

WSFS FINANCIAL CORP  
Form 10-K/A  
March 23, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended **December 31, 2008**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **0-16668**

**WSFS FINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other Jurisdiction of

Incorporation or Organization)

**22-2866913**

(I.R.S. Employer Identification No.)

**500 Delaware Avenue, Wilmington, Delaware**

(Address of Principal Executive Offices)

**19899**

(Zip Code)

Registrant's Telephone Number, Including Area Code: **(302) 792-6000**

Securities registered pursuant to Section 12(b) of the Act:

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Title of Each Class  
**Common Stock, \$0.01 par value**

Name of Each Exchange on Which Registered  
**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES  NO

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 twelve 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing price of the registrant's common stock as quoted on NASDAQ as of June 30, 2008 was \$264,701,000. For purposes of this calculation only, affiliates are deemed to be directors, executive officers and beneficial owners of greater than 10% of the outstanding shares.

As of March 5, 2009, there were issued and outstanding 6,165,099 shares of the registrant's common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2009 are incorporated by reference in Part III hereof.

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**WSFS FINANCIAL CORPORATION**

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**Explanatory Note**

WSFS Financial Corporation (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2008 in order to (i) correct a typographical error on the rate/volume table in Item 7, (ii) correct a typographical error on the Report of Independent Registered Public Accounting Firm in Item 8, (iii) correct three typographical errors on the Consolidated Statement of Cash Flows, (iv) correct various typographical errors in the Notes to Consolidated Financial Statements and (v) correct a typographical error on Exhibit 23, Consent of Independent Registered Public Accounting Firm.

This Amendment No. 1 amends Items, 7, 8 and Exhibit 23 only. All other items and exhibits contained in the Form 10-K as filed on March 16, 2009 remain unchanged. In accordance with Exchange Act Rule 12b-15, new certifications of the Company's Chief Executive Officer and Chief Financial Officer are also being filed. This Amendment No. 1 does not reflect facts or events occurring after the original file date of March 16, 2009 nor modify (except as set forth above) or update the disclosures in any way.

**ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

WSFS Financial Corporation ("the Company," "our Company," "we," "our" or "us") is a thrift holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank"). Founded in 1832, we are one of the ten oldest banks in the United States continuously-operating under the same name. As a federal savings bank, which was formerly chartered as a state mutual savings bank, we enjoy broader investment powers than most other financial institutions. We have served the residents of the Delaware Valley for over 175 years. We are the largest thrift institution headquartered in Delaware and the third largest financial institution in the state on the basis of total deposits traditionally garnered in-market. Our primary market area is the mid-Atlantic region of the United States, which is characterized by a diversified manufacturing and service economy. Our long-term strategy is to serve small and mid-size businesses through loans, deposits, investments, and related financial services, and to gather retail core deposits. Our strategic focus is to exceed customer expectations, deliver stellar service and build customer advocacy through highly trained, relationship oriented, friendly, knowledgeable, and empowered Associates.

We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and personal trust services through WSFS Wealth Strategies, which was formed during 2005. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximum. We serve our customers primarily from our main office, 35 retail banking offices, loan production offices and operations centers located in Delaware, southeastern Pennsylvania and Virginia and through our website at [www.wsfsbank.com](http://www.wsfsbank.com).

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc. ("Montchanin"). We also have one unconsolidated affiliate, WSFS Capital Trust III ("the Trust"). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., which markets various third-party insurance products and securities through the Bank's retail banking system. WSFS Bank also owns a majority interest in F<sup>1</sup> Reverse Financial Services, LLC (1<sup>st</sup> Reverse), specializing in reverse mortgage lending.

Montchanin has one consolidated subsidiary, Cypress Capital Management, LLC ("Cypress"). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. Cypress had approximately \$410 million in assets under management at December 31, 2008.

