 31, 2016

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

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

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

Table of Contents

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

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

In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net, Revenue from Contracts with Customers (Topic 606))*. ASU 2016-08 amends the principal versus agent guidance in ASU 2014-09, *Revenue from Contracts with Customers*, and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. The amendments in the standard affect the guidance in ASU 2014-09, which is effective for public business entities in annual and interim reporting periods in fiscal years beginning after December 15, 2017. Early application is permitted for all entities, but not before annual reporting periods beginning after December 15, 2016. The Company does not expect the application of this guidance to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting, Compensation - Stock Compensation (Topic 718)*. ASU 2016-09 changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. The standard is effective for public business entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted in any interim or annual period provided that the entire standard is adopted. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company's management is currently evaluating the impact of adopting ASU 2016-09 on the Company's consolidated financial statements.

Table of Contents**2. BUSINESS COMBINATIONS***Penn Liberty Financial Corporation*

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

Alliance Bancorp, Inc. of Pennsylvania

On October 9, 2015 we completed the acquisition of Alliance and its wholly owned subsidiary, Alliance Bank, headquartered in Broomall, Pennsylvania. At that time Alliance merged into the Company and Alliance Bank merged into WSFS Bank. In accordance with the terms of the Agreement and Plan of Merger, dated March 2, 2015, holders of shares of Alliance common stock received, in aggregate, \$26.6 million in cash and 2,459,120 shares of WSFS common stock. The transaction was valued at \$97.9 million based on WSFS October 9, 2015 closing share price of \$29.01 as quoted on 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 Alliance was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The fair values are preliminary estimates and are subject to adjustment during the one year measurement period after the acquisition. The excess of consideration paid over the preliminary fair value of net assets acquired was recorded as goodwill in the amount of \$36.1 million, which will not be amortizable and is not deductible for tax purposes. The Company allocated the total balance of goodwill to its WSFS Bank segment. The Company also recorded \$2.6 million in core deposit intangibles which are being amortized over ten years using the straight-line depreciation method and \$511,000 for non-compete covenants which are being amortized between six and eighteen months.

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
Consideration Paid:	
Common shares issued (2,459,120)	\$ 71,345
Cash paid to Alliance stockholders	26,576
Value of consideration	97,921
Assets acquired:	
Cash and due from banks	67,439
Investment securities	3,002

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Loans	307,695
Premises and equipment	2,685
Deferred income taxes	7,730
Bank owned life insurance	12,923
Core deposit intangible	2,635
Other real estate owned	768
Other assets	3,583
Total assets	408,460
Liabilities assumed:	
Deposits	341,682
Other Borrowings	2,826
Other liabilities	2,098
Total liabilities	346,606
Net assets acquired:	61,854
Goodwill resulting from acquisition of Alliance	\$ 36,067

Table of Contents

The following table details the changes to goodwill in 2016:

(In Thousands)	Fair Value
Goodwill resulting from the acquisition of Alliance reported as of December 31, 2015	\$ 36,425
Effects of adjustments to:	
Deferred income taxes	(186)
Other assets	(597)
Other liabilities	425
Adjusted goodwill resulting from the acquisition of Alliance as of March 31, 2016	\$ 36,067

The adjustments made to goodwill during the first three months of 2016, reflect a change in the fair value of leases acquired, accrued expenses and deferred federal income taxes.

Direct costs related to the acquisition were expensed as incurred. During the three months ended March 31, 2016, the Company incurred \$426,000 in merger expenses related to Alliance and Penn Liberty compared to \$666,000 for the three months ended March 31, 2015.

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 March 31,	
	2016	2015
<u>Numerator:</u>		
Net income	\$ 15,770	\$ 12,889
<u>Denominator:</u>		
Weighted average basic shares	29,671	28,218
Dilutive potential common shares	558	535
Weighted average fully diluted shares	30,229	28,753
Earnings per share:		
Basic	\$ 0.53	\$ 0.46
Diluted	\$ 0.52	\$ 0.45
Outstanding common stock equivalents having no dilutive effect	42	238

Table of Contents**4. INVESTMENT SECURITIES**

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

(In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Available-for-Sale Securities:				
March 31, 2016				
GSE	\$ 39,088	\$ 71	\$ 1	\$ 39,158
CMO	269,309	4,798	205	273,902
FNMA MBS	334,668	6,985	30	341,623
FHLMC MBS	99,317	1,679	78	100,918
GNMA MBS	18,627	501	17	19,111
	\$ 761,009	\$ 14,034	\$ 331	\$ 774,712
December 31, 2015				
GSE	\$ 31,041	\$	\$ 127	\$ 30,914
CMO	253,189	713	2,414	251,488
FNMA MBS	320,105	1,081	2,715	318,471
FHLMC MBS	99,350	405	313	99,442
GNMA MBS	20,387	420	93	20,714
	\$ 724,072	\$ 2,619	\$ 5,662	\$ 721,029

(In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Held-to-Maturity Securities ^(a)				
March 31, 2016				
State and political subdivisions	\$ 166,962	\$ 3,619	\$ 41	\$ 170,540
December 31, 2015				
State and political subdivisions	\$ 165,862	\$ 1,943	\$ 62	\$ 167,743

- (a) Held-to-maturity securities transferred from available-for-sale are included in held-to-maturity at fair value at the time of transfer. The amortized cost of held-to-maturity securities included net unrealized gains of \$2.7 million and \$2.9 million at March 31, 2016 and December 31, 2015, respectively, related to securities transferred, which are offset in Accumulated Other Comprehensive Income, net of tax.

Table of Contents

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

(In Thousands)	Available-for-Sale Amortized Cost	Fair Value
<u>March 31, 2016</u>		
Within one year	\$ 6,001	\$ 6,003
After one year but within five years	33,087	33,155
After five years but within ten years	255,484	261,034
After ten years	466,437	474,520
	\$ 761,009	\$ 774,712
<u>December 31, 2015</u>		
Within one year	\$ 3,997	\$ 3,995
After one year but within five years	30,009	29,840
After five years but within ten years	218,023	215,018
After ten years	472,043	472,176
	\$ 724,072	\$ 721,029
<u>March 31, 2016</u>		
After one year but within five years	3,229	3,249
After five years but within ten years	8,546	8,732
After ten years	155,187	158,559
	\$ 166,962	\$ 170,540
<u>December 31, 2015</u>		
Within one year	\$ 1,486	\$ 1,488
After one year but within five years	3,465	3,456
After five years but within ten years	7,939	8,045
After ten years	152,972	154,754
	\$ 165,862	\$ 167,743

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

Investment securities with fair market values aggregating \$423.8 million and \$457.0 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of March 31, 2016

and December 31, 2015, respectively.

During the first three months of 2016 and 2015, we sold \$38.9 million and \$37.4 million of investment securities categorized as available-for-sale, for a gain of \$305,000 and \$451,000, respectively. No losses were incurred from sales during the first three months of 2016 and 2015.

As of March 31, 2016 and December 31, 2015, our investment securities portfolio had remaining unamortized premiums of \$18.7 million and \$18.3 million and unaccreted discounts of \$307,000 and \$306,000, respectively.

Table of Contents

For these investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at March 31, 2016.

