

WSFS FINANCIAL CORP  
Form 10-Q  
August 08, 2017

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2017

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

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WSFS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware 22-2866913  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification Number)

WSFS Bank Center, 500 Delaware Avenue,  
Wilmington, Delaware 19801  
(Address of principal executive offices)

(302) 792-6000  
Registrant's telephone number, including area code:

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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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company  
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The Registrant had 31,418,069 shares of common stock, par value \$0.01 per share, outstanding at August 3, 2017.

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WSFS FINANCIAL CORPORATION  
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| Exhibit 31.1               | <u>Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 31.2               | <u>Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 32                 | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>        |
| Exhibit 101.INS            | Instance Document   |
| Exhibit 101.SCH            | Schema Document   |
| Exhibit 101.CAL            | Calculation Linkbase Document   |
| Exhibit 101.LAB            | Labels Linkbase Document  |
| Exhibit 101.PRE            | Presentation Linkbase Document  |
| Exhibit 101.DEF            | Definition Linkbase Document  |

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, and exhibits thereto, 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. The words “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project” and similar expressions, among others, generally identify forward-looking statements. 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 markets 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 problem loans including litigation and other costs;
- possible additional loan losses and impairment in the collectability of loans;
- changes in market interest rates, which may increase funding costs and reduce earning asset yields and thus reduce 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 Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations issued in accordance with this statute and potential expenses associated with complying with such regulations;
- 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;
- conditions in the financial markets that may limit the Company’s access to additional funding to meet its liquidity needs;
- any impairment of the Company’s goodwill or other intangible assets;
- failure of the financial and operational controls of the Company’s Cash Connec<sup>®</sup> division;
- the success of the Company’s growth plans, including the successful integration of past and future acquisitions;
- the Company’s ability to fully realize the cost savings and other benefits of its acquisitions, business disruption following those acquisitions, and post-acquisition 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;
- 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 changes in the speed of prepayments of mortgage-backed securities due to changes in the interest rate environment, and the related acceleration of premium amortization on prepayments in the event that prepayments accelerate;

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• 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 effects of other risks and uncertainties, discussed in the Company's Form 10-K for the year ended December 31, 2016 and other documents filed by the Company with the Securities and Exchange Commission from time to time.

Forward-looking statements speak only as of the date they are made, and the Company assumes no obligation to revise or update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company for any reason, except as required by law.

Table of ContentsWSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

|  | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2017                           | 2016     | 2017                         | 2016     |
| (Dollars in thousands, except per share data)  |                                |          |                              |          |
| Interest income:   |                                |          |                              |          |
| Interest and fees on loans   | \$56,073                       | \$45,983 | \$110,754                    | \$90,545 |
| Interest on mortgage-backed securities   | 4,782                          | 3,910    | 9,177                        | 7,804    |
| Interest and dividends on investment securities:                                       |                                |          |                              |          |
| Taxable  | 6                              | 85       | 123                          | 162      |
| Tax-exempt   | 1,130                          | 1,141    | 2,262                        | 2,284    |
| Other interest income  | 343                            | 384      | 844                          | 754      |
|  | 62,334                         | 51,503   | 123,160                      | 101,549  |
| Interest expense:  |                                |          |                              |          |
| Interest on deposits   | 3,341                          | 2,204    | 6,416                        | 4,322    |
| Interest on senior debt  | 2,121                          | 1,175    | 4,242                        | 2,117    |
| Interest on Federal Home Loan Bank advances  | 1,797                          | 1,124    | 3,655                        | 2,172    |
| Interest on federal funds purchased and securities sold under agreements to repurchase | 235                            | 162      | 436                          | 344      |
| Interest on trust preferred borrowings   | 472                            | 397      | 918                          | 768      |
| Interest on other borrowings   | 54                             | 27       | 76                           | 56       |
|  | 8,020                          | 5,089    | 15,743                       | 9,779    |
| Net interest income  | 54,314                         | 46,414   | 107,417                      | 91,770   |
| Provision for loan losses  | 1,843                          | 1,254    | 4,005                        | 2,034    |
| Net interest income after provision for loan losses                                    | 52,471                         | 45,160   | 103,412                      | 89,736   |
| Noninterest income:  |                                |          |                              |          |
| Credit/debit card and ATM income   | 8,925                          | 7,253    | 17,056                       | 14,154   |
| Investment management and fiduciary income   | 8,835                          | 6,282    | 16,874                       | 11,536   |
| Deposit service charges  | 4,560                          | 4,342    | 8,957                        | 8,618    |
| Mortgage banking activities, net   | 1,844                          | 1,816    | 3,029                        | 3,470    |
| Securities gains, net  | 708                            | 545      | 1,028                        | 850      |
| Loan fee income  | 451                            | 480      | 1,000                        | 957      |
| Bank owned life insurance income   | 302                            | 211      | 578                          | 442      |
| Other income   | 6,051                          | 4,578    | 11,246                       | 9,149    |
|  | 31,676                         | 25,507   | 59,768                       | 49,176   |
| Noninterest expense:   |                                |          |                              |          |
| Salaries, benefits and other compensation  | 28,223                         | 23,509   | 57,059                       | 46,385   |
| Occupancy expense  | 4,684                          | 3,955    | 9,846                        | 8,225    |
| Equipment expense  | 3,498                          | 2,516    | 6,622                        | 4,989    |
| Professional fees  | 2,669                          | 2,934    | 4,304                        | 5,337    |
| Data processing and operations expenses  | 1,750                          | 1,522    | 3,368                        | 3,064    |
| Marketing expense  | 932                            | 801      | 1,556                        | 1,465    |
| Loan workout and OREO expenses   | 499                            | 45       | 1,020                        | 548      |
| FDIC expenses  | 594                            | 773      | 1,123                        | 1,611    |
| Corporate development expense  | 366                            | 549      | 704                          | 1,118    |
| Other operating expense  | 9,512                          | 8,081    | 18,631                       | 15,741   |
|  | 52,727                         | 44,685   | 104,233                      | 88,483   |
| Income before taxes  | 31,420                         | 25,982   | 58,947                       | 50,429   |

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|                      |          |          |          |          |
|----------------------|----------|----------|----------|----------|
| Income tax provision | 10,850   | 8,504    | 19,440   | 17,181   |
| Net income           | \$20,570 | \$17,478 | \$39,507 | \$33,248 |
| Earnings per share:  |          |          |          |          |
| Basic                | \$0.65   | \$0.59   | \$1.26   | \$1.12   |
| Diluted              | \$0.64   | \$0.58   | \$1.22   | \$1.10   |

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2017                           | 2016     | 2017                         | 2016     |
|  | (Unaudited)                    |          | (Unaudited)                  |          |
| (Dollars in thousands)   |                                |          |                              |          |
| Net Income   | \$20,570                       | \$17,478 | \$39,507                     | \$33,248 |
| Other comprehensive income:  |                                |          |                              |          |
| Net change in unrealized gains on investment securities available for sale   |                                |          |                              |          |
| Net unrealized gains arising during the period, net of tax expense of \$1,958, \$2,870, \$2,737 and \$9,350, respectively  | 3,241                          | 4,683    | 4,513                        | 15,255   |
| Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$253, \$207, \$367 and \$323, respectively   | (455 )                         | (338 )   | (661 )                       | (527 )   |
|  | 2,786                          | 4,345    | 3,852                        | 14,728   |
| Net change in securities held to maturity  |                                |          |                              |          |
| Amortization of unrealized gain on securities reclassified to held-to-maturity, net of tax expense of \$62, \$62, \$121 and \$127, respectively  | (97 )                          | (100 )   | (198 )                       | (203 )   |
| Net change in unfunded pension liability   |                                |          |                              |          |
| Change in unfunded pension liability related to unrealized (loss) gain, prior service cost and transition obligation, net of tax (benefit) expense of (\$15), (\$13), (\$27) and \$280, respectively | (22 )                          | (22 )    | (45 )                        | 456      |
| Net change in cash flow hedge  |                                |          |                              |          |
| Net unrealized gain arising during the period, net of tax expense of \$161, \$0, \$92 and \$0, respectively  | 262                            | —        | 150                          | —        |
| Total other comprehensive income   | 2,929                          | 4,223    | 3,759                        | 14,981   |
| Total comprehensive income   | \$23,499                       | \$21,701 | \$43,266                     | \$48,229 |

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

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|   | June 30,<br>2017 | December<br>31, 2016 |
|---|------------------|----------------------|
| (Dollars in thousands, except per share and share data)   | (Unaudited)      |                      |
| Assets:   |                  |                      |
| Cash and due from banks   | \$ 118,555       | \$ 119,929           |
| Cash in non-owned ATMs  | 623,232          | 698,454              |
| Interest-bearing deposits in other banks including collateral of \$3,380 at June 30, 2017 and December 31, 2016               | 3,524            | 3,540                |
| Total cash and cash equivalents   | 745,311          | 821,923              |
| Investment securities, available for sale (amortized cost of \$825,488 at June 30, 2017 and \$807,761 at December 31, 2016)   | 818,495          | 794,543              |
| Investment securities, held to maturity-at cost (fair value of \$163,903 at June 30, 2017 and \$163,232 at December 31, 2016) | 162,598          | 164,346              |
| Loans, held for sale at fair value  | 35,425           | 54,782               |
| Loans, net of allowance for loan losses of \$40,005 at June 30, 2017 and \$39,751 at December 31, 2016                        | 4,579,715        | 4,444,375            |
| Bank owned life insurance   | 102,007          | 101,425              |
| Stock in Federal Home Loan Bank of Pittsburgh-at cost   | 35,832           | 38,248               |
| Other real estate owned   | 2,121            | 3,591                |
| Accrued interest receivable   | 16,742           | 17,027               |
| Premises and equipment  | 47,505           | 48,871               |
| Goodwill  | 166,007          | 167,539              |
| Intangible assets   | 23,976           | 23,708               |
| Other assets  | 86,693           | 84,892               |
| Total assets  | \$6,822,427      | \$6,765,270          |
| Liabilities and Stockholders' Equity  |                  |                      |
| Liabilities:  |                  |                      |
| Deposits:   |                  |                      |
| Noninterest-bearing demand  | \$ 1,319,749     | \$ 1,266,306         |
| Interest-bearing demand   | 927,465          | 935,333              |
| Money market  | 1,297,024        | 1,257,520            |
| Savings   | 572,476          | 547,293              |
| Time  | 311,804          | 332,624              |
| Jumbo certificates of deposit – customer  | 223,311          | 260,560              |
| Total customer deposits   | 4,651,829        | 4,599,636            |
| Brokered deposits   | 182,221          | 138,802              |
| Total deposits  | 4,834,050        | 4,738,438            |
| Federal funds purchased and securities sold under agreements to repurchase  | 65,000           | 130,000              |
| Federal Home Loan Bank advances   | 823,651          | 854,236              |
| Trust preferred borrowings  | 67,011           | 67,011               |
| Senior debt   | 152,313          | 152,050              |
| Other borrowed funds  | 54,779           | 64,150               |
| Accrued interest payable  | 2,405            | 1,151                |
| Other liabilities   | 100,595          | 70,898               |
| Total liabilities   | 6,099,804        | 6,077,934            |
| Stockholders' Equity:   |                  |                      |

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|   |             |              |
|---|-------------|--------------|
| Common stock \$0.01 par value, 65,000,000 shares authorized; issued 56,173,802 at June 30, 2017 and 55,995,219 at December 31, 2016 | 581         | 580          |
| Capital in excess of par value  | 331,905     | 329,457      |
| Accumulated other comprehensive loss  | (3,858      | ) (7,617 )   |
| Retained earnings   | 662,186     | 627,078      |
| Treasury stock at cost, 24,739,145 shares at June 30, 2017 and 24,605,145 shares at December 31, 2016                               | (268,191    | ) (262,162 ) |
| Total stockholders' equity  | 722,623     | 687,336      |
| Total liabilities and stockholders' equity  | \$6,822,427 | \$6,765,270  |

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

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WSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited)

| (Dollars and share data in thousands)   | Shares     | Common Stock | Capital in Excess of Par Value | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Shareholders' Equity |
|---|------------|--------------|--------------------------------|---|-------------------|----------------|----------------------------|
| Balance, December 31, 2015  | 55,945,245 | \$ 560       | \$256,435                      | \$ 696  | \$570,630         | \$(247,850)    | \$ 580,471                 |
| Net Income  | —          | —            | —                              | —   | 33,248            | —              | 33,248                     |
| Other comprehensive income  | —          | —            | —                              | 14,981  | —                 | —              | 14,981                     |
| Cash dividend, \$0.12 per share   | —          | —            | —                              | —   | (3,556 )          | —              | (3,556 )                   |
| Issuance of common stock including proceeds from exercise of common stock options | 145,276    | 2            | 1,721                          | —   | —                 | —              | 1,723                      |
| Stock-based compensation expense  | —          | —            | 1,363                          | —   | —                 | —              | 1,363                      |
| Repurchase of common stock, 359,371 shares  | —          | —            | —                              | —   | —                 | (11,034 )      | (11,034 )                  |
| Balance, June 30, 2016  | 56,090,521 | \$ 562       | \$259,519                      | \$ 15,677                                     | \$600,322         | \$(258,884)    | \$ 617,196                 |
| Balance, December 31, 2016  | 55,995,219 | \$ 580       | \$329,457                      | \$ (7,617 )                                   | \$627,078         | \$(262,162)    | \$ 687,336                 |
| Net Income  | —          | —            | —                              | —   | 39,507            | —              | 39,507                     |
| Other comprehensive income  | —          | —            | —                              | 3,759   | —                 | —              | 3,759                      |
| Cash dividend, \$0.14 per share   | —          | —            | —                              | —   | (4,399 )          | —              | (4,399 )                   |
| Issuance of common stock including proceeds from exercise of common stock options | 178,583    | 1            | 884                            | —   | —                 | —              | 885                        |
| Stock-based compensation expense  | —          | —            | 1,564                          | —   | —                 | —              | 1,564                      |
| Repurchase of common stock, 133,000 shares  | —          | —            | —                              | —   | —                 | (6,029 )       | (6,029 )                   |
| Balance, June 30, 2017  | 56,173,802 | \$ 581       | \$331,905                      | \$ (3,858 )                                   | \$662,186         | \$(268,191)    | \$ 722,623                 |

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six Months Ended June<br>30, |             |
|---|------------------------------|-------------|
|   | 2017                         | 2016        |
| (Dollars in thousands)  | (Unaudited)                  |             |
| Operating activities:   |                              |             |
| Net Income  | \$39,507                     | \$33,248    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |             |
| Provision for loan losses   | 4,005                        | 2,034       |
| Depreciation of premises and equipment, net                                       | 4,286                        | 3,699       |
| Amortization of fees and discounts, net   | 10,266                       | 8,239       |
| Amortization of intangible assets   | 1,639                        | 1,015       |
| Decrease (increase) in accrued interest receivable                                | 285                          | (124 )      |
| Increase in other assets  | (8,156 )                     | (2,440 )    |
| Origination of loans held for sale  | (181,851 )                   | (152,484 )  |
| Proceeds from sales of loans held for sale  | 192,130                      | 160,686     |
| Gain on mortgage banking activities, net  | (3,029 )                     | (3,470 )    |
| Gain on sale of securities, net   | (1,028 )                     | (850 )      |
| Stock-based compensation expense  | 1,564                        | 1,480       |
| Increase in accrued interest payable  | 1,254                        | 1,272       |
| Decrease in other liabilities   | (1,004 )                     | (473 )      |
| Loss on sale of other real estate owned and valuation adjustments, net            | 131                          | 162         |
| Deferred income tax expense   | 2,808                        | 3,821       |
| Increase in value of bank owned life insurance                                    | (582 )                       | (1,283 )    |
| Increase in capitalized interest, net   | (2,334 )                     | (2,688 )    |
| Net cash provided by operating activities   | \$59,891                     | \$51,844    |
| Investing activities:   |                              |             |
| Purchases of investment securities held to maturity                               | \$—                          | \$(3,329 )  |
| Repayments, maturities and calls of investment securities held to maturity        | 780                          | 1,810       |
| Sale of investment securities available for sale                                  | 351,614                      | 101,348     |
| Purchases of investment securities available for sale                             | (481,978 )                   | (159,684 )  |
| Repayments of investment securities available for sale                            | 144,208                      | 35,570      |
| Net increase in loans   | (135,856 )                   | (74,579 )   |
| Purchases of stock of Federal Home Loan Bank of Pittsburgh                        | (100,438 )                   | (38,599 )   |
| Redemptions of stock of Federal Home Loan Bank of Pittsburgh                      | 102,854                      | 31,179      |
| Sales of other real estate owned  | 4,105                        | 2,657       |
| Investment in premises and equipment  | (4,490 )                     | (3,870 )    |
| Sales of premises and equipment   | 1,585                        | —           |
| Net cash used for investing activities  | \$(117,616)                  | \$(107,497) |

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|   | Six Months Ended June<br>30, |              |
|---|------------------------------|--------------|
|   | 2017                         | 2016         |
|   | (Unaudited)                  |              |
| (Dollars in thousands)  |                              |              |
| Financing activities:   |                              |              |
| Net increase in demand and saving deposits  | \$101,267                    | \$17,446     |
| Decrease in time deposits   | (58,069 )                    | (46,594 )    |
| Increase in brokered deposits   | 43,419                       | 2,396        |
| Decrease in loan payable  | (376 )                       | (386 )       |
| Receipts from FHLB advances   | 72,320,785                   | 57,591,203   |
| Repayments of FHLB advances   | (72,351,370)                 | (57,373,950) |
| Receipts from federal funds purchased and securities sold under agreement to repurchase           | 12,312,000                   | 16,434,870   |
| Repayments of federal funds purchased and securities sold under agreement to repurchase           | (12,377,000)                 | (16,512,070) |
| Dividends paid  | (4,399 )                     | (3,556 )     |
| Issuance of common stock and exercise of common stock options                                     | 885                          | 1,723        |
| Issuance of senior debt   | —                            | 98,319       |
| Purchase of treasury stock  | (6,029 )                     | (11,034 )    |
| Net cash (used) provided by financing activities  | \$(18,887 )                  | \$198,367    |
| (Decrease) increase in cash and cash equivalents  | (76,612 )                    | 142,714      |
| Cash and cash equivalents at beginning of period  | 821,923                      | 561,179      |
| Cash and cash equivalents at end of period  | \$745,311                    | \$703,893    |
| Supplemental Disclosure of Cash Flow Information:   |                              |              |
| Cash paid for interest during the period  | \$14,490                     | \$8,507      |
| Cash paid for income taxes, net   | 10,352                       | 12,493       |
| Loans transferred to other real estate owned  | 2,766                        | 674          |
| Loans transferred to portfolio from held-for-sale at fair value                                   | 11,015                       | 3,670        |
| Net change in accumulated other comprehensive income  | 3,759                        | 14,981       |
| Non-cash goodwill adjustments, net  | (1,532 )                     | (360 )       |
| The accompanying notes are an integral part of these unaudited Consolidated Financial Statements. |                              |              |

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WSFS FINANCIAL CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017  
(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), WSFS Wealth Management, LLC (Powdermill), WSFS Capital Management, LLC (West Capital) and Cypress Capital Management, LLC (Cypress). We also have one unconsolidated subsidiary, WSFS Capital Trust III (the Capital Trust). WSFS Bank has three wholly-owned subsidiaries: WSFS Wealth Investments, 1832 Holdings, Inc. and Monarch Entity Services LLC (Monarch).