**FORWARD-LOOKING STATEMENTS**

Within this annual report and financial statements, management has included certain "forward-looking statements" concerning our future operations. Statements contained in this annual report which are not historical facts, are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. It is management's desire to take advantage of the "safe harbor" provisions of the Private

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Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all “forward-looking statements.” Management has used “forward-looking statements” to describe future plans and strategies including expectations of our future financial results. Management’s ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Delaware, the mid-Atlantic region and the country as a whole, asset quality, loan growth, loan delinquency rates, operating risk, uncertainty of estimates in general, and changes in federal and state regulations, among other factors. These factors should be considered in evaluating the “forward-looking statements,” and undue reliance should not be placed on such statements. Actual results may differ materially from management expectations. We do not undertake, and specifically disclaim any obligation to publicly release the result of any revisions

that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

## RESULTS OF OPERATIONS

WSFS Financial Corporation recorded net income of \$16.1 million or \$2.57 per diluted share for the year ended December 31, 2008, compared to \$29.6 million or \$4.55 per share and \$30.4 million or \$4.41 per share in 2007 and 2006, respectively.

**Net Interest Income.** Net interest income increased \$7.2 million, or 9%, to \$89.2 million in 2008 compared to \$82.0 million in 2007. The net interest margin for 2008 was 3.13%, up 0.04% from 2007. These increases were the result of a slightly liability sensitive balance sheet combined with active management of deposit pricing. In comparison to 2007, the yield on interest-bearing liabilities declined by 1.41%, while the yield on interest-earning assets only declined by 1.27%. The improvement in the net interest margin also reflects growth, and the improved mix of our balance sheet. The investment category on our average balance sheet includes income from reverse mortgages, which declined substantially in 2008 compared to 2007, consistent with decreases in home prices over the past year. During 2008 we lost \$1.1 million on reverse mortgages compared to income of \$2.0 million in 2007. For further discussion of reverse mortgages, see the "Reverse Mortgages" discussion included in this Management's Discussion and Analysis and Note 4 to the Consolidated Financial Statements.

Net interest income increased \$4.1 million, or 5%, to \$82.0 million in 2007 compared to \$77.9 million in 2006. The net interest margin for 2007 was 3.09%, up 0.11% from 2006. The overall improvement in the net interest margin over the previous year reflects loan growth and our continued efforts to refocus the mix of our balance sheet. Loans, with an average yield of 7.55%, increased \$168.7 million on average while mortgage-backed securities, with an average yield of 4.93%, declined \$99.4 million on average mostly due to scheduled repayments. In addition, interest-bearing deposits, with an average rate of 3.76%, increased \$219.3 million on average while FHLB advances, with an average rate of 4.97%, decreased \$210.1 million on average. The yield on earning assets increased 0.37% on average in comparison to 2006 while the rate on interest-bearing liabilities increased by 0.27% on average. Additionally, income from reverse mortgages increased \$1.3 million in comparison to 2006.

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The following table sets forth certain information regarding changes in net interest income attributable to changes in the volumes of interest-earning assets and interest-bearing liabilities and changes in the yields for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on the changes that are attributable to: (i) changes in volume (change in volume multiplied by prior year rate); (ii) changes in rates (change in rate multiplied by prior year volume on each category); and (iii) net change (the sum of the change in volume and the change in rate). Changes due to the combination of rate and volume changes (changes in volume multiplied by changes in rate) are allocated proportionately between changes in rate and changes in volume.