(In Thousands)	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities:						
GSE	\$ 2,018	1	\$		\$ 2,018	\$ 1
CMO	15,643	110	14,686	95	30,329	205
FNMA MBS	8,721	30			8,721	30
FHLMC MBS	7,452	30	4,109	48	11,561	78
GNMA MBS	1,963	10	2,274	7	4,237	17
Total temporarily impaired investments	\$ 35,797	\$ 181	\$ 21,069	\$ 150	\$ 56,866	\$ 331

(In Thousands)	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities:						
State and political subdivisions	\$	\$	\$ 2,924	\$ 41	\$ 2,924	\$ 41
Total temporarily impaired investments	\$	\$	\$ 2,924	\$ 41	\$ 2,924	\$ 41

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

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

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

At March 31, 2016, we owned investment securities totaling \$59.8 million in which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$372,000 at March 31, 2016. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Our investment portfolio is reviewed each quarter for indications of OTTI. This review includes analyzing the length of time and the extent to which the fair value has been lower than the amortized cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for full recovery of the unrealized loss. We evaluate our intent and ability to hold securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

Table of Contents

All securities, with the exception of one, were AA-rated or better at the time of purchase and remained investment grade at March 31, 2016. All securities were evaluated for OTTI at March 31, 2016 and December 31, 2015. The result of this evaluation showed no OTTI as of March 31, 2016 or December 31, 2015. The estimated weighted average duration of MBS was 4.1 years at March 31, 2016.

5. LOANS

The following details our loan portfolio by category:

(In Thousands)	March 31, 2016	December 31, 2015
Commercial and industrial	\$ 1,083,121	\$ 1,061,597
Owner occupied commercial	895,457	880,643
Commercial mortgages	987,066	966,698
Construction	227,348	245,773
Residential	251,065	259,679
Consumer	359,656	360,249
	\$ 3,803,713	\$ 3,774,639
Less:		
Deferred fees, net	\$ 8,428	\$ 8,500
Allowance for loan losses	37,556	37,089
Net loans	\$ 3,757,729	\$ 3,729,050

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

(In Thousands)	March 31, 2016	December 31, 2015
Outstanding principal balance	\$ 37,041	38,067
Carrying amount	32,165	32,658
Allowance for loan losses	119	132

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

(In Thousands)	January 1 through March 31, 2016
Balance at beginning of period	\$ 4,764
Accretion	(592)
Reclassification from nonaccretable difference	
Additions/adjustments	(116)

Disposals		(7)
Balance at the end of the period	\$	4,049

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 three months ended March 31, 2016, net charge-offs totaled \$313,000 or 0.03% of average loans, compared to \$705,000, or 0.09% of average loans annualized, during the three months ended March 31, 2015.

Allowances for pooled homogeneous loans, that are not deemed impaired, are based on historical net loss experience. Estimated losses for pooled portfolios are determined differently for commercial loan pools and retail loan pools. Commercial loans are pooled into the following segments: commercial, owner-occupied, commercial real estate and construction. Each pool is further segmented by internally assessed risk ratings. Loan losses for commercial loans are estimated by determining the probability of default and expected loss severity upon default. Probability of default is calculated based on the historical rate of migration to impaired status during the last 21 quarters. During the three months ended March 31 2016, we increased the look-back period to 21 quarters from the 20 quarters used at December 31, 2015. This increase in the look-back period allows us to continue to anchor to the fourth quarter of 2010 to ensure that the core reserves calculated by the ALLL model are adequately considering the losses within a full credit cycle.

Loss severity upon default is calculated as the actual loan losses (net of recoveries) on impaired loans in their respective pool during the same time frame. Retail loans are pooled into the following segments: residential mortgage, consumer secured and consumer unsecured loans. Pooled reserves for retail loans are calculated based solely on average net loss rates over the same 21 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 March 31, 2016. Further, our residential mortgage and consumer LEP remained at 4 quarters as of March 31, 2016. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our commercial LEP at least annually.

The final component of the allowance is 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 in order to capture factors not already included in other components in our allowance for loan losses methodology. We review the qualitative estimates of valuation factors quarterly and management uses its judgment to make adjustments based on current trends.

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 months ended March 31, 2016:

	Owner-Occupied Commercial					Complexity Risk		Total
(in thousands)	Commercial	Commercial	Mortgages	Construction	Residential	Consumer	(1)	
Three months ended March 31, 2016								
Allowance for loan losses								
Beginning balance	\$ 11,156	\$ 6,670	\$ 6,487	\$ 3,521	\$ 2,281	\$ 5,964	\$ 1,010	\$ 37,029
Charge-offs	(179)		(17)	(26)	(14)	(631)		(867)
Reverses	110	38	79	46	22	259		554
Provision (credit)	484	(6)	(37)	72	(20)	400	14	907
Provision for acquired loans	(89)		4	(4)		(38)		(127)
Ending balance	\$ 11,482	\$ 6,702	\$ 6,516	\$ 3,609	\$ 2,269	\$ 5,954	\$ 1,024	\$ 37,565
End-end allowance allocated to:								
Individually evaluated for impairment	\$ 1,473	\$	\$	\$ 211	\$ 911	\$ 208	\$	\$ 2,803
Collectively evaluated for impairment	10,005	6,680	6,427	3,398	1,354	5,746	1,024	34,637
Repaired loans evaluated for impairment	4	22	89		4			119
Ending balance	\$ 11,482	\$ 6,702	\$ 6,516	\$ 3,609	\$ 2,269	\$ 5,954	\$ 1,024	\$ 37,565
End-end loan balances evaluated for:								
Individually evaluated for impairment	\$ 5,278	\$ 1,270	\$ 2,678	\$ 1,419	\$ 15,260	\$ 7,795	\$	\$ 33,700

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

collectively evaluated for impairment	957,863	839,819	893,036	194,654	161,610	336,053	3,383,0
ired nonimpaired loans	107,380	49,765	80,795	27,711	73,240	15,803	354,6
ired impaired loans	12,600	4,603	10,557	3,564	955	5	32,2
g balance	\$ 1,083,121	\$ 895,457	\$ 987,066	\$ 227,348	\$ 251,065	\$ 359,656	\$ 3,803,7

Table of Contents

The following table provides the activity of the allowance for loan losses and loan balances for the three ended March 31, 2015:

(In Thousands)	Owner-Occupied Commercial		Commercial Mortgages			Complexity Residential Consumer Risk ⁽¹⁾		Total
Three months ended March 31, 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	(131)	(330)	(39)		(125)	(450)		(1,075)
Recoveries	26	4	79	49	11	201		370
Provision (credit)	316	722	(782)	307	(29)	234	18	786
Ending balance	\$ 13,048	\$ 7,039	\$ 6,524	\$ 2,952	\$ 2,380	\$ 6,026	\$ 1,538	\$ 39,507
Period-end allowance allocated to:								
Loans individually evaluated for impairment								
	\$ 3,169	\$ 284	\$ 223	\$ 210	\$ 751	\$ 197	\$	\$ 4,834
Loans collectively evaluated for impairment								
	9,879	6,755	6,301	2,742	1,629	5,829	1,538	34,673
Acquired loans evaluated for impairment								
Ending balance	\$ 13,048	\$ 7,039	6,524	\$ 2,952	\$ 2,380	\$ 6,026	\$ 1,538	\$ 39,507
Period-end loan balances evaluated for:								
Loans individually evaluated for impairment								
	\$ 11,707	\$ 1,552	\$ 7,595	\$ 1,419	\$ 14,749	\$ 6,157	\$	\$ 43,179 ⁽²⁾
Loans collectively evaluated for	876,434	754,044	770,991	138,495	184,337	310,427		3,034,728

impairment							
Acquired nonimpaired loans	31,737	39,671	36,373	9,680	16,615	7,640	141,716
Acquired impaired loans	3,192	2,133	5,877	3,630	496	8	15,336
Ending balance	\$ 923,070	\$ 797,400	\$ 820,836	\$ 153,224	\$ 216,197	\$ 324,232	\$ 3,234,959 ⁽³⁾

- (1) Represents the portion of the allowance for loan losses established to capture factors not already included in other components in our allowance for loan losses methodology.
- (2) The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of \$13.9 million and \$22.5 million for the periods ending March 31, 2016 and 2015, 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.