Overview

Founded in 1832, the Bank is one of the ten oldest bank and trust companies continuously operating under the same name in the United States (U.S.). 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. The Federal Deposit Insurance Corporation (FDIC) insures our customers' deposits to their legal maximums. We serve our customers primarily from our 76 offices located in Delaware (45), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at [www.wsfsbank.com](http://www.wsfsbank.com). Information on our website is not incorporated by reference into this quarterly report.

In preparing the unaudited Consolidated Financial Statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Amounts subject to significant estimates include the allowance for loan losses and reserves for lending related commitments, goodwill, intangible assets, post-retirement benefit obligations, the fair value of financial instruments, other-than-temporary impairment (OTTI), and the income tax valuation allowance. Among other effects, changes to these 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 Generally Accepted Accounting Principles (GAAP) in the U.S., 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, 2017. These unaudited, interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Annual Report on Form 10-K") that was filed with the SEC on March 1, 2017 and is available at [www.sec.gov](http://www.sec.gov) or on our website at <http://investors.wsfsbank.com/financials.cfm>. All significant intercompany transactions were eliminated in consolidation.

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2016 Annual Report on Form 10-K. There have not been any material changes in our significant accounting policies from those disclosed in our 2016 Annual Report on Form 10-K.

Senior Debt

On June 13, 2016, the Company issued \$100.0 million of senior unsecured fixed-to-floating rate notes (the senior debt). The senior unsecured notes mature on June 15, 2026 and have a fixed coupon rate of 4.50% from issuance until June 15, 2021 and a variable coupon rate of three month LIBOR plus 3.30% from June 15, 2021 until maturity. The senior unsecured notes may be redeemed beginning on June 15, 2021 at 100% of principal plus accrued and unpaid interest. The net proceeds from the issuance of the notes are being used for general corporate purposes.



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In 2012, we issued \$55.0 million in aggregate principal amount of 6.25% senior notes due 2019 (the 2012 senior debt). The 2012 senior debt is unsecured and ranks equally with all of our other present and future unsecured unsubordinated obligations. Both the senior debt and the 2012 senior debt are effectively subordinated to our secured indebtedness and structurally subordinated to the indebtedness of our subsidiaries. At our option, the 2012 senior debt is callable, in whole or in part, on September 1, 2017, or on any scheduled interest payment date thereafter, at a price equal to the outstanding principal amount to be redeemed plus accrued and unpaid interest. We expect to call the 2012 senior debt, which matures on September 1, 2019, during the third quarter of 2017.

Acquisitions in 2016

On August 12, 2016, we completed the acquisition of Penn Liberty Financial Corp. (Penn Liberty), a community bank headquartered in Wayne, Pennsylvania in order to build our market share, deepen our presence in the southeastern Pennsylvania market, and enhance our customer base. The results of Penn Liberty's operations are included in our Consolidated Financial Statements since the date of the acquisition. See Note 2 – Business Combinations for further information.

During the third and fourth quarters of 2016, respectively, we acquired the assets of Powdermill Financial Solutions LLC, a multi-family office serving an affluent clientele in the local community and throughout the U.S., and West Capital Management, Inc., an independent, fee-only wealth management firm providing fully customized solutions tailored to the unique needs of institutions and high net worth individuals which operates under a multi-family office philosophy. These acquisitions align with our strategic plan to expand our wealth management offerings and to diversify our fee-income generating businesses.

Correction of Prior Period Balances

The Consolidated Statements of Income for the three and six months ended June 30, 2016 have been revised to correct an immaterial error in Noninterest income - Other income and Noninterest expense - Other operating expense related to revenue earned for cash servicing fees. As a result, the Consolidated Statements of Income have been revised to reflect these changes, as follows:

| Dollars in thousands                          | Three months ended June 30, 2016 |             | Six months ended June 30, 2016 |                        |             |            |
|---|----------------------------------|-------------|--------------------------------|------------------------|-------------|------------|
|   | As originally reported           | Adjustments | As revised                     | As originally reported | Adjustments | As revised |
| Noninterest income - Other income             | \$3,920                          | \$ 658      | \$4,578                        | \$7,892                | \$ 1,257    | \$9,149    |
| Noninterest expense - Other operating expense | 7,423                            | 658         | 8,081                          | 14,484                 | 1,257       | 15,741     |

The above revisions had no effect on earnings per share or retained earnings. Periods not presented herein will be revised, as applicable, as they are included in future filings.

RECENT ACCOUNTING PRONOUNCEMENTSAccounting Guidance Adopted in 2017

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-05: Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which amends Accounting Standards Codification (ASC) Topic 815: Derivatives and Hedging. This new guidance clarifies that the novation of a derivative contract (i.e., a change in the counterparty) in a hedge accounting relationship does not, in and of itself, cause a hedge accounting relationship to be discontinued because it does not represent a termination of the original derivative instrument or a change in the critical terms of the hedge relationship. This new guidance is effective for annual reporting periods beginning after December 15, 2016 and may be adopted prospectively or retroactively. Early adoption is permitted, including adoption in an interim period. The Company adopted this accounting guidance during the quarter ended March 31, 2017 on a prospective basis with no impact to our Consolidated Financial Statements.

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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 adopted this accounting guidance during the quarter ended March 31, 2017 with no impact on our Consolidated Statements of Income or Consolidated Statements of Financial 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 adopted this accounting guidance during the quarter ended March 31, 2017 on a prospective basis with no impact to our Consolidated Financial Statements.

## Accounting Guidance Pending Adoption at June 30, 2017

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 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. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Gross versus Net), which amends the principal versus agent guidance 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. In addition, the FASB issued ASU Nos. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers and 2016-12, Narrow-Scope Improvements and Practical Expedients, both of which provide additional clarification of certain provisions in Topic 606. These Accounting Standards Codification ("ASC") updates are 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 standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method. For revenue streams determined to be within the scope of the standard, we are continuing to evaluate the related accounting policies, practices and reporting to identify and understand any impact the standard may have on the Company's Consolidated Financial Statements. Our preliminary evaluation continues to suggest that adoption of this guidance is not expected to have a material effect on our Consolidated Financial Statements. The Company expects to complete its assessment in the second half of 2017 and will adopt the guidance on January 1, 2018.

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 requires that equity investments 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 is 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 its Consolidated Financial Statements.

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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 simplifies 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. Adoption using the modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company has begun the process of identifying our complete lease population as defined by the guidance. Our preliminary review of the guidance suggests that adoption will result in additional assets and liabilities on our Consolidated Balance Sheet. The Company expects to adopt the guidance on January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is in the early stages of evaluating the impact of this guidance on its Consolidated Financial Statements. Our preliminary review of the guidance suggests that adoption may materially increase the allowance for loan losses. Management is in the process of creating a project team to lead the implementation of this guidance. The Company expects to adopt the guidance on January 1, 2020.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 represents the Emerging Issues Task Force's ("the EITF") final consensus on eight issues related to the classification of cash payments and receipts in the statement of cash flows for a number of common transactions. The consensus also clarifies when identifiable cash flows should be separated versus classified based on their predominant source or use. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this guidance on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides a new, two-step framework for determining whether a transaction is accounted for as an acquisition (or disposal) of assets or a business. The first step is evaluating whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the transaction is not considered a business. Also, in order to be considered a business, the transaction would need to include an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted for transactions that have not been reported in financial statements that have been issued or been made available for issuance. The Company does not expect the application of this guidance to have any impact on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the measurement of goodwill impairment by removing the hypothetical purchase price allocation ("Step 2"). The new guidance requires an impairment of goodwill be measured as the amount by which a reporting unit's carrying value exceeds its fair value, up to the amount of goodwill recorded. The guidance is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017. The

Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In February 2017, the FASB issued ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 provides clarification of the scope of ASC 610-20. Specifically, the new guidance clarifies that ASC 610-20 applies to nonfinancial assets which do not meet the definition of a business or not-for-profit activity. Further, the new guidance clarifies that a financial asset is within the scope of ASC 610-20 if it meets the definition of an in-substance nonfinancial asset which is defined as a financial asset promised to a counterparty in a contract where substantially all of the assets promised are nonfinancial. Finally, the new guidance clarifies that each distinct nonfinancial asset and in-substance nonfinancial asset should be derecognized when the counterparty obtains control of it. The guidance is effective for public 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 is currently evaluating the impact of adopting ASU 2017-05 on its Consolidated Financial Statements.

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In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new guidance requires that the service cost component of net periodic pension cost be disclosed with other compensation costs in the income statement. For all other cost components, an entity must either separately disclose the other cost components in separate line item(s) outside a subtotal of income from operations in the income statement or disclose the line item(s) used to present the other cost components in the income statement. The guidance is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities. The new guidance requires the amortization period for certain non-contingent callable debt securities held at a premium to end at the earliest call date of the debt security. If the call option is not exercised at the earliest call date, the guidance requires the debt security's effective yield to be reset based on the contractual payment terms of the debt security. The guidance is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted. Use of the modified retrospective method, with a cumulative-effect adjustment to retained earnings, is required. In the period of adoption, a change in accounting principle disclosure is required. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, Scope of Modification Accounting. The new guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. If the award's fair value, vesting conditions and classification remain the same immediately before and after the change, modification accounting is not applied. Additionally, the guidance does not require valuation before or after the change if the change does not affect any of the inputs to the model used to value the award. The guidance is effective for all entities in annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The new guidance will be applied on a prospective basis to awards modified on or after the adoption date. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

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## 2. BUSINESS COMBINATIONS

## Penn Liberty Financial Corporation

On August 12, 2016, we completed the acquisition of Penn Liberty. The acquisition of Penn Liberty was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred 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.

In connection with the merger, the consideration transferred and the fair value of identifiable assets acquired and liabilities assumed, including remeasurement adjustments subsequent to the date of acquisition, are summarized in the following table:

| (Dollars in thousands)                              | Fair Value |
|---|------------|
| Consideration Transferred:                          |            |
| Common shares issued (1,806,748)                    | \$68,352   |
| Cash paid to Penn Liberty stock and option holders  | 40,549     |
| Value of consideration                              | 108,901    |
| Assets acquired:                                    |            |
| Cash and due from banks                             | 102,301    |
| Investment securities                               | 627        |
| Loans   | 483,203    |
| Premises and equipment                              | 6,817      |
| Deferred income taxes                               | 6,542      |
| Bank owned life insurance                           | 8,666      |
| Core deposit intangible                             | 2,882      |
| Other real estate owned                             | 996        |
| Other assets  | 12,085     |
| Total assets  | 624,119    |
| Liabilities assumed:                                |            |
| Deposits  | 568,706    |
| Other borrowings                                    | 10,000     |
| Other liabilities                                   | 3,738      |
| Total liabilities                                   | 582,444    |
| Net assets acquired:                                | 41,675     |
| Goodwill resulting from acquisition of Penn Liberty | \$67,226   |

The following table details the change to goodwill recorded subsequent to acquisition:

| (Dollars in thousands)   | Fair Value |
|--|------------|
| Goodwill resulting from the acquisition of Penn Liberty reported as of December 31, 2016 | \$68,814   |
| Effects of adjustments to:   |            |
| Deferred income taxes  | 880        |
| Loans  | 279        |
| Other assets   | (1,440 )   |
| Other liabilities  | (1,307 )   |
| Adjusted goodwill resulting from the acquisition of Penn Liberty as of June 30, 2017     | \$67,226   |

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates.



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## 3. EARNINGS PER SHARE

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

| (Dollars and Shares in thousands, except per share data)       | Three Months           |          | Six Months             |          |
|--|------------------------|----------|------------------------|----------|
|  | Ended June 30,<br>2017 | 2016     | Ended June 30,<br>2017 | 2016     |
| Numerator:   |                        |          |                        |          |
| Net income   | \$20,570               | \$17,478 | \$39,507               | \$33,248 |
| Denominator:   |                        |          |                        |          |
| Weighted average basic shares                                  | 31,443                 | 29,545   | 31,425                 | 29,608   |
| Dilutive potential common shares                               | 869                    | 606      | 899                    | 582      |
| Weighted average fully diluted shares                          | 32,312                 | 30,151   | 32,324                 | 30,190   |
| Earnings per share:  |                        |          |                        |          |
| Basic  | \$0.65                 | \$0.59   | \$1.26                 | \$1.12   |
| Diluted  | \$0.64                 | \$0.58   | \$1.22                 | \$1.10   |
| Outstanding common stock equivalents having no dilutive effect | —                      | 5        | 10                     | 20       |

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## 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.

| (Dollars in thousands)         | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Fair<br>Value |
|--------------------------------|-------------------|-----------------------------|-----------------------------|---------------|
| Available-for-Sale Securities: |                   |                             |                             |               |
| June 30, 2017                  |                   |                             |                             |               |
| GSE                            | \$ 2,993          | \$ —                        | \$ —                        | \$ 2,993      |
| CMO                            | 316,395           | 1,152                       | 2,708                       | 314,839       |
| FNMA MBS                       | 400,598           | 1,135                       | 5,773                       | 395,960       |
| FHLMC MBS                      | 77,815            | 168                         | 839                         | 77,144        |
| GNMA MBS                       | 27,050            | 294                         | 405                         | 26,939        |
| Other investments              | 637               | —                           | 17                          | 620           |
|                                | \$ 825,488        | \$ 2,749                    | \$ 9,742                    | \$ 818,495    |
| December 31, 2016              |                   |                             |                             |               |
| GSE                            | \$ 35,061         | \$ 9                        | \$ 60                       | \$ 35,010     |
| CMO                            | 264,607           | 566                         | 3,957                       | 261,216       |
| FNMA MBS                       | 414,218           | 950                         | 9,404                       | 405,764       |
| FHLMC MBS                      | 64,709            | 135                         | 1,330                       | 63,514        |
| GNMA MBS                       | 28,540            | 303                         | 427                         | 28,416        |
| Other investments              | 626               | —                           | 3                           | 623           |
|                                | \$ 807,761        | \$ 1,963                    | \$ 15,181                   | \$ 794,543    |

| (Dollars in thousands)                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Fair<br>Value |
|--|-------------------|-----------------------------|-----------------------------|---------------|
| Held-to-Maturity Securities <sup>(1)</sup> |                   |                             |                             |               |
| June 30, 2017                              |                   |                             |                             |               |
| State and political subdivisions           | \$ 162,598        | \$ 1,525                    | \$ 220                      | \$ 163,903    |
| December 31, 2016                          |                   |                             |                             |               |
| State and political subdivisions           | \$ 164,346        | \$ 271                      | \$ 1,385                    | \$ 163,232    |

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 \$1.9 million and \$2.2 million at June 30, 2017 and December 31, 2016, respectively, related to securities transferred, which are offset in Accumulated Other Comprehensive Income, net of tax.

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The scheduled maturities of investment securities available for sale and held to maturity at June 30, 2017 and December 31, 2016 are presented in the table below:

| (Dollars in thousands)                | Available for Sale<br>(1) (2) |               |
|---------------------------------------|-------------------------------|---------------|
|                                       | Amortized<br>Cost             | Fair<br>Value |
| June 30, 2017                         |                               |               |
| Within one year                       | \$2,993                       | \$2,993       |
| After one year but within five years  | 10,043                        | 10,062        |
| After five years but within ten years | 195,075                       | 191,104       |
| After ten years                       | 616,740                       | 613,716       |
|                                       | \$824,851                     | \$817,875     |
| December 31, 2016                     |                               |               |
| Within one year                       | \$16,009                      | \$16,017      |
| After one year but within five years  | 19,052                        | 18,992        |
| After five years but within ten years | 276,635                       | 270,300       |
| After ten years                       | 495,439                       | 488,611       |
|                                       | \$807,135                     | \$793,920     |
|                                       |                               |               |
|                                       | Held to Maturity (2)          |               |
|                                       | AmortizedFair                 |               |
| (Dollars in thousands)                | Cost                          | Value         |
| June 30, 2017                         |                               |               |
| Within one year                       | \$—                           | \$—           |
| After one year but within five years  | 5,906                         | 5,949         |
| After five years but within ten years | 13,142                        | 13,276        |
| After ten years                       | 143,550                       | 144,678       |
|                                       | \$162,598                     | \$163,903     |
| December 31, 2016                     |                               |               |
| Within one year                       | \$—                           | \$—           |
| After one year but within five years  | 6,168                         | 6,162         |
| After five years but within ten years | 8,882                         | 8,870         |
| After ten years                       | 149,296                       | 148,200       |
|                                       | \$164,346                     | \$163,232     |

(1) Included in the investment portfolio, but not in the table above, is a mutual fund with an amortized cost and fair value of \$0.6 million and \$0.6 million as of June 30, 2017 and December 31, 2016 which has no stated maturity.

(2) Actual maturities could differ.

Mortgage-backed securities (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 \$571.6 million and \$562.5 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of June 30, 2017 and December 31, 2016, respectively.

During the six months ended June 30, 2017, we sold \$351.6 million of investment securities categorized as available for sale, resulting in realized gains of \$1.1 million and realized losses of less than \$0.1 million. During the six months ended June 30, 2016, we sold \$101.3 million of investment securities categorized as available for sale, resulting in realized gains of \$0.9 million and no realized losses. The cost basis of all investment securities sales is based on the specific identification method.

As of June 30, 2017 and December 31, 2016, our investment securities portfolio had remaining unamortized premiums of \$15.5 million and \$18.0 million, respectively, and unaccreted discounts of \$0.8 million and \$0.4 million, respectively.