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Year Ended December 31,	2008 vs. 2007			2007 vs. 2006		
	Volume	Yield/Rate	Net	Volume	Yield/Rate	Net
(Dollars in Thousands)						
Interest Income:						
Commercial real estate loans	\$ 5,722	\$ (15,131 )	\$ (9,409 )	\$ 4,281	\$ (320 )	\$ 3,961
Residential real estate loans	(1,280 )	360	(920 )	(1,244 )	1,186	(58 )
Commercial loans (1)	9,460	(15,396 )	(5,936 )	10,318	475	10,793
Consumer loans	894	(3,480 )	(2,586 )	870	317	1,187
Mortgage-backed securities	(588 )	335	(253 )	(4,898 )	691	(4,207 )
Investment securities	504	(3,610 )	(3,106 )	(1,638 )	2,430	792
Other	155	(945 )	(790 )	(601 )	433	(168 )
Favorable (unfavorable)	14,867	(37,867 )	(23,000 )	7,088	5,212	12,300
Interest expense:						
Deposits:						
Interest-bearing demand	217	(546 )	(329 )	180	428	608
Money market	(419 )	(5,542 )	(5,961 )	2,981	799	3,780
Savings	(106 )	(837 )	(943 )	(248 )	(310 )	(558 )
Retail time deposits	2,933	(4,515 )	(1,582 )	4,003	3,045	7,048
Jumbo certificates of deposits - nonretail	(229 )	(1,856 )	(2,085 )	927	149	1,076
Brokered certificates of deposits	258	(6,860 )	(6,602 )	1,815	835	2,650
FHLB of Pittsburgh advances	3,460	(12,401 )	(8,941 )	(10,342 )	3,025	(7,317 )
Trust Preferred	0	(1,478 )	(1,478 )	0	(300 )	(300 )
Other borrowed funds	1,500	(3,789 )	(2,289 )	1,090	113	1,203
Unfavorable (favorable)	7,614	(37,824 )	(30,210 )	406	7,784	8,190
Net change, as reported	\$ 7,253	\$ (43 )	\$ 7,210	\$ 6,682	\$ (2,572 )	\$ 4,110

(1) The tax-equivalent income adjustment is related to commercial loans.

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The following table provides information regarding the average balances of, and yields/rates on interest-earning assets and interest-bearing liabilities during the periods indicated:

Year Ended December 31,	2008			2007			2006			
	Average Balance	Interest	Yield/Rate (1)	Average Balance	Interest	Yield/Rate (1)	Average Balance	Interest	Yield/Rate (1)	
(Dollars in Thousands)										
<b>Assets</b>										
Interest-earning assets:										
Loans (2) (3):										
Commercial real estate loans	\$ 763,825	\$ 46,647	6.11	% \$ 687,614	\$ 56,056	8.15	% \$ 635,133	\$ 52,095	8.20	%
Residential real estate loans	437,223	25,531	5.84	459,043	26,451	5.76	481,308	26,509	5.51	
Commercial loans	840,303	50,830	6.08	709,507	56,766	8.05	582,546	45,973	7.97	
Consumer loans	282,943	17,653	6.24	270,518	20,239	7.48	258,946	19,052	7.36	
Total loans	2,324,294	140,661	6.10	2,126,682	159,512	7.55	1,957,933	143,629	7.39	
Mortgage-backed securities (4)	480,002	23,984	5.00	491,650	24,237	4.93	591,021	28,444	4.81	
Investment securities (4) (5)	34,263	254	0.74	29,130	3,360	11.53	55,004	2,568	4.67	
Other interest-earning assets	42,934	1,578	3.68	40,137	2,368	5.90	51,144	2,536	4.96	
Total interest-earning assets	2,881,493	166,477	5.82	2,687,599	189,477	7.09	2,655,102	177,177	6.72	
Allowance for loan losses	(27,210 )			(28,192 )			(26,491 )			
Cash and due from banks	65,022			70,387			57,771			
Cash in non-owned ATMs	172,304			158,091			153,060			
Bank-owned life insurance	58,503			56,307			53,137			
Other noninterest-earning assets	70,838			67,711			63,793			
Total assets	\$ 3,220,950			\$ 3,011,903			\$ 2,956,372			
<b>Liabilities and Stockholders' Equity</b>										
Interest-bearing liabilities:										
Interest-bearing deposits:										
Interest-bearing demand	\$ 174,080	1,064	0.61	% \$ 148,039	1,393	0.94	% \$ 123,599	785	0.64	%
Money market	300,775	5,909	1.96	312,192	11,870	3.80	232,418	8,090	3.48	
Savings	197,175	736	0.37	211,453	1,679	0.79	240,426	2,237	0.93	
Retail time deposits	543,808	20,775	3.82	476,159	22,357	4.70	384,654	15,309	3.98	
Total interest-bearing retail deposits	1,215,838	28,484	2.34	1,147,843	37,299	3.25	981,097	26,421	2.69	
Jumbo certificates of deposit-nonretail	93,901	3,091	3.29	98,452	5,176	5.26	80,691	4,100	5.08	
Brokered certificates of deposit	282,760	8,234	2.91	277,860	14,836	5.34	243,070	12,186	5.01	
Total interest-bearing deposits	1,592,499	39,809	2.50	1,524,155	57,311	3.76	1,304,858	42,707	3.27	
FHLB of Pittsburgh advances	841,005	29,620	3.46	765,974	38,561	4.97	976,101	45,878	4.64	
Trust preferred borrowings	67,011	3,275	4.81	67,011	4,753	7.00	67,011	5,053	7.44	
Other borrowed funds	186,081	4,554	2.45	147,251	6,843	4.65	123,800	5,640	4.56	
Total interest-bearing liabilities	2,686,596	77,258	2.88	2,504,391	107,468	4.29	2,471,770	99,278	4.02	
Noninterest-bearing demand deposits	283,845			272,964			262,838			
Other noninterest-bearing liabilities	29,560			27,737			24,330			
Minority interest	—			38			84			
Stockholders' equity	220,949			206,773			197,350			
Total liabilities and stockholders' equity	\$ 3,220,950			\$ 3,011,903			\$ 2,956,372			