Table of Contents

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

March 31, 2016 (In Thousands)	Greater Than 90 Days				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 Days Past Due and Still Accruing	89 Days Past Due and Still Accruing				
Commercial	\$ 1,378	\$ 1,354	\$	\$ 2,732	\$ 1,062,856	\$ 12,600	\$ 4,933	\$ 1,083,121
Owner-Occupied commercial	678			678	888,907	4,603	1,269	895,457
Commercial mortgages	127			127	973,786	10,557	2,596	987,066
Construction					223,784	3,564		227,348
Residential	4,332	418		4,750	238,482	955	6,878	251,065
Consumer	851	339	127	1,317	354,219	5	4,115	359,656
Total (1)	\$ 7,366	\$ 2,111	\$ 127	\$ 9,604	\$ 3,742,034	\$ 32,284	\$ 19,791	\$ 3,803,713
% of Total Loans	0.19%	0.06%	%	0.25%	98.38%	0.85%	0.52%	100%

(1) The balances of above include \$354.7 million of acquired nonimpaired loans.

December 31, 2015 (In Thousands)	Greater Than 90 Days				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 Days Past Due and Still Accruing	89 Days Past Due and Still Accruing				
Commercial	\$ 1,686	\$ 270	\$ 12,355	\$ 14,311	\$ 1,028,973	\$ 12,985	\$ 5,328	\$ 1,061,597
Owner-Occupied commercial	713	217	4,886	5,816	869,048	4,688	1,091	880,643
Commercial mortgages	141	4	288	433	952,426	10,513	3,326	966,698
Construction					242,229	3,544		245,773
Residential	5,263	621	251	6,135	245,307	950	7,287	259,679
Consumer	1,222	36	252	1,510	354,599	7	4,133	360,249
Total (1)	\$ 9,025	\$ 1,148	\$ 18,032	\$ 28,205	\$ 3,692,582	\$ 32,687	\$ 21,165	\$ 3,774,639
% of Total Loans	0.24%	0.03%	0.48%	0.75%	97.83%	0.86%	0.56%	100 %

(1) The balances of above include \$371.1 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.

Table of Contents

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

March 31, 2016 (In Thousands)	Ending Loan Balances	Loans with			Contractual Principal Balances	Average Loan Balances
		No Related Reserve ⁽¹⁾	Loans with Related Reserve	Related Reserve		
Commercial	\$ 5,728	\$ 947	\$ 4,781	\$ 1,477	\$ 12,187	\$ 8,060
Owner-Occupied commercial	2,281	1,269	1,012	22	2,488	6,329
Commercial mortgages	3,980	2,678	1,302	89	6,626	2,412
Construction	1,419		1,419	211	1,419	1,448
Residential	15,421	8,618	6,803	915	18,395	15,215
Consumer	7,794	6,585	1,209	208	9,610	7,084
Total (2)	\$ 36,623	\$ 20,097	\$ 16,526	\$ 2,922	\$ 50,725	\$ 40,548

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

(2) The above includes acquired impaired loans totaling \$2.9 million in the ending loan balance and \$3.5 million in the contractual principal balance.

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

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

(2) The above includes acquired impaired loans totaling \$2.9 million in the ending loan balance and \$3.5 million in the contractual principal balance.

Interest income of \$156,000, and \$472,000 was recognized on impaired loans during the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 2016, there were 40 residential loans and 7 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$6.3 million and \$667,000, respectively. As of December 31, 2015, there were 32 residential loans and 3 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$5.0 million and \$675,000, respectively.

Reserves on Acquired Nonimpaired Loans

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

Credit Quality Indicators

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

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

Table of Contents

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

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

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

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

Residential and Consumer Loans

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

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

Commercial Credit Exposure

	Commercial		Owner-Occupied Commercial		Commercial Mortgages		Construction		Total Commercial ⁽¹⁾	
	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
ng:	\$ 6,992	\$ 5,620	\$ 11,982	\$ 9,535	\$ 8,900	\$ 12,323	\$	\$	\$ 27,874	\$ 27,478
rd:	36,428	33,883	20,905	22,901	2,523	2,547	8,322	8,296	68,178	67,627

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

al	3,525	4,164	1,269	1,090	2,596	3,326			7,390		8,580
	1,408	1,164							1,408		1,164
cial											
ard	48,353	44,831	34,156	33,526	14,019	18,196	8,322	8,296	104,850	3%	104,849
	12,600	12,985	4,603	4,688	10,557	10,513	3,564	3,544	31,324	1	31,730
	1,022,168	1,003,781	856,698	842,429	962,490	937,989	215,462	233,933	3,056,818	96	3,018,132
	\$ 1,083,121	\$ 1,061,597	\$ 895,457	\$ 880,643	\$ 987,066	\$ 966,698	\$ 227,348	\$ 245,773	\$ 3,192,992	100%	\$ 3,154,711

(1) Table includes \$265.7 million and \$277.0 million of acquired nonimpaired loans as of March 31, 2016 and December 31, 2015, respectively.

Table of Contents

Residential and Consumer Credit Exposure

(In Thousands)	Residential		Consumer		Total Residential and Consumer ⁽²⁾			
	Mar. 31, 2016	Dec. 31 2015	Mar. 31, 2016	Dec. 31 2015	Mar. 31, 2016		Dec. 31, 2015	
					Amount	Percent	Amount	Percent
Nonperforming ⁽¹⁾	\$ 15,260	\$ 15,548	\$ 7,794	\$ 7,664	\$ 23,054	4 %	\$ 23,212	4 %
Acquired impaired loans	955	950	5	7	960		957	
Performing	234,850	243,181	351,857	352,578	586,707	96	595,759	96
Total	\$ 251,065	\$ 259,679	\$ 359,656	\$ 360,249	\$ 610,721	100 %	\$ 619,928	100 %

(1) Includes \$12.1 million as of March 31, 2016 and \$13.6 million as of December 31, 2015 of troubled debt restructured mortgages and home equity installment loans that are performing in accordance with the loans modified terms and are accruing interest.

(2) Total includes \$89.0 million and \$94.2 million in acquired nonimpaired loans as of March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015 was \$25.6 million and \$24.6 million, respectively. The balance at March 31, 2016 included approximately \$11.7 million of TDRs in nonaccrual status and \$13.9 million of TDRs in accrual status compared to \$11.0 million in nonaccrual status and \$13.6 million in accrual status at December 31, 2015. Approximately \$2.7 million and \$2.1 million in related reserves have been established for these loans at March 31, 2016 and December 31, 2015, respectively.

During the three months ended March 31, 2016, the terms of 8 loans were modified in TDRs. Five modifications were for consumer loans of which all were HELOC conversions with interest rate reductions. Two were residential mortgages of which both were forbearance agreements. One commercial loan in bankruptcy was granted interest only payments. Our concessions on restructured loans typically consist of forbearance agreements, reduction in interest rates or extensions of maturities. Principal balances are generally not forgiven when a loan is modified as a TDR. Nonaccruing restructured loans remain in nonaccrual status until there has been a period of sustained repayment performance, typically six months and payment is reasonably assured.