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For investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at June 30, 2017.

| (Dollars 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:         |                                      |                 |                     |                 |            |                 |
| CMO                                    | \$ 174,552                           | \$ 2,654        | \$ 4,143            | \$ 54           | \$ 178,695 | \$ 2,708        |
| FNMA MBS                               | 255,044                              | 5,773           | —                   | —               | 255,044    | 5,773           |
| FHLMC MBS                              | 45,583                               | 839             | —                   | —               | 45,583     | 839             |
| GNMA MBS                               | 12,097                               | 313             | 3,733               | 92              | 15,830     | 405             |
| Other investments                      | 620                                  | 17              | —                   | —               | 620        | 17              |
| Total temporarily impaired investments | \$ 487,896                           | \$ 9,596        | \$ 7,876            | \$ 146          | \$ 495,772 | \$ 9,742        |

| (Dollars 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       | \$ 32,927                            | \$ 193          | \$ 1,969            | \$ 27           | \$ 34,896  | \$ 220          |
| Total temporarily impaired investments | \$ 32,927                            | \$ 193          | \$ 1,969            | \$ 27           | \$ 34,896  | \$ 220          |

For 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, 2016.

| (Dollars 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                                    | \$ 21,996                            | \$ 60           | \$ —                | \$ —            | \$ 21,996  | \$ 60           |
| CMO                                    | 160,572                              | 3,867           | 4,654               | 90              | 165,226    | 3,957           |
| FNMA MBS                               | 50,878                               | 1,330           | —                   | —               | 50,878     | 1,330           |
| FHLMC MBS                              | 300,403                              | 9,404           | —                   | —               | 300,403    | 9,404           |
| GNMA MBS                               | 16,480                               | 427             | —                   | —               | 16,480     | 427             |
| Other investments                      | 623                                  | 3               | —                   | —               | 623        | 3               |
| Total temporarily impaired investments | \$ 550,952                           | \$ 15,091       | \$ 4,654            | \$ 90           | \$ 555,606 | \$ 15,181       |

| (Dollars 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       | \$ 112,642                           | \$ 1,374        | \$ 695              | \$ 11           | \$ 113,337 | \$ 1,385        |
| Total temporarily impaired investments | \$ 112,642                           | \$ 1,374        | \$ 695              | \$ 11           | \$ 113,337 | \$ 1,385        |



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At June 30, 2017, we owned investment securities totaling \$530.7 million for which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$10.0 million at June 30, 2017. 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. We do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis. All securities, with the exception of one having a fair value of \$1.0 million at June 30, 2017, were AA-rated or better at the time of purchase and remained investment grade at June 30, 2017. All securities were evaluated for OTTI at June 30, 2017 and December 31, 2016. The result of this evaluation showed no OTTI as of June 30, 2017 or December 31, 2016. The estimated weighted average duration of MBS was 5.04 years at June 30, 2017.

**5. LOANS**

The following table shows our loan portfolio by category:

| (Dollars in thousands)     | June 30,<br>2017 | December<br>31, 2016 |
|----------------------------|------------------|----------------------|
| Commercial and industrial  | \$1,323,664      | \$1,287,731          |
| Owner-occupied commercial  | 1,109,876        | 1,078,162            |
| Commercial mortgages       | 1,147,006        | 1,163,554            |
| Construction               | 279,806          | 222,712              |
| Residential <sup>(1)</sup> | 274,235          | 289,611              |
| Consumer                   | 492,817          | 450,029              |
|                            | 4,627,404        | 4,491,799            |
| Less:                      |                  |                      |
| Deferred fees, net         | 7,684            | 7,673                |
| Allowance for loan losses  | 40,005           | 39,751               |
| Net loans                  | \$4,579,715      | \$4,444,375          |

<sup>(1)</sup> Includes reverse mortgages, at fair value of \$21.6 million at June 30, 2017 and \$22.6 million at December 31, 2016.

The following table shows 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:

| (Dollars in thousands)        | June 30,<br>2017 | December<br>31, 2016 |
|-------------------------------|------------------|----------------------|
| Outstanding principal balance | \$38,401         | \$41,574             |
| Carrying amount               | 30,560           | 33,104               |
| Allowance for loan losses     | 588              | 510                  |

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The following table presents the changes in accretable yield on the acquired credit impaired loans for the six months ended June 30, 2017:

| (Dollars in thousands)                         | Six<br>months<br>ended<br>June 30,<br>2017 |
|--|--|
| Balance at beginning of period                 | \$5,150                                    |
| Accretion                                      | (1,575 )                                   |
| Reclassification from nonaccretable difference | 1,243                                      |
| Additions/adjustments                          | (211 )                                     |
| Disposals                                      | (4 )                                       |
| Balance at end of period                       | \$4,603                                    |

Table of Contents**6. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION****Allowance for Loan Losses**

We maintain an allowance for loan losses which represents our best estimate of probable losses within our loan portfolio. As losses are realized, they are charged to this allowance. We established our allowance in accordance with guidance provided in the SEC's Staff Accounting Bulletin 102 (SAB 102), Selected Loan Loss Allowance Methodology and Documentation Issues, Accounting Standard Codification ("ASC") Contingencies (ASC 450) and Receivables (ASC 310). 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 on 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

When it is probable that the Bank will be unable to collect all amounts due (interest and principal) in accordance with the contractual terms of the loan agreement, it assigns a specific reserve to that loan, if necessary. Unless loans are well-secured and collection is imminent, loans greater than 90 days past due are deemed impaired and their respective reserves are generally charged-off once the loss has been confirmed. Estimated specific reserves are based on collateral values, estimates of future cash flows or market valuations. We charge loans off when they are deemed to be uncollectible. During the six months ended June 30, 2017 and 2016, net charge-offs totaled \$3.8 million or 0.17% of average loans annualized, and \$1.4 million, or 0.07% of average loans annualized, respectively.

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 as follows: commercial, owner-occupied commercial, commercial mortgages 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 26 quarters. During the six months ended June 30, 2017, we increased the look-back period to 26 quarters from the 24 quarters used at December 31, 2016. 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 26 quarter look-back period.

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

• 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,

• The competitive environment, as it could impact loan structure and underwriting, and

Valuation complexity by segment.

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 to or subtract from core reserves.

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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 approximately 9 quarters as of June 30, 2017. Our residential mortgage and consumer LEP remained at 4 quarters as of June 30, 2017. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our LEP annually for our commercial portfolio and review the current 4 quarter LEP for the retail portfolio to determine the continued reasonableness of this assumption.

In prior periods, we had a component of the allowance for model estimation and complexity risk reserve. During the second quarter of 2016 as a result of continued refinement of the model and normal review of the factors, we removed the model estimation and complexity risk reserve from our calculation of the allowance of loan losses.

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

The following tables provide the activity of our allowance for loan losses and loan balances for the three and six months ended June 30, 2017:

| (Dollars in thousands)                      | Commercial | Owner-occupied<br>Commercial | Commercial<br>Mortgages | Construction | Residential <sup>(1)</sup> | Consumer | Total     |
|---|------------|------------------------------|-------------------------|--------------|----------------------------|----------|-----------|
| Three months ended June 30, 2017            |            |                              |                         |              |                            |          |           |
| Allowance for loan losses                   |            |                              |                         |              |                            |          |           |
| Beginning balance                           | \$ 14,205  | \$ 6,030                     | \$ 8,335                | \$ 2,961     | \$ 2,054                   | \$ 6,241 | \$ 39,826 |
| Charge-offs                                 | (929)      | —                            | (402)                   | (117)        | (42)                       | (888)    | (2,378)   |
| Recoveries                                  | 319        | 33                           | 7                       | 2            | 10                         | 343      | 714       |
| Provision (credit)                          | 520        | (265)                        | (853)                   | 471          | 17                         | 1,453    | 1,343     |
| Provision for acquired loans                | 109        | 18                           | 248                     | 115          | 11                         | (1)      | 500       |
| Ending balance                              | \$ 14,224  | \$ 5,816                     | \$ 7,335                | \$ 3,432     | \$ 2,050                   | \$ 7,148 | \$ 40,005 |
| Six months ended June 30, 2017              |            |                              |                         |              |                            |          |           |
| Allowance for loan losses                   |            |                              |                         |              |                            |          |           |
| Beginning balance                           | \$ 13,339  | \$ 6,588                     | \$ 8,915                | \$ 2,838     | \$ 2,059                   | \$ 6,012 | \$ 39,751 |
| Charge-offs                                 | (2,184)    | (192)                        | (506)                   | (131)        | (53)                       | (2,031)  | (5,097)   |
| Recoveries                                  | 403        | 108                          | 53                      | 4            | 130                        | 648      | 1,346     |
| Provision (credit)                          | 2,469      | (706)                        | (1,371)                 | 629          | (97)                       | 2,533    | 3,457     |
| Provision for acquired loans                | 197        | 18                           | 244                     | 92           | 11                         | (14)     | 548       |
| Ending balance                              | \$ 14,224  | \$ 5,816                     | \$ 7,335                | \$ 3,432     | \$ 2,050                   | \$ 7,148 | \$ 40,005 |
| Period-end allowance allocated to:          |            |                              |                         |              |                            |          |           |
| Loans individually evaluated for impairment | \$ 1,342   | \$ —                         | \$ 1,464                | \$ 772       | \$ 869                     | \$ 195   | \$ 4,642  |
| Loans collectively evaluated for impairment | 12,587     | 5,783                        | 5,714                   | 2,595        | 1,147                      | 6,949    | 34,775    |
| Acquired loans evaluated for impairment     | 295        | 33                           | 157                     | 65           | 34                         | 4        | 588       |
| Ending balance                              | \$ 14,224  | \$ 5,816                     | \$ 7,335                | \$ 3,432     | \$ 2,050                   | \$ 7,148 | \$ 40,005 |
| Period-end loan balances evaluated for:     |            |                              |                         |              |                            |          |           |
|   | \$ 14,845  | \$ 3,432                     | \$ 10,941               | \$ 4,808     | \$ 14,023                  | \$ 8,396 | \$ 56,445 |

|  |             |             |             |           |           |           |             |
|--|-------------|-------------|-------------|-----------|-----------|-----------|-------------|
| Loans individually<br>evaluated for<br>impairment <sup>(2)</sup> |             |             |             |           |           |           |             |
| Loans collectively<br>evaluated for<br>impairment                | 1,171,831   | 945,919     | 921,069     | 252,637   | 157,653   | 439,273   | 3,888,382   |
| Acquired nonimpaired<br>loans                                    | 130,986     | 148,686     | 204,809     | 20,340    | 80,074    | 44,902    | 629,797     |
| Acquired impaired<br>loans                                       | 6,002       | 11,839      | 10,187      | 2,021     | 852       | 246       | 31,147      |
| Ending balance <sup>(3)</sup>                                    | \$1,323,664 | \$1,109,876 | \$1,147,006 | \$279,806 | \$252,602 | \$492,817 | \$4,605,771 |

<sup>(1)</sup> Period-end loan balance excludes reverse mortgages, at fair value of \$21.6 million.

The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of

<sup>(2)</sup> \$18.1 million for the period ending June 30, 2017. Accruing troubled debt restructured loans are considered impaired loans.

<sup>(3)</sup> Ending loan balances do not include net deferred fees.

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The following table provides the activity of the allowance for loan losses and loan balances for the six months ended June 30, 2016:

| (Dollars in thousands)                                     | Commercial | Owner - occupied Commercial | Commercial Mortgages | Construction | Residential <sup>(1)</sup> | Consumer | Complexity Risk <sup>(2)</sup> | Total     |
|--|------------|-----------------------------|----------------------|--------------|----------------------------|----------|--------------------------------|-----------|
| Three months ended June 30, 2016                           |            |                             |                      |              |                            |          |                                |           |
| Allowance for loan losses                                  |            |                             |                      |              |                            |          |                                |           |
| Beginning balance  | \$11,482   | \$6,702                     | \$6,516              | \$3,609      | \$2,269                    | \$5,954  | \$1,024                        | \$37,556  |
| Charge-offs  | (727)      | (141)                       | (61)                 | (3)          | (15)                       | (818)    | —                              | (1,765)   |
| Recoveries   | 224        | 13                          | 34                   | —            | 57                         | 373      | —                              | 701       |
| Provision (credit)   | 353        | 133                         | 1,598                | (352)        | 22                         | 317      | (1,024)                        | 1,047     |
| Provision for acquired loans                               | 70         | 16                          | 48                   | 54           | 19                         | —        | —                              | 207       |
| Ending balance   | \$11,402   | \$6,723                     | \$8,135              | \$3,308      | \$2,352                    | \$5,826  | \$—                            | \$37,746  |
| Six months ended June 30, 2016                             |            |                             |                      |              |                            |          |                                |           |
| Allowance for loan losses                                  |            |                             |                      |              |                            |          |                                |           |
| Beginning balance  | \$11,156   | \$6,670                     | \$6,487              | \$3,521      | \$2,281                    | \$5,964  | \$1,010                        | \$37,089  |
| Charge-offs  | (906)      | (141)                       | (78)                 | (29)         | (29)                       | (1,449)  | —                              | (2,632)   |
| Recoveries   | 334        | 51                          | 113                  | 46           | 79                         | 632      | —                              | 1,255     |
| Provision (credit)   | 837        | 127                         | 1,561                | (280)        | 2                          | 717      | (1,010)                        | 1,954     |
| Provision for acquired loans                               | (19)       | 16                          | 52                   | 50           | 19                         | (38)     | —                              | 80        |
| Ending balance   | \$11,402   | \$6,723                     | \$8,135              | \$3,308      | \$2,352                    | \$5,826  | \$—                            | \$37,746  |
| Period-end allowance allocated to:                         |            |                             |                      |              |                            |          |                                |           |
| Loans individually evaluated for impairment                |            |                             |                      |              |                            |          |                                |           |
|  | \$426      | \$—                         | \$—                  | \$211        | \$992                      | \$205    | \$—                            | \$1,834   |
| Loans collectively evaluated for impairment                |            |                             |                      |              |                            |          |                                |           |
|  | 10,923     | 6,686                       | 8,009                | 3,038        | 1,340                      | 5,621    | —                              | 35,617    |
| Acquired loans evaluated for impairment                    |            |                             |                      |              |                            |          |                                |           |
|  | 53         | 37                          | 126                  | 59           | 20                         | —        | —                              | 295       |
| Ending balance   | \$11,402   | \$6,723                     | \$8,135              | \$3,308      | \$2,352                    | \$5,826  | \$—                            | \$37,746  |
| Period-end loan balances:                                  |            |                             |                      |              |                            |          |                                |           |
| Loans individually evaluated for impairment <sup>(3)</sup> |            |                             |                      |              |                            |          |                                |           |
|  | \$2,558    | \$838                       | \$1,702              | \$1,419      | \$14,416                   | \$7,965  | \$—                            | \$28,898  |
| Loans collectively   | 1,045,918  | 857,270                     | 869,771              | 181,440      | 153,811                    | 352,675  | —                              | 3,460,885 |

|                                  |             |           |           |           |           |           |     |             |
|----------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----|-------------|
| evaluated for<br>impairment      |             |           |           |           |           |           |     |             |
| Acquired<br>nonimpaired<br>loans | 58,423      | 70,465    | 108,212   | 12,086    | 67,484    | 13,990    | —   | 330,660     |
| Acquired<br>impaired loans       | 1,711       | 9,757     | 10,560    | 4,094     | 946       | 4         | —   | 27,072      |
| Ending<br>balance <sup>(4)</sup> | \$1,108,610 | \$938,330 | \$990,245 | \$199,039 | \$236,657 | \$374,634 | \$— | \$3,847,515 |

(1) Period-end loan balance excludes reverse mortgages, at fair value of \$25.3 million.

(2) 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.

The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of \$14.1 million for the period ending June 30, 2016. Accruing troubled debt restructured loans are considered impaired loans.

(4) Ending loan balances do not include net deferred fees.

#### Nonaccrual and Past Due Loans

Nonaccruing loans are those on which the accrual of interest has ceased. Typically, 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 and amortization of net deferred loan costs 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 which remain in accrual status because they are considered well secured and are in the process of collection.

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

| (Dollars in thousands)     | June 30, 2017                          |  |  | Total Past Due And Still Accruing | Accruing Current Balances | Acquired Impaired Loans | Nonaccrual Loans | Total Loans |
|----------------------------|--|--|--|-----------------------------------|---------------------------|-------------------------|------------------|-------------|
|                            | 30–59 Days Past Due and Still Accruing | 60–89 Days Past Due and Still Accruing | Greater Than 90 Days Past Due and Still Accruing |                                   |                           |                         |                  |             |
| Commercial                 | \$901                                  | \$6                                    | \$—  | \$907                             | \$1,302,051               | \$6,002                 | \$14,704         | \$1,323,664 |
| Owner-occupied commercial  | —                                      | —                                      | —  | —                                 | 1,094,605                 | 11,839                  | 3,432            | 1,109,876   |
| Commercial mortgages       | 237                                    | —                                      | —  | 237                               | 1,125,854                 | 10,187                  | 10,728           | 1,147,006   |
| Construction               | —                                      | —                                      | —  | —                                 | 276,723                   | 2,021                   | 1,062            | 279,806     |
| Residential <sup>(1)</sup> | 2,411                                  | 348                                    | —  | 2,759                             | 244,031                   | 852                     | 4,960            | 252,602     |
| Consumer                   | 598                                    | 488                                    | 92   | 1,178                             | 487,897                   | 246                     | 3,496            | 492,817     |
| Total <sup>(2)</sup>       | \$4,147                                | \$842                                  | \$92   | \$5,081                           | \$4,531,161               | \$31,147                | \$38,382         | \$4,605,771 |
| % of Total Loans           | 0.09 %                                 | 0.02 %                                 | — %  | 0.11 %                            | 98.38 %                   | 0.68 %                  | 0.83 %           | 100 %       |

(1) Residential accruing current balances excludes reverse mortgages at fair value of \$21.6 million.

(2) The balances above include a total of \$629.8 million of acquired nonimpaired loans.

| (Dollars in thousands)     | December 31, 2016                      |  |  | Total Past Due And Still Accruing | Accruing Current Balances | Acquired Impaired Loans | Nonaccrual Loans | Total Loans |
|----------------------------|--|--|--|-----------------------------------|---------------------------|-------------------------|------------------|-------------|
|                            | 30–59 Days Past Due and Still Accruing | 60–89 Days Past Due and Still Accruing | Greater Than 90 Days Past Due and Still Accruing |                                   |                           |                         |                  |             |
| Commercial                 | \$1,507                                | \$278                                  | \$—  | \$1,785                           | \$1,277,748               | \$6,183                 | \$2,015          | \$1,287,731 |
| Owner-occupied commercial  | 116                                    | 540                                    | —  | 656                               | 1,063,306                 | 12,122                  | 2,078            | 1,078,162   |
| Commercial mortgages       | 167                                    | —                                      | —  | 167                               | 1,143,180                 | 10,386                  | 9,821            | 1,163,554   |
| Construction               | 132                                    | —                                      | —  | 132                               | 218,886                   | 3,694                   | —                | 222,712     |
| Residential <sup>(1)</sup> | 3,176                                  | 638                                    | 153  | 3,967                             | 257,234                   | 860                     | 4,967            | 267,028     |
| Consumer                   | 392                                    | 346                                    | 285  | 1,023                             | 444,642                   | 369                     | 3,995            | 450,029     |
| Total <sup>(2)</sup>       | \$5,490                                | \$1,802                                | \$438  | \$7,730                           | \$4,404,996               | \$33,614                | \$22,876         | \$4,469,216 |
| % of Total Loans           | 0.12 %                                 | 0.04 %                                 | 0.01 %   | 0.17 %                            | 98.57 %                   | 0.75 %                  | 0.51 %           | 100 %       |

(1) Residential accruing current balances excludes reverse mortgages, at fair value of \$22.6 million.