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Excess of interest-earning assets over interest-bearing liabilities	<b>\$ 194,897</b>		\$ 183,208		\$ 183,332	
Net interest and dividend income	<b>\$ 89,219</b>		\$ 82,009		\$ 77,899	
Interest rate spread	<b>2.94</b>	%		2.80	%	2.70 %
Net interest margin	<b>3.13</b>	%		3.09		2.98 %

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.

**Provision for Loan Losses.** We maintain an allowance for loan losses at an appropriate level based on management's assessment of the estimable and probable losses in the loan portfolio, pursuant to accounting literature, which is discussed further in the "Nonperforming Assets" section of this Management's Discussion and Analysis. Management's evaluation is based upon a review of the portfolio and requires significant judgment. For the year ended December 31, 2008, we recorded a provision for loan losses of \$23.0 million compared to \$5.0 million in 2007 and \$2.7 million in 2006. The \$23.0 million included \$14.7 million recorded in the fourth quarter of 2008. The larger provision amount was due to the rapid deterioration in the economic environment during the fourth quarter. The \$14.7 million includes the following: \$7.3 million was related to four large construction loans and land development projects; \$6.2 million was attributed to reserves for new loans, updated loss rate expectations on the consumer and mortgage portfolios, as well as credit risk migration in the commercial loan portfolio due to economic conditions; and \$1.2 million was a result of consumer credit losses taken during the fourth quarter of 2008. The increase in the provision for loan loss reflects our proactive approach in confronting the reality of the deepening economic recession.

**Noninterest Income.** Noninterest income decreased \$2.2 million to \$46.0 million in 2008, or 5%, from \$48.2 million in 2007. The majority of the decrease was due to a \$2.5 million decrease in credit card/debit card and ATM income due to reduced prime based ATM bailment fees. Although noninterest income was negatively impacted by lower bailment fees, the net interest margin benefited due to lower funding costs for these borrowings. In addition, 2007 had included a \$1.1 million non-recurring gain related to the sale of our former headquarters building and an \$882,000 gain from the sale of our credit card portfolio. Also during the year, income from Bank-Owned Life Insurance (BOLI) decreased \$483,000 from the prior year due to lower yields in underlying investments funding this program. These decreases were partially offset by an increase in loan fee income of \$1.3 million. The majority of the increase in loan fee income was due to \$851,000 in fees from 1<sup>st</sup> Reverse Financial Services, LLC ("1<sup>st</sup> Reverse"). During the second quarter of 2008 we acquired a majority interest in 1<sup>st</sup> Reverse, specializing in both reverse mortgage lending directly to consumers and business-to-business reverse mortgage lending through banks, brokers and financial institutions throughout the United States. Deposit service charges also increased \$1.1 million. This increase was a result of overall growth in deposits. In 2008 we also recorded a \$1.8 million gain on the sale of shares related to the completion of Visa's initial public offering, and a \$1.6 million charge related to a mark-to-market adjustment on the \$12.4 million BBB+ rated mortgage-backed security ("MBS") issued in connection with a 2002 reverse mortgage securitization.