The following table presents loans identified as TDRs during the three months ended March 31, 2016 and 2015.

(In Thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
----------------	--	--

Commercial	\$ 984	\$
Owner Occupied Commercial		
Commercial mortgages		
Construction		
Residential	614	212
Consumer	215	135
Total	\$ 1,813	\$ 347

During the three months ended March 31, 2016, the TDRs set forth in the table above had no change on our allowance for loan losses allocation of a related reserve, and resulted in charge-offs of \$80,000. For the same period of 2015, there was no change to our allowance for loan losses and no additional charge-offs.

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 \$24.7 million at March 31, 2016. The portfolio consists of 90 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 \$45.6 million exceeds the outstanding book balance at March 31, 2016. Broker price opinions are updated at least annually. Additional broker price opinions are obtained when our quarterly review indicates that a home's value has increased or decreased by at least 50% during any given period.

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

To determine the carrying value of these reverse mortgages as of March 31, 2016, we used the proprietary model described above and actual cash flow information to estimate future cash flows. There are three main drivers of cash flows; 1) move-out rates, 2) house price appreciation (HPA) forecasts, and 3) internal rate of return.

- 1) **Move-out rates** We used the actuarial estimates of contract termination provided in the United States Mortality Rates Period Life Table, 2011, published by the Office of the Actuary - Social Security in 2015, adjusted for expected prepayments and relocations which we adopted during 2016.
- 2) **House Price Appreciation** We utilize house price forecasts from various market sources. Based on this information, we forecasted a 2.5% increase in housing prices during 2016 and a 2.0% increase in the following year and thereafter. We believe this forecast continues to be appropriate given the nature of reverse mortgage collateral and historical under-performance to the broad housing market. Annually, during the fourth quarter, current collateral values are updated through broker price opinions.
- 3) **Internal Rate of Return** As of March 31, 2016, the internal rate of return (IRR) of 19.32% 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 March 31, 2016, the Company's actuarially estimated cash payments to reverse mortgagors are as follows:

(In thousands)	
Year Ending	
2016	\$ 580
2017	435
2018	342
2019	266
2020	204
Years 2021 - 2025	466
Years 2026 - 2030	92
Years 2031 - 2035	13
Thereafter	2
Total ⁽¹⁾	\$ 2,400

⁽¹⁾ 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 \$6.2 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 \$745,000 for the quarter ended March 31, 2016 with an IRR of 18.41%. If the future changes in collateral value were assumed to be reduced by 1%, income would decrease by \$343,000 with an IRR of 18.90%.

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 \$984,000. If the IRR decreased by 1%, the net present value would decrease by \$957,000.

8. GOODWILL AND INTANGIBLES

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

During the three months ended March 31, 2016, we determined there were no events or other indicators of impairment as it relates to goodwill or other intangibles.

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

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Consolidated Company
December 31, 2015	\$ 80,078	\$	\$ 5,134	\$ 85,212
Changes in goodwill	(358)			(358)
March 31, 2016	\$ 79,720	\$	\$ 5,134	\$ 84,854

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

Table of Contents

The following table summarizes other intangible assets:

(In Thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
March 31, 2016			
Core deposits	\$ 10,245	\$ (4,807)	\$ 5,438
CB&T intangibles	3,142	(1,230)	1,912
Array and Arrow intangibles	2,353	(934)	1,419
Mortgage servicing rights	1,503	(976)	527
Alliance intangible assets	650	(228)	422
Total intangible assets	\$ 17,893	\$ (8,175)	\$ 9,718
December 31, 2015			
Core deposits	\$ 10,246	\$ (4,512)	\$ 5,734
CB&T intangibles	3,142	(1,181)	1,961
Array and Arrow intangibles	2,353	(847)	1,506
Mortgage servicing rights	1,430	(949)	481
Alliance intangible assets	511	(110)	401
Total intangible assets	\$ 17,682	\$ (7,599)	\$ 10,083

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits and either accelerated or straight-line methods of amortization. During the three months ended March 31, 2016, we recognized amortization expense on other intangible assets of \$549,000.

The following presents the estimated amortization expense of intangibles:

(In Thousands)	Amortization of Intangibles
Remaining in 2016	\$ 1,396
2017	1,543
2018	1,407
2019	1,338
2020	1,171
Thereafter	2,863
Total	\$ 9,718

Table of Contents**9. ASSOCIATE BENEFIT PLANS***Postretirement Benefits*

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, 2016 and 2015.

(In Thousands)	Three months ended	
	March 31,	
	2016	2015
Service cost	\$ 15	\$ 15
Interest cost	19	22
Prior service cost amortization	(7)	(19)
Net gain recognition	(15)	(5)
Net periodic benefit cost	\$ 12	\$ 13

10. INCOME TAXES

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

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

There were no unrecognized tax benefits as of March 31, 2016. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2012 through 2015 tax years are subject to examination as of March 31, 2016. Pennsylvania is currently auditing our 2012 state tax return. We do not expect to record or realize any material unrecognized tax benefits during 2016.

As a result of the adoption of ASU No. 2014-01, *Investments-Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects*, the amortization of our low-income housing credit investments has been reflected as income tax expense. Accordingly, \$390,000 of such amortization has been reflected as income tax expense for the three months ended March 31, 2016, compared to \$495,000 for the same period in 2015.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the three months ended March 31, 2016 were \$368,000, \$390,000 and \$89,000, respectively. The carrying value of the investment in affordable housing credits is \$11.6 million at March 31, 2016, compared to \$12.0 million at December 31, 2015.

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.

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

(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
Description				
Assets measured at fair value on a recurring basis				
Available-for-sale securities:				
CMO	\$	\$ 273,902	\$	\$ 273,902
FNMA MBS		341,623		341,623
FHLMC MBS		100,918		100,918
GNMA MBS		19,111		19,111
GSE		39,158		39,158
Total assets measured at fair value on a recurring basis	\$	\$ 774,712	\$	\$ 774,712
Assets measured at fair value on a nonrecurring basis				

Other real estate owned	\$	\$	\$	3,979	\$	3,979
Loans held-for-sale				36,178		36,178
Impaired loans				33,701		33,701
Total assets measured at fair value on a nonrecurring basis	\$	\$	\$	36,178	\$	73,858

Table of Contents

(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
Description				
Assets measured at fair value on a recurring basis				
Available-for-sale securities:				
CMO	\$	\$ 251,488	\$	\$ 251,488
FNMA MBS		318,471		318,471
FHLMC MBS		99,442		99,442
GNMA MBA		20,714		20,714
GSE		30,914		30,914
Total assets measured at fair value on a recurring basis				
	\$	\$ 721,029	\$	\$ 721,029
Assets measured at fair value on a nonrecurring basis				
Other real estate owned	\$	\$	\$ 5,080	\$ 5,080
Loans held-for sale		41,807		41,807
Impaired loans (collateral dependent)			35,086	35,086
Total assets measured at fair value on a nonrecurring basis				
	\$	\$ 41,807	\$ 40,166	\$ 81,973

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

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 March 31, 2016 securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately \$39.2 million in U.S. Treasury Notes and Federal Agency debentures, and \$735.6 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

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 \$36.6 million and \$37.7 million at March 31, 2016 and December 31, 2015, respectively. The valuation allowance on impaired loans was \$2.9 million as of March 31, 2016 and \$2.6 million as of December 31, 2015.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Cash and cash equivalents

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

Investment securities

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

Loans held-for sale

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

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, construction, residential mortgages and consumer. For loans that reprice

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

Reverse mortgage loans

The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional information on reverse mortgage loans, see Note 7, Reverse Mortgage Loans, to the unaudited Consolidated Financial Statements.