(2) The balances above include a total of \$724.1 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.



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The following tables provide an analysis of our impaired loans at June 30, 2017 and December 31, 2016:

| (Dollars in thousands)    | June 30, 2017        |  |                            |                 |                                |                       |
|---------------------------|----------------------|--|----------------------------|-----------------|--------------------------------|-----------------------|
|                           | Ending Loan Balances | Loans with No Related Reserve <sup>(1)</sup> | Loans with Related Reserve | Related Reserve | Contractual Principal Balances | Average Loan Balances |
| Commercial                | \$ 16,906            | \$ 2,632                                     | \$ 14,274                  | \$ 1,637        | \$ 18,726                      | \$ 9,771              |
| Owner-occupied commercial | 8,232                | 3,432  | 4,800                      | 33              | 8,662                          | 5,346                 |
| Commercial mortgages      | 13,821               | 2,997  | 10,824                     | 1,621           | 19,091                         | 11,256                |
| Construction              | 6,114                | 1,779  | 4,335                      | 837             | 6,208                          | 3,918                 |
| Residential               | 14,605               | 8,167  | 6,438                      | 903             | 17,415                         | 14,778                |
| Consumer                  | 8,436                | 7,234  | 1,202                      | 199             | 11,300                         | 8,319                 |
| Total <sup>(2)</sup>      | \$ 68,114            | \$ 26,241                                    | \$ 41,873                  | \$ 5,230        | \$ 81,402                      | \$ 53,388             |

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

<sup>(2)</sup> The above includes acquired impaired loans totaling \$11.7 million in the ending loan balance and \$12.9 million in the contractual principal balance of the total acquired impaired loan portfolio of \$31.1 million

| (Dollars in thousands)    | December 31, 2016    |  |                            |                 |                                |                       |
|---------------------------|----------------------|--|----------------------------|-----------------|--------------------------------|-----------------------|
|                           | Ending Loan Balances | Loans with No Related Reserve <sup>(1)</sup> | Loans with Related Reserve | Related Reserve | Contractual Principal Balances | Average Loan Balances |
| Commercial                | \$ 4,250             | \$ 1,395                                     | \$ 2,855                   | \$ 505          | \$ 5,572                       | \$ 5,053              |
| Owner-occupied commercial | 4,650                | 2,078  | 2,572                      | 15              | 5,129                          | 3,339                 |
| Commercial mortgages      | 15,065               | 4,348  | 10,717                     | 1,433           | 20,716                         | 7,323                 |
| Construction              | 3,662                | —  | 3,662                      | 303             | 3,972                          | 2,376                 |
| Residential               | 14,256               | 7,122  | 7,134                      | 934             | 17,298                         | 15,083                |
| Consumer                  | 8,021                | 6,561  | 1,460                      | 215             | 11,978                         | 7,910                 |
| Total <sup>(2)</sup>      | \$ 49,904            | \$ 21,504                                    | \$ 28,400                  | \$ 3,405        | \$ 64,665                      | \$ 41,084             |

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

<sup>(2)</sup> The above includes acquired impaired loans totaling \$12.8 million in the ending loan balance and \$15.0 million in the contractual principal balance of the total acquired impaired loan portfolio of \$33.6 million.

Interest income of \$0.4 million and \$0.7 million was recognized on impaired loans during the three and six months ended June 30, 2017, respectively. Interest income of \$0.2 million and \$0.3 million was recognized on impaired loans during the three and six months ended June 30, 2016, respectively.

As of June 30, 2017, there were 33 residential loans and 6 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$4.4 million and \$1.7 million, respectively. As of December 31, 2016, there were 29 residential loans and 7 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$3.7 million and \$3.6 million, respectively.

#### Reserves on Acquired Nonimpaired Loans

In accordance with FASB ASC 310, loans acquired by the Bank through its mergers with FNBW, Alliance and Penn Liberty 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.



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## Credit Quality Indicators

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

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

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

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

| (Dollars in thousands)                | June 30, 2017      |                           |                      |                   | Total Commercial <sup>(1)</sup> |             |
|---------------------------------------|--------------------|---------------------------|----------------------|-------------------|---------------------------------|-------------|
|                                       | Commercial         | Owner-occupied Commercial | Commercial Mortgages | Construction      | Amount                          | %           |
| <b>Risk Rating:</b>                   |                    |                           |                      |                   |                                 |             |
| Special mention                       | \$18,225           | \$ 6,983                  | \$8,900              | \$ —              | \$34,108                        |             |
| <b>Substandard:</b>                   |                    |                           |                      |                   |                                 |             |
| Accrual                               | 42,217             | 20,893                    | 67                   | 4,506             | 67,683                          |             |
| Nonaccrual                            | 13,362             | 3,432                     | 9,264                | 289               | 26,347                          |             |
| Doubtful                              | 1,342              | —                         | 1,464                | 772               | 3,578                           |             |
| Total Special Mention and Substandard | 75,146             | 31,308                    | 19,695               | 5,567             | 131,716                         | 3 %         |
| Acquired impaired                     | 6,002              | 11,839                    | 10,187               | 2,021             | 30,049                          | 1 %         |
| Pass                                  | 1,242,516          | 1,066,729                 | 1,117,124            | 272,218           | 3,698,587                       | 96 %        |
| <b>Total</b>                          | <b>\$1,323,664</b> | <b>\$ 1,109,876</b>       | <b>\$ 1,147,006</b>  | <b>\$ 279,806</b> | <b>\$3,860,352</b>              | <b>100%</b> |

(1) Table includes \$504.8 million of acquired nonimpaired loans as of June 30, 2017.

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| (Dollars in thousands)                | December 31, 2016 |                           |                      |              | Total Commercial <sup>(1)</sup> |       |
|---------------------------------------|-------------------|---------------------------|----------------------|--------------|---------------------------------|-------|
|                                       | Commercial        | Owner-occupied Commercial | Commercial Mortgages | Construction | Amount                          | %     |
| Risk Rating:                          |                   |                           |                      |              |                                 |       |
| Special mention                       | \$ 17,630         | \$ 11,419                 | \$ 34,198            | \$ —         | \$ 63,247                       |       |
| Substandard:                          |                   |                           |                      |              |                                 |       |
| Accrual                               | 45,067            | 19,871                    | 239                  | 2,193        | 67,370                          |       |
| Nonaccrual                            | 1,693             | 2,078                     | 8,574                | —            | 12,345                          |       |
| Doubtful                              | 322               | —                         | 1,247                | —            | 1,569                           |       |
| Total Special Mention and Substandard | 64,712            | 33,368                    | 44,258               | 2,193        | 144,531                         | 4 %   |
| Acquired impaired                     | 6,183             | 12,122                    | 10,386               | 3,694        | 32,385                          | 1 %   |
| Pass                                  | 1,216,836         | 1,032,672                 | 1,108,910            | 216,825      | 3,575,243                       | 95 %  |
| Total                                 | \$ 1,287,731      | \$ 1,078,162              | \$ 1,163,554         | \$ 222,712   | \$ 3,752,159                    | 100 % |

<sup>(1)</sup> Table includes \$573.5 million of acquired nonimpaired loans as of December 31, 2016.

## Residential and Consumer Credit Exposure

| (Dollars in thousands)       | Residential <sup>(2)</sup> |                   | Consumer      |                   | Total Residential and Consumer <sup>(3)</sup> |         |                   |         |
|------------------------------|----------------------------|-------------------|---------------|-------------------|---|---------|-------------------|---------|
|                              | June 30, 2017              | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017                                 |         | December 31, 2016 |         |
|                              |                            |                   |               |                   | Amount  | Percent | Amount            | Percent |
| Nonperforming <sup>(1)</sup> | \$ 14,023                  | \$ 13,547         | \$ 8,396      | \$ 7,863          | \$ 22,419                                     | 3 %     | \$ 21,410         | 3 %     |
| Acquired impaired loans      | 852                        | 860               | 246           | 369               | 1,098   | — %     | 1,229             | — %     |
| Performing                   | 237,727                    | 252,621           | 484,175       | 441,797           | 721,902                                       | 97 %    | 694,418           | 97 %    |
| Total                        | \$ 252,602                 | \$ 267,028        | \$ 492,817    | \$ 450,029        | \$ 745,419                                    | 100 %   | \$ 717,057        | 100 %   |

Includes \$14.0 million as of June 30, 2017 and \$12.4 million as of December 31, 2016 of troubled debt

<sup>(1)</sup> restructured mortgages and home equity installment loans that are performing in accordance with the loans' modified terms and are accruing interest.

<sup>(2)</sup> Residential performing loans excludes \$21.6 million and \$22.6 million of reverse mortgages at fair value as of June 30, 2017 and December 31, 2016, respectively.

<sup>(3)</sup> Total includes \$125.0 million and \$150.5 million in acquired nonimpaired loans as of June 30, 2017 and December 31, 2016, respectively.

## Troubled Debt Restructurings (TDRs)

TDRs are recorded in accordance with FASB ASC 310-40, Troubled Debt Restructuring by Creditors (ASC 310-40).

The following table presents the balance of TDRs as of the indicated dates:

| (Dollars in thousands) | June 30, 2017 | December 31, 2016 |
|------------------------|---------------|-------------------|
| Performing TDRs        | \$ 18,109     | \$ 14,336         |
| Nonperforming TDRs     | 10,657        | 8,451             |
| Total TDRs             | \$ 28,766     | \$ 22,787         |

Approximately \$2.1 million and \$1.3 million in related reserves have been established for these loans at June 30, 2017 and December 31, 2016, respectively.

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The following table presents information regarding the types of loan modifications made for the six months ended June 30, 2017:

|                           | Contractual<br>payment<br>reduction<br>and term<br>extension | Maturity<br>Date<br>Extension | Discharged<br>in<br>bankruptcy | Other<br>(1) | Total |
|---------------------------|--|-------------------------------|--------------------------------|--------------|-------|
| Commercial                | 1  | 1                             | —                              | —            | 2     |
| Owner-occupied commercial | —  | 1                             | —                              | —            | 1     |
| Construction              | —  | 2                             | —                              | 1            | 3     |
| Residential               | —  | —                             | 1                              | —            | 1     |
| Consumer                  | —  | —                             | 7                              | 4            | 11    |
|                           | 1  | 4                             | 8                              | 5            | 18    |

(1) Other includes underwriting exceptions.

Principal balances are generally not forgiven when a loan is modified as a TDR. Nonaccruing restructured loans remain in nonaccrual status until there has been a period of sustained repayment performance, typically six months and payment is reasonably assured.

The following table presents loans identified as TDRs during the three and six months ended June 30, 2017 and 2016.

| (Dollars in thousands)    | Three Months Ended June 30,<br>2017 |                      | 2016                |                      |
|---------------------------|-------------------------------------|----------------------|---------------------|----------------------|
|                           | Pre<br>Modification                 | Post<br>Modification | Pre<br>Modification | Post<br>Modification |
| Commercial                | \$338                               | \$ 338               | \$ 141              | \$ 141               |
| Owner-occupied commercial | —                                   | —                    | —                   | —                    |
| Commercial mortgages      | —                                   | —                    | —                   | —                    |
| Construction              | 124                                 | 124                  | —                   | —                    |
| Residential               | —                                   | —                    | 112                 | 112                  |
| Consumer                  | 674                                 | 674                  | 240                 | 240                  |
| Total                     | \$1,136                             | \$ 1,136             | \$ 493              | \$ 493               |
| (Dollars in thousands)    | Six Months Ended June 30,<br>2017   |                      | 2016                |                      |
|                           | Pre<br>Modification                 | Post<br>Modification | Pre<br>Modification | Post<br>Modification |
| Commercial                | \$781                               | \$ 781               | \$1,125             | \$ 1,125             |
| Owner-occupied commercial | 3,071                               | 3,071                | —                   | —                    |
| Commercial mortgages      | —                                   | —                    | —                   | —                    |
| Construction              | 1,836                               | 1,836                | —                   | —                    |
| Residential               | 242                                 | 242                  | 726                 | 726                  |
| Consumer                  | 1,258                               | 1,258                | 455                 | 455                  |
| Total                     | \$7,188                             | \$ 7,188             | \$2,306             | \$ 2,306             |

During the six months ended June 30, 2017, the TDRs set forth in the table above increased our allowance for loan losses less than \$0.3 million, and resulted in no additional charge-offs. For the same period of 2016, the TDRs set forth in the table above had no change on our allowance for loan losses allocation of the related reserve and resulted in charge-offs of less than \$0.1 million. At June 30, 2017, two commercial mortgage loans TDRs defaulted that had received troubled debt modification during the past twelve months with a total loan amount of \$0.6 million.



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## 7. GOODWILL AND INTANGIBLES

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

During the six months ended June 30, 2017, we determined there were no events or other indicators of impairment as it relates to goodwill or other intangibles.

The following table shows the changes in our goodwill during the quarter as well as the allocation of goodwill to our reportable operating segments for purposes of goodwill impairment testing:

|                           | WSFS<br>Bank | Cash<br>Connect | Wealth<br>Management | Consolidated<br>Company |
|---------------------------|--------------|-----------------|----------------------|-------------------------|
| (Dollars in thousands)    |              |                 |                      |                         |
| December 31, 2016         | \$147,396    | \$ —            | \$ 20,143            | \$ 167,539              |
| Remeasurement adjustments | (1,588 )     | —               | 56                   | (1,532 )                |
| June 30, 2017             | \$145,808    | \$ —            | \$ 20,199            | \$ 166,007              |

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

The following tables summarize other intangible assets:

|                         | June 30, 2017                 |                             |                             |                     |
|-------------------------|-------------------------------|-----------------------------|-----------------------------|---------------------|
| (Dollars in thousands)  | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Amortization Period |
| Core deposits           | \$10,658                      | \$ (3,720 )                 | \$ 6,938                    | 10 years            |
| Customer relationships  | 17,561                        | (3,413 )                    | 14,148                      | 7-15 years          |
| Non-compete agreements  | 221                           | (35 )                       | 186                         | 5 years             |
| Loan servicing rights   | 2,135                         | (1,103 )                    | 1,032                       | 10-30 years         |
| Favorable lease asset   | 1,932                         | (260 )                      | 1,672                       | 10 months-18 years  |
| Total intangible assets | \$32,507                      | \$ (8,531 )                 | \$ 23,976                   |                     |

|                         | December 31, 2016             |                             |                             |                     |
|-------------------------|-------------------------------|-----------------------------|-----------------------------|---------------------|
| (Dollars in thousands)  | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets | Amortization Period |
| Core deposits           | \$13,128                      | \$ (5,630 )                 | \$ 7,498                    | 10 years            |
| Customer relationships  | 17,561                        | (2,612 )                    | 14,949                      | 7-15 years          |
| Non-compete agreements  | 1,006                         | (728 )                      | 278                         | 6 months- 5 years   |
| Loan servicing rights   | 1,708                         | (1,067 )                    | 641                         | 10-30 years         |
| Favorable lease asset   | 458                           | (116 )                      | 342                         | 10 months-15 years  |
| Total intangible assets | \$33,861                      | \$ (10,153 )                | \$ 23,708                   |                     |

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits and either accelerated or straight-line methods of amortization. During the six months ended June 30, 2017, we recognized amortization expense on other intangible assets of \$1.6 million.

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The following table shows the estimated future amortization expense related to our intangible assets:

| (Dollars in thousands) | Amortization<br>of Intangibles |
|------------------------|--------------------------------|
| Remaining in 2017      | \$ 1,525                       |
| 2018                   | 2,986                          |
| 2019                   | 2,918                          |
| 2020                   | 2,722                          |
| 2021                   | 2,396                          |
| Thereafter             | 11,429                         |
| Total                  | \$ 23,976                      |

## 8. ASSOCIATE BENEFIT PLANS

## Postretirement Medical Benefits

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

We account for our obligations under the provisions of FASB ASC 715, Compensation - Retirement Benefits (ASC 715). ASC 715 requires that we recognize the costs of these benefits 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 medical benefits measured at January 1, 2017 and 2016.

| (Dollars in thousands)          | Three<br>months<br>ended June<br>30, |        | Six months<br>ended June<br>30, |       |
|---------------------------------|--------------------------------------|--------|---------------------------------|-------|
|                                 | 2017                                 | 2016   | 2017                            | 2016  |
| Service cost                    | \$14                                 | \$14   | \$29                            | \$29  |
| Interest cost                   | 19                                   | 19     | 38                              | 38    |
| Prior service cost amortization | (19 )                                | (19 )  | (38 )                           | (26 ) |
| Net gain recognition            | (18 )                                | (16 )  | (34 )                           | (31 ) |
| Net periodic benefit cost       | \$(4 )                               | \$(2 ) | \$(5 )                          | \$10  |

## Alliance Associate Pension Plan

During the fourth quarter of 2015, we completed the acquisition of Alliance and its wholly owned subsidiary, Alliance Bank, headquartered in Broomall, Pennsylvania. At the time of the acquisition we assumed the Alliance pension plan offered to its current associates.

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The following table shows the net periodic benefit cost components for the Alliance Associate Pension Plan benefits measured at January 1, 2017.

| (Dollars in thousands)          | Three<br>months<br>ended<br>June<br>30,<br>2017 | Six<br>months<br>ended<br>June<br>30,<br>2017 |
|---------------------------------|---|---|
| Service cost                    | \$ 10   | \$ 20   |
| Interest cost                   | 75  | 150   |
| Expected Return on Plan Assets  | (135 )  | (270 )  |
| Prior service cost amortization | —   | —   |
| Net gain recognition            | —   | —   |
| Net periodic benefit cost       | \$ (50 )  | \$ (100 )                                     |

**9. 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 on changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. We recognize, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the financial statements. Assessment of uncertain tax positions under ASC 740 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations. There were no unrecognized tax benefits as of June 30, 2017. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2013 through 2016 tax years are subject to examination as of June 30, 2017. We do not expect to record or realize any material unrecognized tax benefits during 2017.