Noninterest income increased \$7.9 million to \$48.2 million in 2007, or 20%, from \$40.3 million in 2006. This was attributable to a \$3.2 million increase in deposit service charges as we continued to benefit from increased deposit accounts and offered additional fee-based services. The increase also included a \$1.1 million non-recurring gain related to the sale of our former headquarters building and an \$882,000 gain from the sale of our credit card portfolio. Credit/debit card and ATM income also increased \$915,000 as a result of increased volumes of cash in non-owned ATMs and higher bailment fees earned on this cash. In 2007 we also recorded two offsetting \$6.0 million items. Both occurred during the fourth quarter and resulted in a gain and an expense recognized from the donation of a N.C. Wyeth mural, *Apotheosis of the Family*, which was located in our former headquarters.

**Noninterest Expenses.** Noninterest expenses increased \$7.1 million to \$89.1 million in 2008, or 9%, from \$82.0 million in 2007. Excluding \$2.8 million of expenses related to 1<sup>st</sup> Reverse, acquired in the second quarter of 2008, expenses increased \$4.3 million or 5% over 2007. As a result of continued growth efforts salaries, benefits, and other compensation increased \$1.1 million while other operating expenses increased \$1.2 million. Included in other operating expenses was a \$453,000 increase in FDIC charges due to increased assessment rates. During 2008 the investment in WSFS franchise included the opening of one branch in Selbyville, Delaware, the relocation of another branch in Smyrna, Delaware, and the previously mentioned acquisition of branches. Further, during 2008 professional fees increased \$1.3 million as a result of legal fees reflecting increased costs relating to problem credits, reflecting credit costs associated with the challenging credit environment.

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Noninterest expenses increased \$12.7 million to \$82.0 million in 2007, or 18%, from \$69.3 million in 2006. WSFS showed strong growth in 2007 which included the opening of three branch offices, one branch renovation, and the relocation of our corporate headquarters. As a result of this growth, the number of full-time associates grew to 599, resulting in increased salaries, benefits and other compensation of \$4.3 million. This growth also affected both occupancy expense, which increased by \$2.8 million, and other operating expenses, which increased by \$1.9 million. During 2007 our marketing expenses increased \$1.2 million, as a multi-year brand campaign was launched with the intent to leverage our Stellar Service model with the message “WeStand For Service.” Also during 2007, we recorded a \$1.2 million expense related to the Visa antitrust lawsuit settlement with American Express and Discover.

**Income Taxes.** We recorded a \$7.0 million tax provision for the year ended December 31, 2008 compared to \$13.5 million and \$15.7 million for the years ended December 31, 2007 and 2006, respectively. The effective tax rates for the years ended December 31, 2008, 2007 and 2006 were 30.1%, 31.2% and 34.0%, respectively. The reduction in the 2008 effective tax rate is primarily the result of volatility in effective tax rates. The reduction in the 2007 effective tax rate is primarily the result of a \$1.7 million tax benefit related to the previously discussed donation of the N.C. Wyeth mural. The provision for income taxes includes federal, state and local income taxes that are currently payable or deferred because of temporary differences between the financial reporting bases and the tax reporting bases of the assets and liabilities.

We analyze our projection of taxable income and make adjustments to our provision for income taxes accordingly. For additional information regarding our tax provision and net operating loss carryforwards, see Note 12 to the Consolidated Financial Statements.

### FINANCIAL CONDITION

Total assets increased \$232.4 million, or 7%, during 2008 to \$3.4 billion. This increase was predominantly due to growth in net loans, which grew \$209.9 million, or 9%, during 2008. Total liabilities increased \$227.1 million during the year to \$3.2 billion at December 31, 2008. This increase was primarily the result of an increase in customer deposits of \$227.9 million, or 15% and brokered deposits of \$62.2 million, or 25% during 2008. Partially offsetting these increases was an \$82.3 million, or 9% decrease in FHLB advances.