Table of Contents*Stock in the Federal Home Loan Bank (FHLB) of Pittsburgh*

The fair value of FHLB stock is assumed to be equal to its cost basis, since the stock is non-marketable but redeemable at its par value.

Other assets

Other assets includes other real estate owned (see discussion earlier in this note) and our investment in Visa Class B stock. Our ownership includes shares acquired at no cost from our prior participation in Visa's network, while Visa operated as a cooperative. During 2015 we purchased additional shares which are accounted for as non-marketable equity securities and carried at cost. We evaluated the shares carried at cost for OTTI as of March 31, 2016, and the evaluation showed no OTTI as of March 31, 2016. Following resolution of Visa's covered litigation, shares of Visa's Class B stock will be converted to Visa Class A shares

While only current owners of Class B shares are allowed to purchase other Class B shares, there have been several transactions between Class B shareholders. Based on these transactions we estimate the value of our Class B shares to be \$13.1 million as of March 31, 2016.

Deposits

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

Borrowed funds

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

Off-balance sheet instruments

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

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

(In Thousands)	Fair Value Measurement	March 31, 2016		December 31, 2015	
		Book Value	Fair Value	Book Value	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$ 590,028	590,028	\$ 561,179	\$ 561,179
Investment securities available-for-sale	Level 2	774,712	774,712	721,029	721,029
Investment securities held-to-maturity	Level 2	166,962	170,540	165,862	167,743

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Loans, held-for-sale	Level 2	36,178	36,178	41,807	41,807
Loans, net ⁽¹⁾	Level 2	3,724,028	3,685,174	3,693,964	3,637,714
Impaired loans, net	Level 3	33,701	33,701	35,086	35,086
Reverse mortgage loans	Level 3	24,739	24,739	24,284	24,284
Stock in FHLB of Pittsburgh	Level 2	30,711	30,444	30,519	30,519
Accrued interest receivable	Level 2	13,992	13,992	14,040	14,040
Other assets	Level 3	7,568	17,123	8,669	18,416
Financial liabilities:					
Deposits	Level 2	4,068,771	3,890,594	4,016,566	3,791,606
Borrowed funds	Level 2	971,264	973,805	932,886	933,905
Standby letters of credit	Level 3	204	204	195	195
Accrued interest payable	Level 2	1,340	1,340	801	801

(1) Excludes impaired loans, net.

Table of Contents

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

12. SEGMENT INFORMATION

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

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

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

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

Table of Contents

Segment information for the three months ended March 31, 2016 and March 31, 2015 follows:

For the three months ended March 31, 2016:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
Statement of Operations				
External customer revenues:				
Interest income	\$ 48,038	\$	\$ 2,008	\$ 50,046
Noninterest income	9,852	7,673	5,545	23,070
Total external customer revenues	57,890	7,673	7,553	73,116
Inter-segment revenues:				
Interest income	1,061		1,895	2,956
Noninterest income	2,060	193	24	2,277
Total inter-segment revenues	3,121	193	1,919	5,233
Total revenue	61,011	7,866	9,472	78,349
External customer expenses:				
Interest expense	4,497		193	4,690
Noninterest expenses	33,812	4,850	4,537	43,199
Provision for loan losses	815		(35)	780
Total external customer expenses	39,124	4,850	4,695	48,669
Inter-segment expenses:				
Interest expense	1,895	555	506	2,956
Noninterest expenses	217	715	1,345	2,277
Total inter-segment expenses	2,112	1,270	1,851	5,233
Total expenses	41,236	6,120	6,546	53,902
Income before taxes	\$ 19,775	\$ 1,746	\$ 2,926	\$ 24,447
Income tax provision				8,677
Consolidated net income				\$ 15,770
Capital expenditures	\$ 1,211	\$ 20	\$ 2	\$ 1,233
As of March 31, 2016:				
Statement of Condition				
Cash and cash equivalents	\$ 74,695	\$ 513,813	\$ 1,520	\$ 590,028

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Goodwill	79,720		5,134	84,854
Other segment assets	4,812,640	3,173	194,299	5,010,112
Total segment assets	\$ 4,967,055	\$ 516,986	\$ 200,953	\$ 5,684,994

Table of Contents

For the three months ended March 31, 2015:

(In Thousands)	WSFS Bank	Cash Connect	Wealth Management	Total
Statement of Operations				
External customer revenues:				
Interest income	\$ 40,823	\$	\$ 2,028	\$ 42,851
Noninterest income	9,189	6,639	5,267	21,095
Total external customer revenues	50,012	6,639	7,295	63,946
Inter-segment revenues:				
Interest income	871		1,447	2,318
Noninterest income	1,784	168	18	1,970
Total inter-segment revenues	2,655	168	1,465	4,288
Total revenue	52,667	6,807	8,760	68,234
External customer expenses:				
Interest expense	3,912		122	4,034
Noninterest expenses	31,079	4,175	3,659	38,913
Provision for loan losses	733		53	786
Total external customer expenses	35,724	4,175	3,834	43,733
Inter-segment expenses				
Interest expense	1,447	373	498	2,318
Noninterest expenses	186	614	1,170	1,970
Total inter-segment expenses	1,633	987	1,668	4,288
Total expenses	37,357	5,162	5,502	48,021
Income before taxes	\$ 15,310	\$ 1,645	\$ 3,258	\$ 20,213
Income tax provision				7,324
Consolidated net income				12,889
Capital expenditures (1)	\$ 497	\$ 234	\$ 3	\$ 734
As of December 31, 2015:				
Statement of Condition				
Cash and cash equivalents	\$ 65,663	\$ 493,165	\$ 2,351	\$ 561,179
Goodwill	80,078		5,134	85,212
Other segment assets	4,746,995		192,576	4,939,571

Total segment assets	\$ 4,892,736	\$ 493,165	\$ 200,061	\$ 5,585,962
----------------------	--------------	------------	------------	--------------

- (1) Capital expenditures amounts have been adjusted to correct errors that were not material to our Form 10-Q for the quarterly period ended March 31, 2015. Previously reported capital expenditures were \$817,000 for WSFS Bank, \$0 for Cash Connect, \$0 for Wealth Management, and \$817,000 for Total Consolidated Company.

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

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

We generally do not sell loans with recourse, except for standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, early payment default by the borrower. These are customary repurchase provisions in the secondary market for residential mortgage loan sales. These provisions may include either an indemnification from loss or the repurchase of the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no such repurchases for the three months ended March 31, 2016.

Swap Guarantees.

We entered into agreements with five 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 March 31, 2016 there were 123 variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, compared to 119 at December 31, 2015. The initial notional aggregated amount was approximately \$488.9 million at March 31, 2016 compared to \$481.6 million at December 31, 2015. At March 31, 2016 maturities ranged from four months to over 10 years. The aggregate market value of these swaps to the customers was a liability of \$27.0 million at March 31, 2016 and \$18.1 million at December 31, 2015. There were no reserves for the swap guarantees as of March 31, 2016.