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, \$0.4 million of such amortization has been reflected as income tax expense for the three months ended June 30, 2017 and June 30, 2016, and \$0.8 million of such amortization has been reflected as income tax expense for the six months ended June 30, 2017 and June 30, 2016.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the six months ended June 30, 2017 were \$0.8 million, \$0.8 million and \$0.2 million, respectively. The carrying value of the investment in affordable housing credits is \$14.6 million at June 30, 2017, compared to \$15.4 million at December 31, 2016.

**10. 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.



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

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

The following tables present financial instruments carried at fair value as of June 30, 2017 and December 31, 2016 by level in the valuation hierarchy (as described above):

| (Dollars in thousands)                                      | June 30, 2017  |   |  | Total<br>Fair<br>Value |
|---|--|---|--|------------------------|
|   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Asset<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
| Assets measured at fair value on a recurring basis:         |  |   |  |                        |
| Available-for-sale securities:                              |  |   |  |                        |
| CMO   | \$—  | \$ 314,839  | \$ —   | \$314,839              |
| FNMA MBS  | —  | 395,960   | —  | 395,960                |
| FHLMC MBS   | —  | 77,144  | —  | 77,144                 |
| GNMA MBS  | —  | 26,939  | —  | 26,939                 |
| GSE   | —  | 2,993   | —  | 2,993                  |
| Other investments   | 620  | —   | —  | 620                    |
| Other assets  | —  | 1,002   | —  | 1,002                  |
| Total assets measured at fair value on a recurring basis    | \$620  | \$ 818,877  | \$ —   | \$819,497              |
| Liabilities measured at fair value on a recurring basis:    |  |   |  |                        |
| Other liabilities   | \$—  | \$ 2,708  | \$ —   | \$2,708                |
| Assets measured at fair value on a nonrecurring basis:      |  |   |  |                        |
| Other real estate owned                                     | \$—  | \$—   | \$ 2,121   | \$2,121                |
| Loans held for sale   | —  | 35,425  | —  | 35,425                 |
| Impaired loans, net   | —  | —   | 62,884   | 62,884                 |
| Total assets measured at fair value on a nonrecurring basis | \$—  | \$ 35,425   | \$ 65,005  | \$100,430              |

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| (Dollars in thousands)  | December 31, 2016   |   |  | Total<br>Fair<br>Value |
|---|---|---|--|------------------------|
|   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Asset<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
|   | \$  | \$  | \$   |                        |
|   | —   | —   | —  |                        |
| Assets measured at fair value on a recurring basis:   |   |   |  |                        |
| Available-for-sale securities:  |   |   |  |                        |
| CMO   | \$ —  | \$ 261,215  | \$ —   | \$ 261,215             |
| FNMA MBS  | —   | 405,764   | —  | 405,764                |
| FHLMC MBS   | —   | 63,515  | —  | 63,515                 |
| GNMA MBS  | —   | 28,416  | —  | 28,416                 |
| GSE   | —   | 35,010  | —  | 35,010                 |
| Other investments   | 623   | —   | —  | 623                    |
| Other assets  | —   | 1,508   | —  | 1,508                  |
| Total assets measured at fair value on a recurring basis  | \$ 623  | \$ 795,428  | \$ —   | \$ 796,051             |
| Liabilities measured at fair value on a recurring basis:  |   |   |  |                        |
| Other liabilities   | \$ —  | \$ 3,380  | \$ —   | \$ 3,380               |
| Assets measured at fair value on a nonrecurring basis   |   |   |  |                        |
| Other real estate owned   | \$ —  | \$ —  | \$ 3,591   | \$ 3,591               |
| Loans held for sale   | —   | 54,782  | —  | 54,782                 |
| Impaired loans, net   | —   | —   | 46,499   | 46,499                 |
| Total assets measured at fair value on a nonrecurring basis   | \$ —  | \$ 54,782   | \$ 50,090  | \$ 104,872             |
| There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2017.  |   |   |  |                        |
| Fair value is based on quoted market prices, where available. If such quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include unobservable parameters. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe our valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.  |   |   |  |                        |
| Available-for-sale securities   |   |   |  |                        |
| As of June 30, 2017, securities classified as available-for-sale are reported at fair value using Level 2 inputs, except for one mutual fund asset acquired as part of the Penn Liberty acquisition, which is categorized as Level 1. Included in the Level 2 total are approximately \$3.0 million in U.S. Treasury Notes and Federal Agency debentures, and \$814.9 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.

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### Loans held for sale

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

### Impaired loans

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

The gross amount of 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 was \$68.1 million and \$51.6 million at June 30, 2017 and December 31, 2016, respectively. The valuation allowance on impaired loans was \$5.2 million as of June 30, 2017 and \$3.4 million as of December 31, 2016.

## 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 as described above in available-for-sale securities.

### Loans held for sale

Loans held for sale are carried at their fair value (see discussion in "Fair Value of Financial Assets and Liabilities" section above).

### Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, owner-occupied commercial, construction, residential mortgages and consumer. For loans that reprice frequently, the book value approximates fair value. The fair values of other types of loans, with the exception of reverse mortgages, 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 values of reverse mortgages are based on the net present value of the expected cash flows using a discount rate specific to the reverse mortgages portfolio. 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.

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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, among others, 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 2016 and 2017 we purchased additional shares which are accounted for as non-marketable equity securities and carried at cost. We evaluate the shares carried at cost for OTTI periodically. As of June 30, 2017, our evaluation indicated that there was no OTTI of these shares. Following resolution of Visa's covered litigation, shares of Visa's Class B stock will be converted to Visa Class A shares.

Only current owners of Class B shares are allowed to purchase other Class B shares. We estimate the value of our Visa Class B shares to be \$38.5 million as of June 30, 2017.

Deposits

The fair value of 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.

Other Liabilities

Other liabilities includes cash flow derivatives and derivative on the residential mortgage held for sale pipeline. Valuation of our cash flow derivative is obtained from an independent pricing service and also from the derivative counterparty. Valuation for the residential mortgage held for sale pipeline is based on valuation of the loans held for sale portfolio as described above in Loans held for sale.

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.

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

| (Dollars in thousands)                   | Fair Value Measurement | June 30, 2017 |            | December 31, 2016 |            |
|--|------------------------|---------------|------------|-------------------|------------|
|  |                        | Book Value    | Fair Value | Book Value        | Fair Value |
| <b>Financial assets:</b>                 |                        |               |            |                   |            |
| Cash and cash equivalents                | Level 1                | \$745,311     | \$745,311  | \$821,923         | \$821,923  |
| Investment securities available for sale | See previous table     | 818,495       | 818,495    | 794,543           | 794,543    |
| Investment securities held to maturity   | Level 2                | 162,598       | 163,903    | 164,346           | 163,232    |
| Loans, held for sale                     | Level 2                | 35,425        | 35,425     | 54,782            | 54,782     |
| Loans, net <sup>(1)(2)</sup>             | Level 2, 3             | 4,516,831     | 4,459,104  | 4,397,876         | 4,300,963  |
| Impaired loans, net                      | Level 3                | 62,884        | 62,884     | 46,499            | 46,499     |
| Stock in FHLB of Pittsburgh              | Level 2                | 35,832        | 35,832     | 38,248            | 38,248     |
| Accrued interest receivable              | Level 2                | 16,742        | 16,742     | 17,027            | 17,027     |
| Other assets                             | Level 3                | 17,229        | 41,702     | 9,189             | 15,787     |
| <b>Financial liabilities:</b>            |                        |               |            |                   |            |
| Deposits                                 | Level 2                | 4,834,050     | 4,482,483  | 4,738,438         | 4,423,921  |
| Borrowed funds                           | Level 2                | 1,162,754     | 1,159,990  | 1,267,447         | 1,264,170  |
| Standby letters of credit                | Level 3                | 503           | 503        | 468               | 468        |
| Accrued interest payable                 | Level 2                | 2,405         | 2,405      | 1,151             | 1,151      |
| Other liabilities                        | Level 2                | 2,708         | 2,708      | 3,380             | 3,380      |

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

<sup>(2)</sup> Includes reverse mortgage loans, which are categorized as Level 3.

At June 30, 2017 and December 31, 2016 we had no commitments to extend credit measured at fair value.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

### Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both economic conditions and our business operations. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our assets and liabilities. We manage a matched book with respect to our derivative instruments in order to minimize our net risk exposure resulting from such transactions. Our cash flow hedging program began in the third quarter of 2016.

### Fair Values of Derivative Instruments

The table below presents the fair value of our derivative financial instruments as well as their location on the Consolidated Statements of Financial Condition as of June 30, 2017.

| (Dollars in thousands)                                | Fair Values of Derivative Instruments |          |                        | Liability Derivatives (Fair Value) |
|---|---------------------------------------|----------|------------------------|------------------------------------|
|   | Count                                 | Notional | Balance Sheet Location |                                    |
| <b>Derivatives designated as hedging instruments:</b> |                                       |          |                        |                                    |
| Interest rate products                                | 3                                     | \$75,000 | Other Liabilities      | \$ 2,612                           |
| Total derivatives designated as hedging instruments   |                                       |          |                        | \$ 2,612                           |

### Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest income and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed amounts from a counterparty in exchange for us making variable-rate payments over the life of the agreements without exchange of the underlying notional amount.



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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecast transaction affects earnings. During the six months ended June 30, 2017, such derivatives were used to hedge the variable cash flows associated with a variable rate loan pool. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the six months ended June 30, 2017, we did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on our variable-rate pooled loans. During the next twelve months, we estimate that less than \$0.2 million will be reclassified as an increase to interest income. During the six months ended 2017, \$0.1 million was reclassified into interest income.

We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 1 month (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

As of June 30, 2017, we had three outstanding interest rate derivatives with a notional of \$75 million that were designated as cash flow hedges of interest rate risk.

## Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the derivative financial instruments on the Consolidated Statements of Income for the three and six months ended June 30, 2017 and June 30, 2016 .

| (Dollars in thousands) | Amount of Gain Recognized in OCI on Derivative (Effective Portion) |  | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) |
|------------------------|--|--|--|
|                        | Three months ended June 30,  |  |  |

|  |        |      |                 |
|--|--------|------|-----------------|
| Derivatives in Cash Flow Hedging Relationships | 2017   | 2016 |                 |
| Interest Rate Products                         | \$ 263 | \$ — | Interest income |
| Total  | \$ 263 | \$ — |                 |

| (Dollars in thousands) | Amount of Gain Recognized in OCI on Derivative (Effective Portion) |  | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) |
|------------------------|--|--|--|
|                        | Six months ended June 30,  |  |  |

|  |        |      |                 |
|--|--------|------|-----------------|
| Derivatives in Cash Flow Hedging Relationships | 2017   | 2016 |                 |
| Interest Rate Products                         | \$ 150 | \$ — | Interest income |
| Total  | \$ 150 | \$ — |                 |

## Credit risk-related Contingent Features

We have agreements with certain of our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We also have agreements with certain of our derivative counterparties that contain a provision where if we fail to maintain our status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and we would be required to settle our obligations under the agreements.

As of June 30, 2017, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$2.6 million. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of \$3.4 million against our obligations under these agreements. If we had breached any of these provisions at June 30, 2017, we could have been required to settle our obligations under the agreements at the termination value.

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12. SEGMENT INFORMATION

As defined in FASB ASC 280, Segment Reporting (ASC 280), 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 net 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. Based on these criteria, we have identified 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 Bank. 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. Accordingly, 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. Cash Connect® services non-bank and WSFS-branded ATMs and retail safes nationwide. 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 six business lines. WSFS Wealth Investments provides insurance and brokerage products primarily to our retail banking clients. Cypress Capital Management, LLC is a registered investment adviser. Cypress' primary market segment is high net worth individuals, offering a 'balanced' investment style focused on preservation of capital and current income. West Capital Management, a registered investment adviser, is a fee-only wealth management firm which operates under a multi-family office philosophy and provides fully-customized solutions tailored to the unique needs of institutions and high net worth individuals. 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. Powdermill Financial Solutions is a multi-family office that specializes in providing unique, independent solutions to high net worth individuals, families and corporate executives through a coordinated, centralized approach. 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.

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Segment information for the three months ended June 30, 2017 and 2016 is as follows:

| (Dollars in thousands)           | Three months ended June 30, 2017 |                  |                      |          |
|----------------------------------|----------------------------------|------------------|----------------------|----------|
|                                  | WSFS<br>Bank                     | Cash<br>Connect® | Wealth<br>Management | Total    |
| <b>Statement of Income</b>       |                                  |                  |                      |          |
| External customer revenues:      |                                  |                  |                      |          |
| Interest income                  | \$60,234                         | \$ —             | \$ 2,100             | \$62,334 |
| Noninterest income               | 12,049                           | 10,514           | 9,113                | 31,676   |
| Total external customer revenues | 72,283                           | 10,514           | 11,213               | 94,010   |
| Inter-segment revenues:          |                                  |                  |                      |          |
| Interest income                  | 2,247                            | —                | 2,435                | 4,682    |
| Noninterest income               | 1,906                            | 207              | 40                   | 2,153    |
| Total inter-segment revenues     | 4,153                            | 207              | 2,475                | 6,835    |
| Total revenue                    | 76,436                           | 10,721           | 13,688               | 100,845  |
| External customer expenses:      |                                  |                  |                      |          |
| Interest expense                 | 7,739                            | —                | 281                  | 8,020    |
| Noninterest expenses             | 38,782                           | 6,591            | 7,354                | 52,727   |
| Provision for loan losses        | 1,316                            | —                | 527                  | 1,843    |
| Total external customer expenses | 47,837                           | 6,591            | 8,162                | 62,590   |
| Inter-segment expenses:          |                                  |                  |                      |          |
| Interest expense                 | 2,435                            | 1,582            | 665                  | 4,682    |
| Noninterest expenses             | 247                              | 673              | 1,233                | 2,153    |
| Total inter-segment expenses     | 2,682                            | 2,255            | 1,898                | 6,835    |
| Total expenses                   | 50,519                           | 8,846            | 10,060               | 69,425   |
| Income before taxes              | \$25,917                         | \$ 1,875         | \$ 3,628             | \$31,420 |
| Income tax provision             |                                  |                  |                      | 10,850   |
| Consolidated net income          |                                  |                  |                      | \$20,570 |
| Capital expenditures             | \$1,559                          | \$ 68            | \$ 363               | \$1,990  |

| (Dollars in thousands)                  | June 30, 2017 |                  |                      |             |
|---|---------------|------------------|----------------------|-------------|
|   | WSFS<br>Bank  | Cash<br>Connect® | Wealth<br>Management | Total       |
| <b>Statement of Financial Condition</b> |               |                  |                      |             |
| Cash and cash equivalents               | \$96,306      | \$643,506        | \$ 5,499             | \$745,311   |
| Goodwill                                | 145,808       | —                | 20,199               | 166,007     |
| Other segment assets                    | 5,690,046     | 5,018            | 216,045              | 5,911,109   |
| Total segment assets                    | \$5,932,160   | \$648,524        | \$ 241,743           | \$6,822,427 |



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| (Dollars in thousands)           | Three months ended June 30, 2016 |               |                      |          |
|----------------------------------|----------------------------------|---------------|----------------------|----------|
|                                  | WSFS Bank                        | Cash Connect® | Wealth Management    | Total    |
| Statement of Income              |                                  |               |                      |          |
| External customer revenues:      |                                  |               |                      |          |
| Interest income                  | \$49,492                         | \$ —          | \$ 2,011             | \$51,503 |
| Noninterest income               | 10,173                           | 8,796         | <sup>(r)</sup> 6,538 | 25,507   |
| Total external customer revenues | 59,665                           | 8,796         | 8,549                | 77,010   |
| Inter-segment revenues:          |                                  |               |                      |          |
| Interest income                  | 1,135                            | —             | 1,652                | 2,787    |
| Noninterest income               | 2,011                            | 210           | 25                   | 2,246    |
| Total inter-segment revenues     | 3,146                            | 210           | 1,677                | 5,033    |
| Total revenue                    | 62,811                           | 9,006         | 10,226               | 82,043   |
| External customer expenses:      |                                  |               |                      |          |
| Interest expense                 | 4,896                            | —             | 193                  | 5,089    |
| Noninterest expenses             | 34,462                           | 5,489         | <sup>(r)</sup> 4,734 | 44,685   |
| Provision for loan losses        | 1,191                            | —             | 63                   | 1,254    |
| Total external customer expenses | 40,549                           | 5,489         | 4,990                | 51,028   |
| Inter-segment expenses:          |                                  |               |                      |          |
| Interest expense                 | 1,652                            | 628           | 507                  | 2,787    |
| Noninterest expenses             | 235                              | 727           | 1,284                | 2,246    |
| Total inter-segment expenses     | 1,887                            | 1,355         | 1,791                | 5,033    |
| Total expenses                   | 42,436                           | 6,844         | 6,781                | 56,061   |
| Income before taxes              | \$20,375                         | \$ 2,162      | \$ 3,445             | \$25,982 |
| Income tax provision             |                                  |               |                      | 8,504    |
| Consolidated net income          |                                  |               |                      | \$17,478 |
| Capital expenditures             | \$2,235                          | \$ 404        | \$ 6                 | \$2,645  |

| (Dollars in thousands)           | June 30, 2016 |               |                   |             |
|----------------------------------|---------------|---------------|-------------------|-------------|
|                                  | WSFS Bank     | Cash Connect® | Wealth Management | Total       |
| Statement of Financial Condition |               |               |                   |             |
| Cash and cash equivalents        | \$84,919      | \$617,339     | \$ 1,635          | \$703,893   |
| Goodwill                         | 79,718        | —             | 5,134             | 84,852      |
| Other segment assets             | 4,843,166     | 3,419         | 198,777           | 5,045,362   |
| Total segment assets             | \$5,007,803   | \$620,758     | \$ 205,546        | \$5,834,107 |

<sup>(r)</sup> Noninterest income and noninterest expense for the period ended June 30, 2016 have been restated to correct an immaterial error related to revenue earned for cash servicing fees. See Note 1 - Basis of Presentation for further information.