**Cash in non-owned ATMs.** During 2008, cash in non-owned ATMs managed by CashConnect, our ATM unit, increased \$7.4 million, or 4%. This increase was the result of an increase in the number of ATMs serviced by CashConnect from 9,976 at December 31, 2007 to 10,031 at December 31, 2008. Of these, 301 ATMs were WSFS owned and operated during 2008.

**Mortgage-backed Securities.** Our mortgage-backed securities are predominantly “plain-vanilla”, AAA-rated and of short duration. Investments in mortgage-backed securities increased \$1.4 million during 2008 to \$498.2 million. There were no sales of mortgage-backed securities during 2008. The weighted average duration of the mortgage-backed securities was 2.9 years at December 31, 2008.

**Investment Securities.** Our investment securities are comprised mostly of Federal Agency debt securities with a maturity of four years or less. We own no Collateralized Debt Obligations, Bank Trust Preferred, Agency Preferred securities or equity securities in other FDIC insured banks or thrifts.

**Loans, net.** Net loans increased \$209.9 million, or 9%, during 2008. This included increases of \$155.4 million, or 20%, in commercial loans, \$67.6 million, or 9%, in commercial real estate loans, and \$18.5 million, or 7%, in consumer loans. This increase was partially offset by a decrease of \$24.7 million, or 6%, in residential mortgage loans.

**Customer Deposits.** Customer deposits increased \$227.9 million, or 15%, during 2008 to \$1.7 billion. During 2008 we acquired six Delaware branches from Sun National Bank, including \$95.3 million in customer deposit accounts and paid a 12% premium on the balances. For additional information regarding this transaction, see Note 20 to the Consolidated Financial Statements. Customer time deposits (CDs) increased \$129.0 million, or 25%, in 2008. In addition, core deposit relationships (demand deposits, money market and savings

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accounts) increased \$98.9 million, or 10%, during the year. The table below depicts the changes in customer deposits over the last three years:

	Year Ended December 31,		
	2008	2007	2006
	<b>(In Millions)</b>		
Beginning balance	\$ 1,479.2	\$ 1,343.7	\$ 1,193.9
Interest credited	34.6	32.4	26.3
Deposit inflows, net	193.3	103.1	123.5
Ending balance	\$ 1,707.1	\$ 1,479.2	\$ 1,343.7

**Borrowings and Brokered Certificates of Deposit.** Borrowings and brokered certificates of deposit decreased by \$6.2 million, or less than 1%, during 2008. This decrease was primarily the result of a decrease in FHLB advances of \$82.3 million, or 9%. Partially offsetting this decrease was a \$62.2 million, or 25%, increase in brokered deposits. In addition, other borrowed funds increased \$14.0 million, or 15%.

**Stockholders' Equity.** Stockholders' equity increased \$5.3 million to \$216.6 million at December 31, 2008. This increase included an increase of \$7.4 million in comprehensive income and \$3.0 million from the result of the exercise of common stock options. Partially offsetting these decreases was the purchase of 73,500 shares of treasury stock for \$3.6 million. At December 31, 2008, we held 9.6 million shares of our common stock as treasury stock. Long-term, it is our intention to return some of our earnings to shareholders through share repurchases, which is subject to approval by the U.S. Treasury, while maintaining adequate levels of capital. In addition, we declared cash dividends totaling \$2.8 million during 2008.

### ASSET/LIABILITY MANAGEMENT

Our primary asset/liability management goal is to maximize net interest income opportunities within the constraints of managing interest rate risk, while ensuring adequate liquidity and funding and maintaining a strong capital base.

In general, interest rate risk is mitigated by closely matching the maturities or repricing periods of interest-sensitive assets and liabilities to ensure a favorable interest rate spread. We regularly review our interest-rate sensitivity, and use a variety of strategies as needed to adjust that sensitivity within acceptable tolerance ranges established by management and the Board of Directors. Changing the relative proportions of fixed-rate and adjustable-rate assets and liabilities is one of our primary strategies to accomplish this objective.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest-rate sensitive" and by monitoring an institution's interest-sensitivity gap. An interest-sensitivity gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing within a defined period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets repricing within a defined period.