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

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

Changes to accumulated other comprehensive income by component are shown net of taxes in the following tables for the three month 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
Balance, December 31, 2015	\$ (1,887)	\$ 1,795	\$ 788	\$ 696
Other comprehensive income before reclassifications	10,572			10,572
Less: Amounts reclassified from accumulated other comprehensive income	(189)	(103)	478	186
Net current-period other comprehensive income (loss)	10,383	(103)	478	10,758
Balance, March 31, 2016	\$ 8,496	\$ 1,692	\$ 1,266	\$ 11,454
Balance, December 31, 2014	\$ 446	\$ 2,207	\$ 847	\$ 3,500
Other comprehensive income before reclassifications	4,567			4,567
Less: Amounts reclassified from accumulated other comprehensive loss	(280)	(171)	(15)	(466)
Net current-period other comprehensive income (loss)	4,287	(171)	(15)	4,101
Balance, March 31, 2015	\$ 4,733	\$ 2,036	\$ 832	\$ 7,601

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

(In Thousands)	Three Months Ended March 31,		Affected line item in Statements of Operations
	2016	2015	

Securities available-for-sale:

Realized gains on securities transactions	\$ (305)	\$ (451)	Security gains, net
Income taxes	116	171	Income tax provision
Net of tax	\$ (189)	\$ (280)	

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	\$ (168)	\$ (171)	Interest income on investment securities
Income taxes	65		Income tax provision
Net of tax	\$ (103)	\$ (171)	

Amortization of Defined Benefit Pension items:

Prior service (credits) costs	\$ (7)	\$ (19)	
Transition obligation			
Actuarial losses (gains)	791	(5)	
Total before tax	\$ 784	\$ (24)	Salaries, benefits and other compensation
Income taxes	(306)	9	Income tax provision
Net of tax	478	(15)	
Total reclassifications	\$ 186	\$ (466)	

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.

On November 24, 2015 the Court entered summary judgment in favor of WSFS Bank on all but one of the remaining counts, leaving one count for resolution at trial. 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 March 31, 2016. Costs of litigation were initially covered by insurance; however, such costs have now exceeded the limits of insurance coverage for this case.

Four purported shareholder derivative and class action complaints relating to the October 2015 merger with Alliance were filed during the quarter ended June 30, 2015. These actions were consolidated under the caption In re: Alliance Bancorp, Inc. of Pennsylvania Derivative and Class Action Litigation, Court of Common Pleas of Delaware County, Pennsylvania, Consol. Action Lead Case No. 2015-3606 (Civil Div.) (the Alliance Action). The complaint named as defendants Alliance Bancorp, Inc. of Pennsylvania, its directors and certain of its officers, and the Company (the Defendants).

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. Management does not expect this settlement to have a material impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Condition. 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.

Additionally, in 2013 a regulatory inquiry commenced into the registered transfer agent (RTA) activities of WSFS, as successor to Christiana Bank & Trust. As a result of issues arising from that inquiry, WSFS revamped Christiana Trust's RTA policies and procedures and remediated all deficiencies. We have included the estimated financial liability from the expected resolution of this inquiry, which is not material, in our Consolidated Financial Statements as of March 31, 2016.

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

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

16. SUBSEQUENT EVENTS

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

Table of Contents

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

OVERVIEW

The Company is a savings and loan holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by the Company's subsidiary, Wilmington Savings Fund Society, FSB, or WSFS Bank, the seventh oldest bank and trust company continuously operating under the same name in the United States. At \$5.7 billion in assets and \$13.1 billion in fiduciary assets, WSFS Bank is also the largest bank and trust company headquartered in Delaware and the Delaware Valley. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader fiduciary powers than most other types of financial institutions. A fixture in the community, the Bank has been in operation for more than 184 years. In addition to its focus on stellar customer service, the Bank has continued to fuel growth and remains a leader in our community. We are a relationship-focused, locally-managed, community banking institution. We state our mission simply: We Stand for Service. Our strategy of Engaged Associates delivering Stellar Experiences growing Customer Advocates and value for our Owners focuses on exceeding customer expectations, delivering stellar service and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a \$3.2 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering the high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits. As of March 31, 2016, we service our customers primarily from our 63 offices located in Delaware (44), Pennsylvania (17), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com. We also offer a broad variety of consumer loan products, retail securities and insurance brokerage through our retail branches and mortgage and title services through those branches and through Pennsylvania-based WSFS Mortgage. WSFS Mortgage is a mortgage banking company specializing in a variety of residential mortgage and refinancing solutions.

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

The Cash Connect segment is a premier provider of ATM Vault Cash and smart safe and cash logistics in the United States. It manages \$711 million in vault cash in over 17,000 non-bank ATMs nationwide and provides related services such as, online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing equipment sales and deposit safe cash logistics. Cash Connect also operates 442 ATMs for the Bank, which has the largest branded ATM network in Delaware.

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

The Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients through four businesses. WSFS Wealth Investments provides insurance and brokerage products primarily to our retail banking clients. Cypress is a registered investment advisor with approximately \$634 million in assets under management. Cypress primary market segment is high net worth individuals and offers a balanced investment style focused on preservation of capital and providing for current income. Christiana Trust, with \$12.47 billion in assets under management and administration, provides fiduciary and investment services to personal trust clients, and trustee, agency, bankruptcy, custodial and commercial domicile services to corporate and institutional clients. WSFS Private Banking serves high net worth clients by delivering credit and deposit products and partnering with other business units to deliver investment management and fiduciary products and services.

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

Table of Contents**FORWARD-LOOKING STATEMENTS**

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

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

Table of Contents

CRITICAL ACCOUNTING POLICIES

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

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

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Financial Condition

Our total assets increased \$100.4 million, or 2%, to \$5.68 billion during the three months ended March 31, 2016. Included in this increase was a \$54.8 million, or 6%, increase in investment securities as a result of ongoing portfolio management and a \$23.0 million, or 1%, increase in net loans. The increase in net loans was primarily the result of an increase in commercial and industrial loans of \$40.6 million. Partially offsetting this increase was an \$18.5 million decrease in residential mortgages due to our strategy of selling newly originated residential mortgages in the secondary market.

Total liabilities increased \$83.2 million, or 2%, to \$5.09 billion during the three months ended March 31, 2016. This increase was primarily the result of an increase in total deposits of \$52.2 million, or 1%, and an increase in FHLB advances of \$38.3 million, or 6%. The increase in total deposits included an \$8.9 million increase in customer deposits and a \$43.3 million increase in brokered deposits. The increases in brokered deposits and FHLB advances were due to loan growth and ongoing portfolio management. These increases were partially offset by a decrease of \$7.9 million, or 15% in other liabilities.

Capital Resources

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

During the first quarter of 2016, WSFS repurchased 301,871 shares of common stock at an average price of \$29.75 as part of our 5% buyback program approved by the Board of Directors during the fourth quarter of 2015. WSFS has 1,098,694 shares, or just under 4% of outstanding shares, remaining to repurchase under this current authorization.

Stockholders' equity increased \$17.1 million between December 31, 2015 and March 31, 2016. This increase was primarily due to net income of \$15.8 million during the three months ended March 31, 2016.

Tangible common book value per share of common stock (a non-GAAP financial measure) was \$17.04 at March 31, 2016, an increase of \$0.74, or 5%, from \$16.30 at December 31, 2015. Book value per share of common stock was \$20.24 at March 31, 2016, an increase of \$0.74, or 4% from \$19.50 at December 31, 2015.