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Segment information for the six months ended June 30, 2017 and 2016 is as follows:

| (Dollars in thousands)           | Six months ended June 30, 2017 |                              |                      | Total       |
|----------------------------------|--------------------------------|------------------------------|----------------------|-------------|
|                                  | WSFS<br>Bank                   | Cash<br>Connect <sup>®</sup> | Wealth<br>Management |             |
| Statement of Income              |                                |                              |                      |             |
| External customer revenues:      |                                |                              |                      |             |
| Interest income                  | \$ 118,922                     | \$ —                         | \$ 4,238             | \$ 123,160  |
| Noninterest income               | 22,216                         | 20,191                       | 17,361               | 59,768      |
| Total external customer revenues | 141,138                        | 20,191                       | 21,599               | 182,928     |
| Inter-segment revenues:          |                                |                              |                      |             |
| Interest income                  | 4,243                          | —                            | 4,500                | 8,743       |
| Noninterest income               | 4,070                          | 398                          | 76                   | 4,544       |
| Total inter-segment revenues     | 8,313                          | 398                          | 4,576                | 13,287      |
| Total revenue                    | 149,451                        | 20,589                       | 26,175               | 196,215     |
| External customer expenses:      |                                |                              |                      |             |
| Interest expense                 | 15,202                         | —                            | 541                  | 15,743      |
| Noninterest expenses             | 77,742                         | 12,726                       | 13,765               | 104,233     |
| Provision for loan losses        | 3,032                          | —                            | 973                  | 4,005       |
| Total external customer expenses | 95,976                         | 12,726                       | 15,279               | 123,981     |
| Inter-segment expenses           |                                |                              |                      |             |
| Interest expense                 | 4,500                          | 2,987                        | 1,256                | 8,743       |
| Noninterest expenses             | 474                            | 1,388                        | 2,682                | 4,544       |
| Total inter-segment expenses     | 4,974                          | 4,375                        | 3,938                | 13,287      |
| Total expenses                   | 100,950                        | 17,101                       | 19,217               | 137,268     |
| Income before taxes              | \$48,501                       | \$ 3,488                     | \$ 6,958             | \$58,947    |
| Income tax provision             |                                |                              |                      | 19,440      |
| Consolidated net income          |                                |                              |                      | \$39,507    |
| Capital expenditures             | \$3,647                        | \$ 90                        | \$ 617               | \$4,354     |
| June 30, 2017                    |                                |                              |                      |             |
| (Dollars in thousands)           | WSFS                           | Cash                         | Wealth               | Total       |
|                                  | Bank                           | Connect <sup>®</sup>         | Management           |             |
| Statement of Financial Condition |                                |                              |                      |             |
| Cash and cash equivalents        | \$96,306                       | \$643,506                    | \$ 5,499             | \$745,311   |
| Goodwill                         | 145,808                        | —                            | 20,199               | 166,007     |
| Other segment assets             | 5,690,046                      | 5,018                        | 216,045              | 5,911,109   |
| Total segment assets             | \$5,932,160                    | \$648,524                    | \$ 241,743           | \$6,822,427 |

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| (Dollars in thousands)           | Six months ended June 30, 2016 |                           |                       |           |
|----------------------------------|--------------------------------|---------------------------|-----------------------|-----------|
|                                  | WSFS Bank                      | Cash Connect <sup>®</sup> | Wealth Management     | Total     |
| Statement of Income              |                                |                           |                       |           |
| External customer revenues:      |                                |                           |                       |           |
| Interest income                  | \$97,530                       | \$ —                      | \$ 4,019              | \$101,549 |
| Noninterest income               | 20,025                         | 17,068                    | <sup>(r)</sup> 12,083 | 49,176    |
| Total external customer revenues | 117,555                        | 17,068                    | 16,102                | 150,725   |
| Inter-segment revenues:          |                                |                           |                       |           |
| Interest income                  | 2,196                          | —                         | 3,547                 | 5,743     |
| Noninterest income               | 4,071                          | 403                       | 49                    | 4,523     |
| Total inter-segment revenues     | 6,267                          | 403                       | 3,596                 | 10,266    |
| Total revenue                    | 123,822                        | 17,471                    | 19,698                | 160,991   |
| External customer expenses:      |                                |                           |                       |           |
| Interest expense                 | 9,393                          | —                         | 386                   | 9,779     |
| Noninterest expenses             | 68,274                         | 10,938                    | <sup>(r)</sup> 9,271  | 88,483    |
| Provision for loan losses        | 2,006                          | —                         | 28                    | 2,034     |
| Total external customer expenses | 79,673                         | 10,938                    | 9,685                 | 100,296   |
| Inter-segment expenses           |                                |                           |                       |           |
| Interest expense                 | 3,547                          | 1,183                     | 1,013                 | 5,743     |
| Noninterest expenses             | 452                            | 1,442                     | 2,629                 | 4,523     |
| Total inter-segment expenses     | 3,999                          | 2,625                     | 3,642                 | 10,266    |
| Total expenses                   | 83,672                         | 13,563                    | 13,327                | 110,562   |
| Income before taxes              | \$40,150                       | \$ 3,908                  | \$ 6,371              | \$50,429  |
| Income tax provision             |                                |                           |                       | 17,181    |
| Consolidated net income          |                                |                           |                       | \$33,248  |
| Capital expenditures             | \$3,446                        | \$ 424                    | \$ 8                  | \$3,878   |

| (Dollars in thousands)           | June 30, 2016 |                           |                   |             |
|----------------------------------|---------------|---------------------------|-------------------|-------------|
|                                  | WSFS Bank     | Cash Connect <sup>®</sup> | Wealth Management | Total       |
| Statement of Financial Condition |               |                           |                   |             |
| Cash and cash equivalents        | \$84,919      | \$617,339                 | \$ 1,635          | \$703,893   |
| Goodwill                         | 79,718        | —                         | 5,134             | 84,852      |
| Other segment assets             | 4,843,166     | 3,419                     | 198,777           | 5,045,362   |
| Total segment assets             | \$5,007,803   | \$620,758                 | \$ 205,546        | \$5,834,107 |

<sup>(r)</sup> Noninterest income and noninterest expense for the period ended June 30, 2016 have been restated to correct an immaterial error related to revenue earned for cash servicing fees. See Note 1 - Basis of Presentation for further information.

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

Given the current interest rate environment, coupled with our desire not to hold newly originated residential mortgage loans in our portfolio, we generally sell these assets 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 Financial Condition at fair value with changes in the value reflected in our unaudited Consolidated Statements of Income. Gains and losses are recognized at the time of sale. We periodically retain the servicing rights on residential mortgage loans sold which results in monthly service fee income. The mortgage servicing rights are included in our intangible assets in our unaudited Consolidated Statements of Financial 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 ASC Topic 815, Derivatives and Hedging (ASC:815).

We generally do not sell loans with recourse, except for standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, early payment default by the borrower. These are customary repurchase provisions in the secondary market for residential mortgage loan sales. These provisions may include either an indemnification from loss or the repurchase of the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no such repurchases for the six months ended June 30, 2017.

**Swap Guarantees**

We entered into agreements with three unrelated financial institutions whereby those financial institutions entered into interest rate derivative contracts (interest rate swap transactions) with customers referred to them by us. Under the terms of the agreements, those financial institutions have recourse to us for any exposure created under each swap transaction in the event that 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 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.

At June 30, 2017 and December 31, 2016, there were 133 and 134 variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, respectively. The initial notional aggregate amount was approximately \$526.9 million at June 30, 2017 compared to \$518.8 million at December 31, 2016. At June 30, 2017 maturities ranged from under one year to ten years. The aggregate market value of these swaps to the customers was a liability of \$10.1 million at June 30, 2017 and \$10.9 million at December 31, 2016. We had no reserves for the swap guarantees as of June 30, 2017.

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

Accumulated other comprehensive (loss) income includes unrealized gains and losses on available-for-sale investments, unrealized gains and losses on cash flow hedges, as well as unrecognized prior service costs, transition costs, and actuarial gains and losses on defined benefit pension plans. Changes to accumulated other comprehensive (loss) income are presented net of tax as a component of stockholders equity. Amounts that are reclassified out of accumulated other comprehensive (loss) income are recorded on the Consolidated Statement of Income either as a gain or loss.

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

| (Dollars in thousands)   | Net change<br>in<br>investment<br>securities<br>available<br>for sale | Net change<br>in securities<br>held to<br>maturity | Net<br>change in<br>defined<br>benefit<br>plan | Net change in<br>fair value of<br>derivative<br>used for<br>cash<br>flow hedge | Total       |
|--|---|--|--|--|-------------|
| Balance, March 31, 2017  | \$ (7,128 )   | \$ 1,291   | \$ 934   | \$ (1,884 )  | \$ (6,787 ) |
| Other comprehensive income (loss) before reclassifications             | 3,241   | —  | —  | 262  | 3,503       |
| Less: Amounts reclassified from accumulated other comprehensive loss   | (455 )  | (97 )  | (22 )  | —  | (574 )      |
| Net current-period other comprehensive income (loss)                   | 2,786   | (97 )  | (22 )  | 262  | 2,929       |
| Balance, June 30, 2017   | \$ (4,342 )   | \$ 1,194   | \$ 912   | \$ (1,622 )  | \$ (3,858 ) |
| Balance, March 31, 2016  | \$ 8,496  | \$ 1,692   | \$ 1,266                                       | \$ —   | \$ 11,454   |
| Other comprehensive income before reclassifications                    | 4,683   | —  | —  | —  | 4,683       |
| Less: Amounts reclassified from accumulated other comprehensive income | (338 )  | (100 )   | (22 )  | —  | (460 )      |
| Net current-period other comprehensive income (loss)                   | 4,345   | (100 )   | (22 )  | —  | 4,223       |
| Balance, June 30, 2016   | \$ 12,841   | \$ 1,592   | \$ 1,244                                       | \$ —   | \$ 15,677   |
| Balance, December 31, 2016   | \$ (8,194 )   | \$ 1,392   | \$ 957   | \$ (1,772 )  | \$ (7,617 ) |
| Other comprehensive income (loss) before reclassifications             | 4,513   | —  | —  | 150  | 4,663       |
| Less: Amounts reclassified from accumulated other comprehensive loss   | (661 )  | (198 )   | (45 )  | —  | (904 )      |
| Net current-period other comprehensive income (loss)                   | 3,852   | (198 )   | (45 )  | 150  | 3,759       |
| Balance, June 30, 2017   | \$ (4,342 )   | \$ 1,194   | \$ 912   | \$ (1,622 )  | \$ (3,858 ) |
| Balance, December 31, 2015   | \$ (1,887 )   | \$ 1,795   | \$ 788   | \$ —   | \$ 696      |
| Other comprehensive income (loss) before reclassifications             | 15,255  | —  | —  | —  | 15,255      |
| Less: Amounts reclassified from accumulated other comprehensive loss   | (527 )  | (203 )   | 456  | —  | (274 )      |
| Net current-period other comprehensive income (loss)                   | 14,728  | (203 )   | 456  | —  | 14,981      |
| Balance, June 30, 2016   | \$ 12,841   | \$ 1,592   | \$ 1,244                                       | \$ —   | \$ 15,677   |

The Consolidated Statements of Income were impacted by components of other comprehensive income (loss) as shown in the table below:

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| (Dollars in thousands)   | Three Months<br>Ended<br>June 30,<br>2017 | 2016    | Affected line item in<br>Consolidated<br>Statements of Income |
|--|---|---------|---|
| Securities available for sale:   |   |         |   |
| Realized gains on securities transactions  | \$(708)                                   | \$(545) | Security gains, net   |
| Income taxes   | 253                                       | 207     | Income tax provision  |
| Net of tax   | \$(455)                                   | \$(338) |   |
| Net unrealized holding gains on securities transferred between<br>available-for-sale and held-to-maturity: |   |         |   |
| Amortization of net unrealized gains to income during the period   | \$(159)                                   | \$(162) | Interest income on investment<br>securities                   |
| Income taxes   | 62  | 62      | Income tax provision  |
| Net of tax   | \$(97 )                                   | \$(100) |   |
| Amortization of Defined Benefit Pension items:   |   |         |   |
| Prior service (credits) costs  | \$(19 )                                   | \$(19 ) |   |
| Actuarial (gains) losses   | (18 )                                     | (16 )   |   |
| Total before tax   | \$(37 )                                   | \$(35 ) | Salaries, benefits and other<br>compensation                  |
| Income taxes   | 15  | 13      | Income tax provision  |
| Net of tax   | (22 )                                     | (22 )   |   |
| Total reclassifications  | \$(574)                                   | \$(460) |   |
|  |   |         |   |
| (Dollars in thousands)   | Six months<br>ended<br>June 30,<br>2017   | 2016    | Affected line item in<br>Consolidated<br>Statements of Income |
| Securities available for sale:   |   |         |   |
| Realized gains on securities transactions  | \$(1,028)                                 | \$(850) | Security gains, net   |
| Income taxes   | 367                                       | 323     | Income tax provision  |
| Net of tax   | \$(661 )                                  | \$(527) |   |
| Net unrealized holding gains on securities transferred between<br>available-for-sale and held-to-maturity: |   |         |   |
| Amortization of net unrealized gains to income during the period   | \$(319 )                                  | \$(330) | Interest income on investment<br>securities                   |
| Income taxes   | 121                                       | 127     | Income tax provision  |
| Net of tax   | \$(198 )                                  | \$(203) |   |
| Amortization of Defined Benefit Pension items:   |   |         |   |
| Prior service (credits) costs  | \$(38 )                                   | \$(26 ) |   |
| Actuarial (gains) losses   | (34 )                                     | 762     |   |
| Total before tax   | \$(72 )                                   | \$736   | Salaries, benefits and other<br>compensation                  |
| Income taxes   | 27  | (280 )  | Income tax provision  |
| Net of tax   | (45 )                                     | 456     |   |
| Total reclassifications  | \$(904 )                                  | \$(274) |   |



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**15. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, from time to time we enter into transactions with related parties, including, but not limited to, our officers and directors. These transactions are made on substantially the same terms and conditions, including interest rates and collateral requirements, as those prevailing at the same time for comparable transactions with other customers. They do not, in the opinion of management, involve greater than normal credit risk or include other unfavorable features.

The outstanding balances of loans to related parties at June 30, 2017 and December 31, 2016 were \$1.1 million and \$1.3 million, respectively. Total deposits from related parties at June 30, 2017 and December 31, 2016 were \$7.1 million and \$3.6 million, respectively. During the second quarter of 2017, there were no new loans and credit line advances to related parties and repayments were \$0.6 million. For the six months ended June 30, 2017, new loans and credit line advances to related parties were \$0.4 million and repayments were \$0.6 million.

**16. LEGAL AND OTHER PROCEEDINGS**

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation-related matters that arise in the ordinary course of our business activities when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. 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 proceedings of which we are aware, will have a material effect on the Consolidated Financial Statements.

On April 7, 2015, WSFS Bank received a notice of arbitration and statement of claim (the Claim) from Universitas Education, LLC (Universitas) relating to Christiana Trust acting as “insurance trustee” of the Charter Oak Trust Welfare Benefit Plan (the Trust). The actions underlying the Claim occurred during a period prior to WSFS’ acquisition of Christiana Trust. According to the allegations contained in the Claim, certain life insurance policy death benefits made payable to an individual claiming/purporting to be a trustee of the Trust were misappropriated by individuals associated with the plan sponsor. None of those individuals, however, were employed by or agents of Christiana Trust or WSFS Bank. It is alleged that Christiana Trust, as insurance trustee, owed a fiduciary duty to the beneficiaries of the Trust and that it breached its fiduciary duty, was negligent, and aided and abetted fraud and theft in connection with the disappearance of the misappropriated funds. It is further alleged that Universitas was the rightful beneficiary under the Trust of the misappropriated funds, and thus was harmed because it did not receive the death benefits that had been paid over to the purported trustee of the Trust. While the face amounts of the two insurance policies in question total \$30 million, Universitas recently revised its total Claim to assert an alleged loss of approximately \$27 million plus costs and interest to date of \$26 million. WSFS is vigorously defending itself against the Claim and believes that it has valid factual and legal defenses to the Claim. The evidentiary hearing commenced in July 2017, and it is anticipated that a decision in the arbitration will be rendered by fourth quarter 2017 or first quarter 2018. WSFS does not believe that the ultimate resolution of the Claim will have a material adverse effect on the Company, but there can be no assurance as to the ultimate outcome.

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.

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

OVERVIEW

WSFS is a savings and loan holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB, or WSFS Bank, one of the ten oldest bank and trust companies continuously operating under the same name in the United States (U.S.). At \$6.82 billion in assets and \$17.40 billion in assets under management and administration, WSFS Bank is also the largest bank and trust company headquartered in the Delaware Valley. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader fiduciary powers than most other types of financial institutions. A fixture in the community, we have been in operation for more than 185 years. In addition to our focus on stellar customer service, we have continued to fuel growth and remain 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 experiences and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

We have four consolidated subsidiaries, WSFS Bank, Cypress Capital Management, LLC (Cypress), WSFS Capital Management, LLC (West Capital) and WSFS Wealth Management, LLC (Powdermill) as well as one unconsolidated subsidiary, WSFS Capital Trust III (the Capital Trust). WSFS Bank has three wholly-owned subsidiaries, WSFS Wealth Investments, 1832 Holdings, Inc. and Monarch Entity Services LLC (Monarch).

Our core banking business is commercial lending funded by customer-generated deposits. We have built a \$3.85 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering the high level of service and flexibility typically associated with a community bank. We fund this business primarily with deposits generated through commercial relationships and retail deposits. As of June 30, 2017, we service our customers primarily from our 76 offices located in Delaware (45), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at [www.wfsbank.com](http://www.wfsbank.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.

The Cash Connect® segment is a premier provider of ATM vault cash and smart safe and cash logistics in the U.S. Cash Connect® manages over \$934.1 million in total cash and services in 21,500 non-bank ATMs nationwide and 1,027 smart safes nationwide. Cash Connect® 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 over 440 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 17-year history, Cash Connect® periodically has been exposed to losses through theft from armored courier companies and consistently has been able to recover losses through its risk management strategies.

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The Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients through six businesses. WSFS Wealth Investments, with \$172.0 million in assets under management (AUM), provides insurance and brokerage products primarily to our retail banking clients in AUM. Cypress is a registered investment adviser with approximately \$822.0 million in AUM (includes \$110.0 million of Christiana Trust assets for which Cypress serves as sub-adviser). Cypress is a fee-only wealth management firm offering a “balanced” investment style focused on preservation of capital and providing current income whose primary market segment is high net worth individuals. West Capital is a registered investment adviser with approximately \$796.7 million in AUM. West Capital is a fee-only wealth management firm which operates under a multi-family office philosophy and provides fully customized solutions tailored to the unique needs of institutions and high net worth individuals. Christiana Trust, with \$15.72 billion in AUM and assets under administration (includes \$110.0 million of Christiana Trust assets for which Cypress serves as sub-adviser), provides fiduciary and investment services to personal trust clients; and trustee, agency, bankruptcy administration, custodial and commercial domicile services to corporate and institutional clients. Powdermill Financial Solutions, LLC is a multi-family office that specializes in providing unique, independent solutions to high net worth individuals, families and corporate executives. 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.