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The repricing and maturities of our interest-rate sensitive assets and interest-rate sensitive liabilities at December 31, 2008 are set forth in the following table:

	<b>Less than One Year</b>	<b>One to Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
<i>(Dollars in Thousands)</i>				
Interest-rate sensitive assets:				
Real estate loans (1) (2)	\$ 815,324	\$ 300,644	\$ 117,258	\$ 1,233,226
Commercial loans (2)	746,480	157,100	39,340	942,920
Consumer loans (2)	170,870	53,329	72,529	296,728
Mortgage-backed securities	141,048	249,121	108,036	498,205
Loans held-for-sale (2)	2,275	—	—	2,275
Investment securities	4,204	43,697	41,092	88,993
Interest-bearing deposits in other banks	216	—	—	216
	1,880,417	803,891	378,255	3,062,563
Interest-rate sensitive liabilities:				
Money market and interest-bearing demand deposits	189,559	14	351,968	541,541
Savings deposits	55,540	10	152,818	208,368
Retail time deposits	429,074	215,588	1,240	645,902
Jumbo certificates of deposit	103,825	—	—	103,825
Brokered certificates of deposit	310,827	567	—	311,394
FHLB advances	554,517	261,440	—	815,957
Trust preferred borrowings	67,011	—	—	67,011
Other borrowed funds	158,777	25,000	—	183,777
	1,869,130	502,619	506,026	2,877,775
(Deficiency) excess of interest-rate sensitive assets over interest-rate liabilities ("interest-rate sensitive gap")	\$ 11,287	\$ 301,272	\$ (127,771 )	\$ 184,788
One-year interest-rate sensitive assets/ Interest-rate sensitive liabilities	100.60	%		
One-year interest-rate sensitive gap as a Percent of total assets	0.33	%		

(1) Includes commercial mortgage, construction, and residential mortgage loans.

(2) Loan balances exclude deferred fees and costs.

Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income. Conversely, during a period of falling rates, a positive gap would result in a decrease in net interest income while a negative gap would augment net interest income. However, the interest-sensitivity table does not provide a comprehensive representation of the impact of interest rate changes on net interest income. Each category of assets or liabilities will not be affected equally or simultaneously by changes in the general level of interest rates. Even assets and liabilities which contractually reprice within the rate period may not, in fact, reprice at the same price or the same time or with the same frequency. It is also important to consider that the table represents a specific point in time. Variations can occur as we adjust our interest-sensitivity position throughout the year.

To provide a more accurate position of our one-year gap, certain deposit classifications are based on the interest-rate sensitive attributes and not on the contractual repricing characteristics of these deposits. Management estimates, based on historical trends of our deposit accounts, that 35% of money market and 13% of interest-bearing demand deposits are sensitive to interest rate changes and that 22% to 36% of savings deposits are sensitive to interest rate changes. Accordingly, these interest-sensitive portions are classified in the less than one-year category with the

remainder in the over five-year category.

Deposit rates other than time deposit rates are variable, and changes in deposit rates are generally subject to local market conditions and management's discretion and are not indexed to any particular rate.

## REVERSE MORTGAGES

We hold an investment in reverse mortgages of \$(61,000) at December 31, 2008 representing a participation in reverse mortgages with a third party. The loans supporting this balance were originated in the early 1990's.

Reverse mortgage loans are contracts that require the lender to make monthly advances throughout the borrower's life or until the borrower relocates, prepays or the home is sold, at which time the loan becomes due and payable. Reverse mortgages are nonrecourse obligations, which means that the loan repayments are generally limited to the net sale proceeds of the borrower's residence.

We account for our investment in reverse mortgages by estimating the value of the future cash flows on the reverse mortgages at a rate deemed appropriate for these mortgages, based on the market rate for similar collateral. Actual cash flows from the maturity of these mortgage loans can result in significant volatility in the recorded value of reverse mortgage assets. As a result, income varies significantly from reporting period to reporting period. For the year ended December 31, 2008, we lost \$1.1 million in interest income on reverse mortgages as compared to posting income of \$2.0 million in 2007 and \$684,000 in 2006. The loss in 2008 primarily resulted from the decrease in the values of the properties securing these mortgages, based on annual re-evaluations and consistent with the decrease in home values over the past year.