Table of Contents

Below is a table comparing WSFS Bank's consolidated capital position to the minimum regulatory requirements as of March 31, 2016:

(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)	\$ 616,271	12.96 %	\$ 380,291	8.00 %	\$ 475,364	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	578,113	12.16	285,218	6.00	380,291	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	578,113	12.16	213,914	4.50	308,987	6.50
Tier 1 Leverage Capital	578,113	10.50	220,291	4.00	275,364	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 our financial statements.

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 March 31, 2016, 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 12.96%, Tier 1 capital ratio and total common equity tier 1 capital was 12.16%. In addition, and not included in the WSFS Bank capital, WSFS separately held \$36.9 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 three months ended March 31, 2016, cash and cash equivalents increased \$28.8 million to \$590.0 million from \$561.2 as of December 31, 2015. This increase was primarily the result of a \$43.3 million increase in brokered deposits, a \$38.3 million increase in FHLB advances, a \$8.9 million increase in customer deposits, and a \$14.0 million increase in retained earnings due primarily to net income for the three months ended March 31, 2016. This increase was partially offset by a \$53.7 million increase in investment securities, available-for-sale, and a \$23.0 million increase in net loans.

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)	March 31, 2016	December 31, 2015
Nonaccruing loans:		
Commercial	\$ 4,933	\$ 5,328
Owner-occupied commercial	1,269	1,091
Consumer	4,115	4,133
Commercial mortgages	2,596	3,326
Residential mortgages	6,878	7,287
Construction		
Total nonaccruing loans	19,791	21,165
Assets acquired through foreclosure	3,979	5,080
Troubled debt restructuring (accruing)	13,909	13,647
Total nonperforming assets	\$ 37,679	\$ 39,892
Past due loans: ⁽¹⁾		
Residential mortgages	\$ 127	\$ 251
Consumer	127	252
Commercial and commercial mortgages		17,529
Total past due loans	\$ 127	\$ 18,032
Ratio of allowance for loan losses to total loans ⁽²⁾	0.99 %	0.98 %
Ratio of nonaccruing loans to total loans ⁽²⁾	0.52	0.56
Ratio of nonperforming assets to total assets	0.66	0.71
Ratio of loan loss allowance to nonaccruing loans	189.76	175.27
Ratio of loan loss allowance to total nonperforming assets	1.00	0.93

- (1) Accruing loans only which includes acquired nonimpaired loans. Nonaccruing TDR s are included in their respective categories of nonaccruing loans.
- (2) Total loans exclude loans held for sale.

Nonperforming assets decreased \$2.2 million between December 31, 2015 and March 31, 2016. As a result, nonperforming assets as a percentage of total assets decreased from 0.71% at December 31, 2015 to 0.66% at March 31, 2016. This decrease is due to significant collections and workout activity. One relationship in particular paid down over \$600,000. There were eight Real Estate Owned (OREO) properties with a total balance of \$1.8 million sold during the first quarter of 2016. However this was offset by \$764,000 in new OREO properties. Past due loans decreased \$18 million from December 31, 2015 to March 31, 2016 due to successful collection efforts on one large C&I loan.

Table of Contents

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

(In Thousands)	For the Three Months Ended March 31, 2016	For the Year Ended December 31, 2015
Beginning balance	\$ 39,892	\$ 52,385
Additions	2,473	12,897
Collections	(3,940)	(14,167)
Transfers to accrual		(95)
Charge-offs, net	(746)	(11,128)
Ending balance	\$ 37,679	\$ 39,892

The timely identification of problem loans is a key element in our strategy to manage our loan portfolio. Problem loans include special mention, sub-standard (performing and nonperforming excluding purchase credit impaired) and 90 days delinquent and still accruing. 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 March 31, 2016, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by \$105.7 million. Our interest-sensitive liabilities as a percentage of interest-sensitive assets within the one-year window decreased from 103.9% at December 31, 2015 to 103.7% at March 31, 2016. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to 1.86% at March 31, 2016 from 1.96% at December 31, 2015. The low rate level of sensitivity reflects our continuing efforts to effectively manage interest rate risk.

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in our lending, investing, and funding activities. To that end, we actively monitor and manage our interest rate risk exposure. One measure, required to be performed by federal regulation, measures the impact of an immediate change in interest rates in 100 basis point increments on the economic value of equity ratio. The economic value of the equity ratio is defined as the economic value of the estimated cash flows from assets and liabilities as a percentage of economic value of cash flows from total assets.

Table of Contents

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 March 31, 2016 and December 31, 2015:

% Change in Interest Rate (Basis Points)	March 31, 2016		December 31, 2015	
	% Change in Net Interest Margin ⁽¹⁾	Economic Value of Equity ⁽²⁾	% Change in Net Interest Margin ⁽¹⁾	Economic Value of Equity ⁽²⁾
+300	5%	13.67%	6%	13.96%
+200	3%	13.69%	3%	13.99%
+100	-%	13.51%	-%	13.81%
-100	-%	13.05%	-%	13.56%
-100	-1%	12.07%	-1%	12.72%
-200 ⁽³⁾	NMF	NMF	NMF	NMF
-300 ⁽³⁾	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.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2016 AND MARCH 31, 2015**Results of Operations**

We recorded net income of \$15.8 million, or \$0.52 per diluted common share, for the three months ended March 31, 2016, a \$2.9 million, or 22% increase from the \$12.9 million, or \$0.45 per share, recorded for the three months ended March 31, 2015. Results for the first quarter of 2015 included \$808,000 (pre-tax) of interest income, or \$0.02 per share, from a special one-time dividend payment from the FHLB. The increase in net income reflected both strong organic and acquisition growth of our business as well as an improved balance sheet mix. Net interest income increased by \$6.5 million in the quarter ending March 31, 2016 as compared to the same period last year, due to growth in our loan portfolio, an improved balance sheet mix, and the positive purchase accounting impacts from recent acquisitions. Also favorably impacting earnings for the first quarter of 2016 was a \$2.0 million increase in noninterest income due primarily to organic growth in our Cash Connect and Wealth Management segments. Partially offsetting these increases was a \$4.3 million increase in noninterest expenses primarily due to higher salaries, benefits and operating costs due to our significant organic and acquisition growth and typical first quarter seasonality.

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:

(Dollars In Thousands)	Three Months Ended March 31,					
	2016			2015		
	Average Balance	Interest	Yield/ Rate ⁽¹⁾	Average Balance	Interest	Yield/ Rate ⁽¹⁾
Assets:						
Interest-earning assets:						
Loans (2) (3):						
Commercial real estate loans	\$ 1,192,711	\$ 14,280	4.82%	\$ 955,680	\$ 11,225	4.70%
Residential real estate loans (4)	286,853	3,179	4.43	249,612	2,414	3.87
Commercial loans	1,970,680	21,965	4.52	1,700,948	19,038	4.50
Consumer loans	361,040	4,093	4.56	325,449	3,567	4.44
Total loans	3,811,284	43,517	4.61	3,231,689	36,244	4.50
Mortgage-backed securities (5) (6)	711,352	3,894	2.19	723,018	3,433	1.90
Investment securities (5) (6)	203,665	1,220	3.54	158,028	860	3.22
Reverse mortgages (5) (6)	25,137	1,045	16.63	28,253	1,236	17.50
Other interest-earning assets	30,558	370	4.87	31,623	1,078	13.83
Total interest-earning assets	4,781,996	50,046	4.27	4,172,611	42,851	4.22
Allowance for loan losses	(37,544)			(39,674)		
Cash and due from banks	93,998			81,149		
Cash in non-owned ATMs	452,052			402,072		
Bank-owned life insurance	90,290			76,583		
Other noninterest-earning assets	215,201			146,907		
Total assets	\$ 5,595,993			\$ 4,839,648		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 766,209	\$ 245	0.13%	\$ 673,976	\$ 152	0.09%
Money market	1,098,595	748	0.27	875,273	538	0.25
Savings	443,822	139	0.13	408,555	52	0.05
Customer time deposits	574,422	745	0.52	490,077	1,049	0.87
Total interest-bearing customer deposits	2,883,048	1,877	0.26	2,447,881	1,791	0.30
Brokered certificates of deposit	166,974	241	0.58	180,618	151	0.34
Total interest-bearing deposits	3,050,022	2,118	0.28	2,628,499	1,942	0.30
FHLB of Pittsburgh advances	674,247	1,048	0.63	610,954	713	0.47