As a provider of trust services to our clients, we are exposed to operational, reputation-related and legal risks due to the inherent complexity of the trust business. To mitigate these risks, we rely on the hiring, development and retention of experienced Associates, financial controls, managerial oversight, and other risk management practices. Also, from time to time our trust business may give rise to disputes with clients and we may be exposed to litigation which could result in significant costs. The ultimate outcome of any litigation is uncertain.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

## Financial Condition

Our total assets increased \$57.2 million, or 1%, to \$6.82 billion at June 30, 2017 compared to December 31, 2016. Net loans increased \$135.3 million, or 3%, primarily due to organic growth in our loan portfolio. Available-for-sale investment securities increased \$24.0 million, or 3.0% as part of our balance sheet management strategy. Partially offsetting these increases, cash and cash equivalents decreased by \$76.6 million, or 9%, due primarily to improved cash optimization resulting in lower cash in non-owned ATMs. Loans held for sale decreased \$19.4 million, or 35%, consistent with our strategy to sell most newly originated residential mortgages in the secondary market.

Total liabilities increased \$21.9 million, or less than 1%, to \$6.10 billion during the six months ended June 30, 2017. Deposits increased \$95.6 million, or 2%, due to robust organic and acquisition-related growth, and other liabilities increased \$29.7 million, or 42% due to obligations related to securities trades which settled in the third quarter. These increases were partially offset by lower federal funds purchased and securities sold under agreement to repurchase, which decreased \$65.0 million or 50%, FHLB advances, used to fund growth in our balance sheet assets, which decreased \$30.6 million, or 4%, due to the increase in deposits and a decrease of \$9.4 million, or 15% in other borrowed funds.

## Capital Resources

**Senior Debt:** During the second quarter of 2016, WSFS issued \$100.0 million in aggregate principal amount of 4.50% fixed-to-floating rate senior notes due June 15, 2026. The Company is using the net proceeds from the offering for general corporate purposes.

In 2012, we issued \$55.0 million in aggregate principal amount of 6.25% senior notes due 2019. The 2012 senior debt is callable, in whole or in part, on September 1, 2017, or on any scheduled interest payment date thereafter, at our option. We expect to call the 2012 senior debt during the third quarter of 2017.

**Share Repurchases:** During the second quarter of 2017, WSFS repurchased 71,000 shares of common stock at an average price of \$45.18 as part of our 5% share buyback program approved by the Board of Directors during the fourth quarter of 2015. WSFS has 821,194 shares, or nearly 3% of outstanding shares, remaining to repurchase under this authorization.



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Stockholders' equity increased \$35.3 million between December 31, 2016 and June 30, 2017. This increase was primarily due to net income for the six months ended June 30, 2017 of \$39.5 million, improvement in the fair value of our available-for-sale securities portfolio of \$3.9 million (after-tax), or 49%, and an increase of \$2.4 million from the issuance of stock based compensation and stock option expense. These were partially offset by year-to-date stock buybacks of \$6.0 million and the payment of common stock dividends of \$4.4 million.

The table below compares the Bank's and the Company's consolidated capital position to the minimum regulatory requirements as of June 30, 2017:

|  | Consolidated Capital |         | For Capital Adequacy Purposes |         | To be Well-Capitalized Under Prompt Corrective Action Provisions |         |
|--|----------------------|---------|-------------------------------|---------|--|---------|
|  | Amount               | Percent | Amount                        | Percent | Amount   | Percent |
| (Dollars in thousands)                                 |                      |         |                               |         |  |         |
| Total Capital (to Risk-Weighted Assets)                |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | \$697,744            | 12.14%  | \$459,946                     | 8.00%   | \$574,933  | 10.00%  |
| WSFS Financial Corporation                             | 654,112              | 11.34%  | 461,375                       | 8.00%   | 576,718  | 10.00%  |
| Tier 1 Capital (to Risk-Weighted Assets)               |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 656,712              | 11.42%  | 344,960                       | 6.00%   | 459,946  | 8.00%   |
| WSFS Financial Corporation                             | 613,080              | 10.63%  | 346,031                       | 6.00%   | 461,375  | 8.00%   |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets) |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 656,712              | 11.42%  | 258,720                       | 4.50%   | 373,706  | 6.50%   |
| WSFS Financial Corporation                             | 548,143              | 9.50%   | 259,523                       | 4.50%   | 374,867  | 6.50%   |
| Tier 1 Leverage Capital                                |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 656,712              | 10.06%  | 261,227                       | 4.00%   | 326,533  | 5.00%   |
| WSFS Financial Corporation                             | 613,080              | 9.36%   | 262,127                       | 4.00%   | 327,659  | 5.00%   |

Book value per share of common stock was \$22.99 at June 30, 2017, an increase of \$1.09, or 5% from \$21.90 at December 31, 2016. Tangible book value per share of common stock (a non-GAAP financial measure) was \$16.94 at June 30, 2017, an increase of \$1.14, or 7%, from \$15.80 at December 31, 2016. We believe tangible common book value per share helps management and investors better understand and assess changes from period to period in stockholders' equity exclusive of changes in intangible assets. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. For a reconciliation of tangible common book value per share to book value per share in accordance with GAAP, see Reconciliation of Non-GAAP Measure to GAAP.

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

Regulatory capital requirements for the Bank and the Company include a minimum common equity Tier 1 capital ratio of 4.50% of risk-weighted assets, a Tier 1 capital ratio of 6.00% of risk-weighted assets, a minimum Total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets. Not included in the Bank's capital, the Company separately held \$87.5 million in cash to support share repurchases, the planned call of our 2012 senior debt during the third quarter of 2017, potential dividends, acquisitions, strategic growth plans and other general corporate purposes.

As shown in the table above, as of June 30, 2017, the Bank and the Company were in compliance with regulatory capital requirements and exceeded the amounts required to be considered "well capitalized" as defined in the regulations.



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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 funding sources to fund growth and meet our liquidity needs. Among these are cash from operations, 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 meet our funding needs as well as maintain required and prudent levels of liquidity over the next twelve months.

During the six months ended June 30, 2017, cash and cash equivalents decreased \$76.6 million to \$745.3 million from \$821.9 million as of December 31, 2016. Cash provided by operating activities was \$59.9 million, reflecting the cash impact from earnings and sale of loans held for sale during the six months ended June 30, 2017. Cash used by investing activities was \$117.6 million, primarily due to increased lending of \$135.9 million, partially offset by \$13.8 million of net cash received from the sale of available- for-sale securities. Cash used by financing activities was \$18.9 million, primarily from \$30.6 million of repayments on FHLB advances, \$65.0 million of repayments on federal funds purchased and securities sold under agreement to repurchase, \$6.0 million for repurchase of common stock, and cash paid for dividends of \$4.4 million, all of which were partially offset by \$86.6 million of cash received from net increases in deposit balances.

NONPERFORMING ASSETS

Nonperforming assets (NPAs) include nonaccruing loans, other real estate owned and restructured loans. Nonaccruing loans are those on which we no longer accrue interest. 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.

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

| (Dollars in thousands)   | June 30,<br>2017 | December<br>31, 2016 |   |
|--|------------------|----------------------|---|
| Nonaccruing loans:   |                  |                      |   |
| Commercial   | \$14,704         | \$2,015              |   |
| Owner-occupied commercial  | 3,432            | 2,078                |   |
| Commercial mortgages   | 10,728           | 9,821                |   |
| Construction   | 1,062            | —                    |   |
| Residential mortgages  | 4,960            | 4,967                |   |
| Consumer   | 3,496            | 3,995                |   |
| Total nonaccruing loans  | 38,382           | 22,876               |   |
| Other real estate owned  | 2,121            | 3,591                |   |
| Restructured loans <sup>(1)</sup>                                      | 18,109           | 14,336               |   |
| Total nonperforming assets   | \$58,612         | \$40,803             |   |
| Past due loans: <sup>(1)</sup>   |                  |                      |   |
| Residential mortgages  | \$—              | \$153                |   |
| Consumer   | 92               | 285                  |   |
| Total past due loans   | \$92             | \$438                |   |
| Ratio of allowance for loan losses to total gross loans <sup>(2)</sup> | 0.87             | % 0.89               | % |
| Ratio of nonaccruing loans to total gross loans <sup>(2)</sup>         | 0.83             | 0.51                 |   |
| Ratio of nonperforming assets to total assets                          | 0.86             | 0.60                 |   |
| Ratio of loan loss allowance to nonaccruing loans                      | 104.23           | 173.77               |   |
| Ratio of loan loss allowance to total nonperforming assets             | 0.68             | 0.97                 |   |

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

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

Nonperforming assets increased \$17.8 million between December 31, 2016 and June 30, 2017. As a result, the ratio of nonperforming assets to total assets increased to 0.86% at June 30, 2017 from 0.60% at December 31, 2016. The increase was primarily due to one \$9.7 million locally-based, C&I participation that was downgraded during the first quarter of 2017 after a targeted energy sector review. The loan relationship has been, and continues to be, paying current, and positive resolution is expected. The remaining increase in nonperforming assets was primarily due to three smaller C&I relationships (ranging from \$1.8 to \$3.5 million and totaling \$7.6 million) that were moved to nonaccruing status during the first quarter. These relationships were from unrelated industries that had specific events that caused weakness in the underlying business. In each case, a comprehensive impairment analysis was completed and the results are included in the provision for loan losses for the six months ended June 30, 2017.

TDRs (accruing) increased during the six months ended June 30, 2017 by \$3.8 million mainly due to the addition of one construction portfolio relationship totaling \$2.3 million and several smaller consumer loans. Other Real Estate Owned (OREO) properties declined \$1.5 million during the six months ended June 30, 2017 due primarily to the sale of properties totaling \$4.1 million which were offset by new properties totaling \$2.7 million.

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

| (Dollars in thousands) | Six<br>months<br>ended<br>June 30,<br>2017 | Six<br>months<br>ended<br>June 30,<br>2016 |
|------------------------|--|--|
| Beginning balance      | \$40,803                                   | \$39,892                                   |
| Additions              | 33,378                                     | 4,602                                      |
| Collections            | (8,705 )                                   | (10,248 )                                  |

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|                      |          |          |
|----------------------|----------|----------|
| Transfers to accrual | (2,451 ) | (287 )   |
| Charge-offs          | (4,413 ) | (2,373 ) |
| Ending balance       | \$58,612 | \$31,586 |

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

**INTEREST RATE SENSITIVITY**

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. We regularly review our interest rate sensitivity and adjust the sensitivity within acceptable tolerance ranges. At June 30, 2017, interest-earning liabilities exceeded interest-bearing assets that mature or reprice within one year (interest-sensitive gap) by \$181.5 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window increased from 91.03% at December 31, 2016 to 94.4% at June 30, 2017. Likewise, the one-year interest-sensitive gap as a percentage of total assets increased from (4.41%) at December 31, 2016 to (2.26%) at June 30, 2017. 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, which we are required to perform by federal regulation, measures the impact of an immediate change in interest rates in 100 basis point increments on the economic value of equity ratio. The economic value of the equity ratio is defined as the economic value of the estimated cash flows from assets and liabilities as a percentage of economic value of cash flows from total assets.

The following table shows the estimated impact of immediate changes in interest rates on our net interest margin and economic value of equity ratio at the specified levels at June 30, 2017 and December 31, 2016:

| June 30, 2017                               |   |  | December 31, 2016                                 |  |
|---|---|--|---|--|
| % Change in Interest Rate<br>(Basis Points) | % Change in Net<br>Interest Margin <sup>(1)</sup> | Economic Value of<br>Equity <sup>(2)</sup> | % Change in Net<br>Interest Margin <sup>(1)</sup> | Economic Value<br>of Equity <sup>(2)</sup> |
| +300  | 5%  | 15.40%                                     | 3%  | 14.04%                                     |
| +200  | 3%  | 15.46%                                     | 2%  | 14.09%                                     |
| +100  | 2%  | 15.34%                                     | <1%   | 14.00%                                     |
| —   | —%  | 15.09%                                     | —%  | 13.80%                                     |
| -100  | 3%  | 14.21%                                     | <1%   | 13.08%                                     |
| -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.

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## RESULTS OF OPERATIONS

Three months ended June 30, 2017: Net income was \$20.6 million for the three months ended June 30, 2017 compared with \$17.5 million for the three months ended June 30, 2016. Net interest income for the three months ended June 30, 2017 was \$54.3 million, an increase of \$7.9 million compared to the three months ended June 30, 2016, due primarily to organic and acquisition-related growth, partially offset by higher interest expense related to deposit growth, our issuance of senior unsecured notes during the second quarter of 2016, and higher FHLB advances. Noninterest income increased \$6.2 million to \$31.7 million during the second quarter of 2017, primarily due to increased investment management and fiduciary revenue and growth in credit/debit card and ATM income - see “Noninterest (Fee) Income” for further information. Partially offsetting these increases was an \$8.0 million increase in noninterest expenses during the second quarter of 2017, primarily reflecting higher employee-related and ongoing operating costs to support our organic and acquisition growth - see “Noninterest Expense” for further information.

Six months ended June 30, 2017: Net income was \$39.5 million for the six months ended June 30, 2017 compared with \$33.2 million for the six months ended June 30, 2016. Net interest income for the six months ended June 30, 2017 was \$107.4 million, an increase of \$15.6 million compared to the six months ended June 30, 2016, primarily reflecting organic and acquisition-related growth, partially offset by higher interest expense related to deposit growth, our issuance of senior unsecured notes late in the second quarter of 2016, and higher FHLB advances. Noninterest income increased \$10.6 million to \$59.8 million during the six months ended June 30, 2017, primarily due to increased investment management and fiduciary revenue and growth in credit/debit card and ATM income - see “Noninterest (Fee) Income” for further information. Partially offsetting these increases was a \$15.8 million increase in noninterest expenses during the six months ended June 30, 2017, primarily reflecting higher employee-related and ongoing operating costs to support our organic and acquisition growth - see “Noninterest Expense” for further information.

Efficiency Ratio: Our noninterest expenses are driven by our high-touch, high-service model. This, combined with our significant and diverse fee income mix, resulted in a second quarter 2017 efficiency ratio of 60.8% compared to 61.5% for the second quarter of 2016 and 62.9% for the first quarter of 2017. Management believes its operating costs are at an appropriate level and scale for the Company’s size and products and services as our fee-based businesses typically carry a higher efficiency ratio as they derive revenue primarily based on active human capital costs versus passive assets. We continue to optimize and review our operations in order to limit cost increases or reduce costs, and expect continued improvement of our efficiency ratio throughout the remainder of the year, trending towards a fourth quarter ratio in the high 50%. We ultimately expect to achieve our goal of a relatively flat efficiency ratio for the full year 2017 as compared to full year 2016 through continued reinvestment in our balance sheet and capabilities to support our organic and acquisition-related growth, as well as increased contributions from our fee-based businesses.

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## Net Interest Income

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

| (Dollars in thousands)  | Three months ended June 30, |          |                           |                 |          |                           |
|---|-----------------------------|----------|---------------------------|-----------------|----------|---------------------------|
|   | 2017                        |          |                           | 2016            |          |                           |
|   | Average Balance             | Interest | Yield/Rate <sup>(1)</sup> | Average Balance | Interest | Yield/Rate <sup>(1)</sup> |
| Assets:   |                             |          |                           |                 |          |                           |
| Interest-earning assets:  |                             |          |                           |                 |          |                           |
| Loans: <sup>(2)</sup>   |                             |          |                           |                 |          |                           |
| Commercial real estate loans  | \$1,418,957                 | \$17,725 | 5.01 %                    | \$1,207,324     | \$14,952 | 4.98 %                    |
| Residential real estate loans                                       | 274,114                     | 3,980    | 5.81                      | 272,792         | 4,312    | 6.38                      |
| Commercial loans  | 2,434,437                   | 28,455   | 4.72                      | 2,016,604       | 22,328   | 4.49                      |
| Consumer loans  | 478,326                     | 5,589    | 4.69                      | 367,769         | 4,074    | 4.46                      |
| Loans held for sale   | 32,339                      | 324      | 4.01                      | 31,270          | 317      | 3.56                      |
| Total loans   | 4,638,173                   | 56,073   | 4.86                      | 3,895,759       | 45,983   | 4.77                      |
| Mortgage-backed securities <sup>(3)</sup>                           | 783,007                     | 4,782    | 2.44                      | 727,359         | 3,910    | 2.15                      |
| Investment securities <sup>(3)</sup>                                | 166,536                     | 1,136    | 4.05                      | 205,944         | 1,226    | 3.48                      |
| Other interest-earning assets                                       | 33,155                      | 343      | 4.14                      | 32,465          | 384      | 4.73                      |
| Total interest-earning assets                                       | 5,620,871                   | 62,334   | 4.50 %                    | 4,861,527       | 51,503   | 4.32 %                    |
| Allowance for loan losses   | (40,546 )                   |          |                           | (37,351 )       |          |                           |
| Cash and due from banks   | 127,848                     |          |                           | 96,784          |          |                           |
| Cash in non-owned ATMs  | 574,348                     |          |                           | 510,684         |          |                           |
| Bank-owned life insurance   | 101,809                     |          |                           | 91,310          |          |                           |
| Other noninterest-earning assets                                    | 343,216                     |          |                           | 207,305         |          |                           |
| Total assets  | \$6,727,546                 |          |                           | \$5,730,259     |          |                           |
| Liabilities and Stockholders' Equity:                               |                             |          |                           |                 |          |                           |
| Interest-bearing liabilities:                                       |                             |          |                           |                 |          |                           |
| Interest-bearing deposits:  |                             |          |                           |                 |          |                           |
| Interest-bearing demand   | \$914,915                   | \$453    | 0.20 %                    | \$784,507       | \$254    | 0.13 %                    |
| Money market  | 1,286,977                   | 1,061    | 0.33                      | 1,100,449       | 787      | 0.29                      |
| Savings   | 588,610                     | 276      | 0.19                      | 436,929         | 113      | 0.10                      |
| Customer time deposits  | 550,373                     | 1,060    | 0.77                      | 550,661         | 750      | 0.55                      |
| Total interest-bearing customer deposits                            | 3,340,875                   | 2,850    | 0.34                      | 2,872,546       | 1,904    | 0.27                      |
| Brokered certificates of deposit                                    | 211,751                     | 491      | 0.93                      | 231,509         | 300      | 0.52                      |
| Total interest-bearing deposits                                     | 3,552,626                   | 3,341    | 0.38                      | 3,104,055       | 2,204    | 0.29                      |
| FHLB of Pittsburgh advances   | 639,147                     | 1,797    | 1.13                      | 714,271         | 1,124    | 0.63                      |
| Trust preferred borrowings  | 67,011                      | 472      | 2.83                      | 67,011          | 397      | 2.38                      |
| Senior debt   | 152,231                     | 2,121    | 5.57                      | 74,114          | 1,175    | 6.34                      |
| Other borrowed funds <sup>(4)</sup>                                 | 127,381                     | 289      | 0.91                      | 135,017         | 189      | 0.56                      |
| Total interest-bearing liabilities                                  | 4,538,396                   | 8,020    | 0.71 %                    | 4,094,468       | 5,089    | 0.50 %                    |
| Noninterest-bearing demand deposits                                 | 1,404,186                   |          |                           | 981,033         |          |                           |
| Other noninterest-bearing liabilities                               | 71,183                      |          |                           | 48,543          |          |                           |
| Stockholders' equity  | 713,781                     |          |                           | 606,215         |          |                           |
| Total liabilities and stockholders' equity                          | \$6,727,546                 |          |                           | \$5,730,259     |          |                           |
| Excess of interest-earning assets over interest-bearing liabilities | \$1,082,475                 |          |                           | \$767,059       |          |                           |
| Net interest and dividend income                                    |                             | \$54,314 |                           |                 | \$46,414 |                           |

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|                      |        |        |
|----------------------|--------|--------|
| Interest rate spread | 3.79 % | 3.82 % |
| Net interest margin  | 3.93 % | 3.90 % |

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

(2) Average balances include nonperforming loans and net of unearned income.

(3) Includes securities available for sale at fair value.

(4) Includes federal funds purchased and securities sold under agreement to repurchase.

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| (Dollars in thousands)  | Six months ended June 30,  |           |                               | 2016               |          |                               |
|---|----------------------------|-----------|-------------------------------|--------------------|----------|-------------------------------|
|   | 2017<br>Average<br>Balance | Interest  | Yield/<br>Rate <sup>(1)</sup> | Average<br>Balance | Interest | Yield/<br>Rate <sup>(1)</sup> |
| Assets:   |                            |           |                               |                    |          |                               |
| Interest-earning assets:  |                            |           |                               |                    |          |                               |
| Loans: <sup>(2)</sup>   |                            |           |                               |                    |          |                               |
| Commercial real estate loans  | \$1,406,012                | \$34,748  | 4.98 %                        | \$1,200,017        | \$29,232 | 4.90 %                        |
| Residential real estate loans                                       | 278,012                    | 8,961     | 6.45                          | 277,147            | 8,220    | 5.93                          |
| Commercial loans  | 2,413,245                  | 55,352    | 4.65                          | 1,992,441          | 44,257   | 4.50                          |
| Consumer loans  | 467,907                    | 10,997    | 4.74                          | 364,405            | 8,167    | 4.51                          |
| Loans held for sale   | 36,691                     | 696       | 3.79                          | 32,079             | 669      | 4.19                          |
| Total loans   | 4,601,867                  | 110,754   | 4.87                          | 3,866,089          | 90,545   | 4.73                          |
| Mortgage-backed securities <sup>(3)</sup>                           | 771,149                    | 9,177     | 2.38                          | 719,356            | 7,804    | 2.17                          |
| Investment securities <sup>(3)</sup>                                | 197,517                    | 2,385     | 3.54                          | 204,804            | 2,446    | 3.50                          |
| Other interest-earning assets                                       | 38,005                     | 844       | 4.44                          | 31,512             | 754      | 4.79                          |
| Total interest-earning assets                                       | 5,608,538                  | 123,160   | 4.48 %                        | 4,821,761          | 101,549  | 4.30 %                        |
| Allowance for loan losses   | (40,551 )                  |           |                               | (37,448 )          |          |                               |
| Cash and due from banks   | 136,823                    |           |                               | 95,189             |          |                               |
| Cash in non-owned ATMs  | 628,350                    |           |                               | 481,570            |          |                               |
| Bank-owned life insurance   | 101,690                    |           |                               | 91,208             |          |                               |
| Other noninterest-earning assets                                    | 345,862                    |           |                               | 211,475            |          |                               |
| Total assets  | \$6,780,712                |           |                               | \$5,663,755        |          |                               |
| Liabilities and Stockholders' Equity:                               |                            |           |                               |                    |          |                               |
| Interest-bearing liabilities:                                       |                            |           |                               |                    |          |                               |
| Interest-bearing deposits:  |                            |           |                               |                    |          |                               |
| Interest-bearing demand   | \$917,173                  | \$838     | 0.18 %                        | \$775,358          | \$499    | 0.13 %                        |
| Money market  | 1,305,370                  | 2,087     | 0.32                          | 1,099,522          | 1,537    | 0.28                          |
| Savings   | 581,471                    | 489       | 0.17                          | 440,375            | 251      | 0.11                          |
| Customer time deposits  | 565,875                    | 2,150     | 0.77                          | 562,541            | 1,495    | 0.53                          |
| Total interest-bearing customer deposits                            | 3,369,889                  | 5,564     | 0.33                          | 2,877,796          | 3,782    | 0.26                          |
| Brokered certificates of deposit                                    | 193,869                    | 852       | 0.89                          | 199,242            | 540      | 0.55                          |
| Total interest-bearing deposits                                     | 3,563,758                  | 6,416     | 0.36                          | 3,077,038          | 4,322    | 0.28                          |
| FHLB of Pittsburgh advances   | 752,335                    | 3,655     | 0.98                          | 694,259            | 2,172    | 0.63                          |
| Trust preferred borrowings  | 67,011                     | 918       | 2.76                          | 67,011             | 768      | 2.30                          |
| Senior debt   | 152,169                    | 4,242     | 5.58                          | 64,557             | 2,117    | 6.56                          |
| Other borrowed funds <sup>(4)</sup>                                 | 134,796                    | 512       | 0.77                          | 145,014            | 400      | 0.55                          |
| Total interest-bearing liabilities                                  | 4,670,069                  | 15,743    | 0.68 %                        | 4,047,879          | 9,779    | 0.49 %                        |
| Noninterest-bearing demand deposits                                 | 1,330,477                  |           |                               | 965,320            |          |                               |
| Other noninterest-bearing liabilities                               | 73,997                     |           |                               | 51,424             |          |                               |
| Stockholders' equity  | 706,169                    |           |                               | 599,132            |          |                               |
| Total liabilities and stockholders' equity                          | \$6,780,712                |           |                               | \$5,663,755        |          |                               |
| Excess of interest-earning assets over interest-bearing liabilities | \$938,469                  |           |                               | \$773,882          |          |                               |
| Net interest and dividend income                                    |                            | \$107,417 |                               |                    | \$91,770 |                               |
| Interest rate spread  |                            |           | 3.80 %                        |                    |          | 3.81 %                        |
| Net interest margin   |                            |           | 3.91 %                        |                    |          | 3.89 %                        |

<sup>(1)</sup> Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.

<sup>(2)</sup>

Average balances include nonperforming loans and net of unearned income.

- (3) Includes securities available for sale at fair value.
- (4) Includes federal funds purchased and securities sold under agreement to repurchase.

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During the three months ended June 30, 2017, net interest income increased \$7.9 million, or 17% from the three months ended June 30, 2016. Net interest margin was 3.93% for the second quarter of 2017, a 3 basis point increase compared to 3.90% for the second quarter of 2016. The increase in net interest margin includes the positive effects of our combination with Penn Liberty, disciplined pricing of loans and deposits, and higher short-term interest rates, partially offset higher wholesale borrowing costs to support increased fee income business in Cash Connect® and the negative impact of 6 basis points due to our issuance of \$100.0 million of senior notes late in the second quarter of 2016. We expect to substantially recover the impact of the 2016 debt issuance as we plan to use part of the proceeds to pay off older, higher-cost debt during the third quarter of 2017.

During the six months ended June 30, 2017, net interest income increased \$15.6 million, or 17% from the six months ended June 30, 2016, and the net interest margin was 3.91%, a 2 basis point increase compared to 3.89% for the six months ended June 30, 2016. These year-over-year increases in margin dollars and percentages reflect the positive impact of our combination with Penn Liberty, disciplined pricing of loans and deposits, and higher short-term interest rates, partially offset by the higher wholesale borrowing costs and the impact of our 2016 senior debt issuance described in the preceding paragraph.

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. Our evaluation is based on a review of the portfolio and requires significant, complex and difficult judgments. For the three months ended June 30, 2017 and 2016, we recorded a provision for loan losses of \$1.8 million and \$1.3 million, respectively, and for the six months ended June 30, 2017 and 2016, we recorded a provision for loan losses of \$4.0 million and \$2.0 million, respectively. During the second quarter of 2017, the provision increased compared with the second quarter of 2016 due to higher net charge offs. For the six months ended June 30, 2017, the increase compared to the same period in 2016 was also due to higher net charge offs, with the first quarter of 2016 benefiting from significant collection activity reflected in lower net charge offs during that period. 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. See Note 6 to the Consolidated Financial Statements for additional information.

The allowance for loan losses was \$40.0 million at June 30, 2017 and \$39.8 million at December 31, 2016. The allowance for loan losses and provision reflects the addition of reserves related to an increase of \$135.3 million in total net loans at June 30, 2017 when compared to December 31, 2016 as well as loan downgrades, offset by payoff activity and improvement in qualitative adjustment factors due to continued improvement of economic conditions and continued favorable credit quality metrics. The ratio of allowance for loan losses to total gross loans was 0.87% at June 30, 2017 and 0.89% at December 31, 2016. This ratio excluding the impact of all purchased loans would have been 1.02% at June 30, 2017 and 1.08% at December 31, 2016 .

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The table below represents a summary of changes in the allowance for loan losses for the six months ended June 30, 2017 and 2016, respectively.

| (Dollars in thousands)  | Six Months Ended |          |   |
|---|------------------|----------|---|
|   | June 30,         |          |   |
|   | 2017             | 2016     |   |
| Beginning balance   | \$39,751         | \$37,089 |   |
| Provision for loan losses   | 4,005            | 2,034    |   |
| Charge-offs:  |                  |          |   |
| Commercial  | 2,184            | 906      |   |
| Owner-occupied commercial   | 192              | 141      |   |
| Commercial real estate  | 506              | 78       |   |
| Construction  | 131              | 29       |   |
| Residential real estate   | 53               | 29       |   |
| Consumer  | 1,645            | 1,129    |   |
| Overdrafts  | 386              | 320      |   |
| Total charge-offs   | 5,097            | 2,632    |   |
| Recoveries:   |                  |          |   |
| Commercial  | 403              | 334      |   |
| Owner-occupied commercial   | 108              | 51       |   |
| Commercial real estate  | 53               | 113      |   |
| Construction  | 4                | 46       |   |
| Residential real estate   | 130              | 79       |   |
| Consumer  | 500              | 472      |   |
| Overdrafts  | 148              | 160      |   |
| Total recoveries  | 1,346            | 1,255    |   |
| Net charge-offs   | 3,751            | 1,377    |   |
| Ending balance  | \$40,005         | \$37,746 |   |
| Net charge-offs to average gross loans outstanding, net of unearned income <sup>(1)</sup> | 0.17             | % 0.07   | % |

<sup>(1)</sup> Annualized, excludes loans held for sale and reverse mortgages

**Noninterest (Fee) Income**

During the second quarter of 2017, the Company earned fee income of \$31.7 million, an increase of \$6.2 million, or 24%, compared to \$25.5 million in the second quarter of 2016. This increase is primarily due to a \$2.6 million increase in investment management and fiduciary income due to growth in several business lines and an increase of \$1.7 million in credit/debit card and ATM income reflecting growth due to expanded revenue sources representing from continued growth in our Wealth Management and Cash Connect® businesses. Current quarter results also include a \$0.8 million gain on the sale of Small Business Administration (SBA) loans.

For the six months ended June 30, 2017, the Company earned fee income of \$59.8 million, an increase of \$10.6 million, or 22% , compared to \$49.2 million in the second quarter of 2016. This increase is primarily due to an increase of \$5.3 million in investment management and fiduciary income due to growth in several of our Wealth business lines and an increase of \$2.9 million in credit/debit card and ATM income reflecting growth due to expanded revenue sources in our Cash Connect® business. The other income category increased by \$2.1 million which consisted of a \$1.0 million increase from Cash Connect® driven by business growth and a \$0.9 million gain on the sale of SBA loans.

**Noninterest Expense**

Noninterest expense for the second quarter of 2017 was \$52.7 million, an increase of \$8.0 million, or 18%, from \$44.7 million in the second quarter of 2016. Contributing to the quarter year-over-year increase was \$4.2 million of ongoing operating costs

from our late 2016 combinations with Penn Liberty, Powdermill, and West Capital. The remaining increase primarily reflects higher compensation and related costs due to added staff to support overall franchise growth.

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For the six months ended June 30, 2017, noninterest expense was \$104.2 million, an increase of \$15.8 million, or 18% from \$88.5 million at June 30, 2016. The increase was primarily due to \$9.0 million in ongoing operating costs from our late 2016 combinations with Penn Liberty, Powdermill, and West Capital. The remaining increase primarily reflects higher compensation and related costs due to added staff to support overall franchise growth.

**Income Taxes**

We and our subsidiaries file a consolidated federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded an income tax expense of \$10.9 million and \$19.4 million during the three and six months ended June 30, 2017, respectively, compared to an income tax expense of \$8.5 million and \$17.2 million for the same periods in 2016.

Our effective tax rate was 34.5% and 33.0% for the three and six months ended June 30, 2017 compared to 32.7% and 34.1% during the same periods in 2016. The effective tax rate for the six months ended June 30, 2017 decreased due to the tax benefit related to stock-based compensation activity during the year, due to both the adoption of ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, Compensation – Stock Compensation (Topic 718) during the second quarter of 2016, as well as higher tax benefits realized on stock-based compensation activity during the six months ended June 30, 2017, due to greater transaction volume and increases in the Company's stock price. The tax benefits recognized during the three and six months ended June 30, 2017 were \$0.4 million and \$1.7 million, respectively, compared to tax benefits of \$0.7 million for the three and six months ended June 30, 2016.

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, excess tax benefits from recognized stock compensation, 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.

**Contractual Obligations**

Our contractual obligations at June 30, 2017 did not significantly change from our contractual obligations at December 31, 2016, which are disclosed in our 2016 Annual Report on Form 10-K, and March 31, 2017, which are disclosed in our March 31, 2017 Quarterly Report on Form 10-Q.

**RECONCILIATION OF NON-GAAP MEASURE TO GAAP MEASURE**

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 helps management and investors better understand and assess changes from period to period in stockholders' equity exclusive of changes in intangible assets.

| (Dollars and share amounts in thousands, except per share amounts) | June 30,<br>2017 | December<br>31, 2016 |
|--|------------------|----------------------|
| Stockholders' equity   | \$722,623        | \$687,336            |
| Less: Goodwill and other intangible assets                         | 189,983          | 191,247              |
| Tangible common equity (numerator)                                 | \$532,640        | \$496,089            |
| Shares of common stock outstanding (denominator)                   | 31,435           | 31,390               |
| Book value per share of common stock                               | \$22.99          | \$21.90              |
| Goodwill and other intangible assets                               | 6.05             | 6.10                 |
| Tangible book value per share of common stock                      | \$16.94          | \$15.80              |

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CRITICAL ACCOUNTING ESTIMATES

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, 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 2017, it is 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.

For further discussion of our critical accounting estimates, see the "Management's Discussion and Analysis - Critical Accounting Estimates" section of our Annual Report on Form 10-K for the year ended December 31, 2016.

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 Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC), collectively referred to as 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 is required to file periodic 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.

Basel III

In 2013, the Federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision (BCBS) capital guidelines for U.S. banking organizations. Under the final rules as of January 2015, minimum requirements increased for both the quantity and quality of capital maintained by the Company and the Bank. The rules included a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% , required a minimum ratio of total capital to risk-weighted assets of 10.0%, and required a minimum Tier 1 leverage ratio of 4.0%. The final rule also established a new capital conservation buffer, comprised of common equity Tier 1 capital, above the regulatory minimum capital requirements. The phase-in of the capital conservation buffer began on January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.50% on January 1, 2019. For 2017, the capital conservation buffer is 1.25%. The final rules also revised 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). As of June 30, 2017, we had approximately \$67.0 million of trust preferred securities outstanding, all of which are counted as Tier 1 capital.

The phase-in period for the final rules began for us on January 1, 2015. Full compliance with all of the final rule's requirements phased in over a multi-year schedule is required by January 1, 2019. As of June 30, 2017, the Company and the Bank met the applicable standards, and the Bank was "well-capitalized" under the prompt corrective action rules.

In 2014, the Federal banking agencies adopted a “liquidity coverage ratio” requirement (LCR) for large internationally active banking organizations, and in 2016, the agencies proposed a “net stable funding ratio” standard (NSFR) for the same group of institutions. The LCR measures an organizations’ ability to meet liquidity demands over a 30-day horizon; the NSFR would test the same capacity over a one-year horizon. Neither requirement applies directly to the Company or the Bank, but the policies embedded in them may inform the work of the examiners as they consider our liquidity.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Incorporated herein by reference from Item 2 Part I (Interest Rate Sensitivity) 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 principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in internal control over financial reporting. During the quarter ended June 30, 2017, 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.

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## Part II. OTHER INFORMATION

## Item 1. Legal Proceedings

Incorporated herein by reference to Note 16 – Legal and Other Proceedings to the Consolidated Financial Statements

## Item 1A. Risk Factors

There have not been any material changes to the risk factors previously disclosed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, previously filed with the SEC.

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

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended June 30, 2017.

| 2017  | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(1) | Maximum<br>Number<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(1) |
|-------|---|---------------------------------------|--|---|
| April | 19,000                                    | \$ 46.22                              | 19,000   | 873,194   |
| May   | 28,000                                    | 45.07                                 | 28,000   | 845,194   |
| June  | 24,000                                    | 44.48                                 | 24,000   | 821,194   |
| Total | 71,000                                    | \$ 45.18                              | 71,000   |   |

During the fourth quarter of 2015, the Board of Directors approved a stock buyback program of up to 5% of then-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.

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Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibit 31.1 – Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 31.2 – Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(c) Exhibit 32 – Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(d) Exhibit 101.INS – XBRL Instance Document

(e) Exhibit 101.SCH – XBRL Schema Document

(f) Exhibit 101.CAL – XBRL Calculation Linkbase Document

(g) Exhibit 101.LAB – XBRL Labels Linkbase Document

(h) Exhibit 101.PRE – XBRL Presentation Linkbase Document

(i) Exhibit 101.DEF – XBRL Definition Linkbase Document

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SIGNATURES

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

WSFS FINANCIAL CORPORATION

Date: August 8, 2017 /s/ Mark A. Turner  
Mark A. Turner  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 8, 2017 /s/ Dominic C. Canuso  
Dominic C. Canuso  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)