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Trust preferred borrowings	67,011	371	2.23	67,011	327	1.98
Senior Debt	53,741	942	6.85	53,462	942	6.85
Other borrowed funds (7)	155,011	211	0.54	127,325	110	0.35
Total interest-bearing liabilities	4,000,032	4,690	0.47	3,487,251	4,034	0.47
Noninterest-bearing demand deposits	949,607			811,365		
Other noninterest-bearing liabilities	54,307			40,628		
Stockholders equity	592,047			500,404		
Total liabilities and stockholders equity	\$ 5,595,993			\$ 4,839,648		
Excess of interest-earning assets over interest-bearing liabilities	\$ 781,964			\$ 685,360		
Net interest and dividend income		\$ 45,356			\$ 38,817	
Interest rate spread			3.80%			3.75%
Net interest margin (8)			3.87%			3.82%

- (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

During the three months ended March 31, 2016, net interest income increased \$6.5 million, or 17% from the three months ended March 31, 2015, and the net interest margin was 3.87%, a five basis point increase compared to 3.82% for the first quarter of 2015. The first quarter of 2015 net interest income and net interest margin reflect a special FHLB dividend of \$808,000, or 8 basis points of net interest margin. These year-over-year increases in margin dollars and percentages reflect the impact of organic and acquisition growth and an improved balance sheet mix, in addition to the positive purchase accounting impacts from recent acquisitions.

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 three months ended March 31, 2016 and 2015, we recorded a provision for loan losses of \$780,000 and \$786,000, respectively.

Our allowance for loan losses is based on the inherent risk of our loans and various other factors including but not limited to, collateral values, trends in asset quality, level of delinquent loans and concentrations. In addition, regional economic conditions are taken into consideration. The allowance for loan losses of \$37.6 million at March 31, 2016 increased slightly from \$37.1 million at December 31, 2015, and reflects continued strong credit quality metrics in our loan portfolio, with most metrics at or near their historic lows. The ratio of allowance for loan losses to total gross loans was 0.99% at March 31, 2016, compared to 0.98% at December 31, 2015. The allowance for loan losses and provision reflect the following:

Total net loans increased \$23.1 million at March 31, 2016 when compared to December 31, 2015.

Total loan delinquency decreased to 0.60% as of March 31, 2016, compared to 1.17% as of December 31, 2015.

Net charge-offs were a low \$313,000 for the three months ended March 31, 2016 compared to \$705,000 for the three months ended March 31, 2015.

Total nonperforming assets declined \$2.2 million to \$37.7 million during the three months ended March 31, 2016.

The table below represents a summary of changes in the allowance for loan losses for the nine months ended March 31, 2016 and 2015, respectively.

(In Thousands)	For the Three Months Ended March 31,	
	2016	2015
Beginning balance	\$ 37,089	\$ 39,426
Provision for loan losses	780	786
Charge-offs:		

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Commercial	179	131
Owner-occupied commercial		330
Commercial real estate	17	39
Construction	26	
Residential real estate	14	125
Consumer	488	289
Overdrafts	143	161
Total charge-offs	867	1,075
Recoveries:		
Commercial	110	26
Owner-occupied commercial	38	4
Commercial real estate	79	79
Construction	46	49
Residential real estate	22	11
Consumer	172	103
Overdrafts	87	98
Total recoveries	554	370
Net charge-offs	313	705
Ending balance	\$ 37,556	\$ 39,507
Net charge-offs to average gross loans outstanding, net of unearned income ⁽¹⁾	0.03%	0.09%

⁽¹⁾ Ratios for the three months ended March 31, 2016 and 2015 are annualized.

Table of Contents**Noninterest (fee) Income**

During the first quarter of 2016, the company earned fee income of \$23.1 million, an increase of \$2.0 million, or 9%, compared to \$21.1 million in the first quarter of 2015. Excluding net security gains in both periods, fee income increased \$2.1 million, or 10%. This increase is a result of continued organic growth in the Cash Connect and Wealth Management segments, including increases of \$874,000 in credit/debit card and ATM income and \$161,000 in investment management and fiduciary revenue. In addition, the increase in fee revenue compared to the first quarter of 2015 included a \$371,000 increase in deposit service charges and \$355,000 from gain on sale of Small Business Administration (SBA) loans.

Noninterest Expense

Noninterest expense for the first quarter of 2016 was \$43.2 million, an increase of \$4.3 million, or 11%, from \$38.9 million in the first quarter of 2015. Excluding corporate development costs in both periods, noninterest expense also increased \$4.3 million compared to the first quarter of 2015. This increase included a \$1.9 million increase in salaries, benefits and other compensation to support our significant organic and acquisition growth, and a \$931,000 increase in professional fees primarily due to higher legal and consulting fees in our Wealth Management segment. In addition, the acquisition of Alliance during the third quarter of 2015 resulted in a \$1.8 million increase in operating costs during the first quarter of 2016 compared to the first quarter of 2015.

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 \$8.7 million during the three months ended March 31, 2016, compared to an income tax expense of \$7.3 million for the same period in 2015.

Our effective tax rate was 35.5% for the three months ended March 31, 2016, compared to 36.2% during the same period in 2015. The reduction in the effective tax rate is due to lower nondeductible acquisition costs in 2016 combined with increased tax-exempt income.

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.

Table of Contents**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)	March 31, 2016	December 31, 2015
<u>Tangible Common Book Value per Share of Common Stock</u>		
End of period balance sheet data:		
Stockholders equity	\$ 597,580	\$ 580,471
Goodwill and other intangible assets	(94,572)	(95,295)
Tangible common equity (numerator)	\$ 503,008	\$ 485,176
Shares of common stock outstanding (denominator)	29,522	29,763
Book value per share of common stock	\$ 20.24	\$ 19.50
Goodwill and other intangible assets	(3.20)	(3.20)
Tangible book value per share of common stock	\$ 17.04	\$ 16.30

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.

Table of Contents**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 March 31, 2016 remain in excess of the well-capitalized regulatory benchmarks under the new rules.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Incorporated herein by reference from Item 2 Part I of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

- (a) **Evaluation of disclosure controls and procedures.** Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act), our principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.
- (b) **Changes in internal control over financial reporting.** During the quarter ended March 31, 2016, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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, 2015, previously filed with the SEC.

Table of Contents**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 March 31, 2016.

2016	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
February	222,537	\$ 28.95	203,108	1,197,457
March	102,186	32.00	98,763	1,098,694
Total	324,723	\$ 29.91	301,871	

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

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

- (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: May 06, 2016

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

Date: May 06, 2016

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