The projected cash flows depend on assumptions about life expectancy of the mortgagee and the future changes in collateral values. Projecting the changes in collateral values is the most significant factor impacting the volatility of reverse mortgage values. Our current assumptions include a short-term annual appreciation rate of -8.0% in the first year, and a long-term annual appreciation rate of 0.5% in future years. If the long-term appreciation rate was increased to 1.5%, the resulting impact on income would have been \$26,000. Conversely, if the long-term appreciation rate was decreased to -0.5%, the resulting impact on income would have been \$(22,000).

We also hold \$10.8 million in BBB+ rated mortgage-backed securities classified as trading and have options to acquire up to 49.9% of Class "O" Certificates issued in connection with securities consisting of a portfolio of reverse mortgages we previously owned. The Class "O" Certificates are currently recorded on our financial statements at a zero value. At the time of the securitization, the third-party securitizer (Lehman Brothers) retained 100% of the Class "O" Certificates from the securitization. These Class "O" Certificates have no priority over other classes of Certificates under the Trust and no distributions will be made on the Class "O" Certificates until, among other conditions, the principal amount of each other class of notes has been reduced to zero. The underlying assets, the reverse mortgages, are very long-term assets. Therefore, any cash flow that might inure to the holder of the Class "O" Certificates is not expected to occur until many years in the future. Additionally, we can exercise our option on 49.9% of the Class "O" Certificates in up to five separate increments for an aggregate purchase price of \$1.0 million any time between January 1, 2004 and the termination of the Securitization Trust. The option to purchase the Class "O" Certificates does not meet the definition of a derivative under SFAS No. 133, *Accounting for Derivative and Hedging Activities* and is carried in our financial statements at cost. During the third quarter of 2008 Lehman Brothers filed for bankruptcy. We are currently in discussions with legal counsel to determine our legal rights with respect to the Class "O" certificates.

During 2006, we formed a new reverse mortgage initiative. While our activity during the past two years has been limited to acting as a correspondent for these loans, it is our intention to originate and underwrite our own reverse mortgages in the future. We expect to sell most of these loans and do not intend to hold them in our portfolio. These reverse mortgages are government approved and insured.



**NONPERFORMING ASSETS**

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

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

December 31,	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>					
(Dollars in Thousands)										
Nonaccruing loans:										
Commercial	<b>\$ 986</b>	\$ 17,187	\$ 1,282	\$ 925	\$ 1,595					
Consumer	<b>352</b>	835	557	155	291					
Commercial mortgages	<b>5,748</b>	3,873	500	727	909					
Residential mortgages	<b>4,753</b>	2,417	1,493	1,567	1,601					
Construction	<b>16,595</b>	6,794	—	36	—					
Total nonaccruing loans	<b>28,434</b>	31,106	3,832	3,410	4,396					
Assets acquired through foreclosure	<b>4,471</b>	703	388	59	217					
Restructured loans	<b>2,855</b>	0	0	0	0					
Total nonperforming assets	<b>\$ 35,760</b>	\$ 31,809	\$ 4,220	\$ 3,469	\$ 4,613					
Past due loans:										
Residential mortgages	<b>\$ 1,313</b>	\$ 388	\$ 219	\$ 327	\$ 703					
Commercial and commercial mortgages	<b>0</b>	14	3	—	—					
Consumer	<b>26</b>	173	29	59	104					
Total past due loans	<b>\$ 1,339</b>	\$ 575	\$ 251	\$ 386	\$ 807					
Ratio of nonaccruing loans to total loans (1)	<b>1.15</b>	%	1.38	%	0.19	%	0.19	%	0.28	%
Ratio of allowance for loan losses to gross loans (1)	<b>1.26</b>	%	1.12	%	1.34	%	1.41	%	1.56	%
Ratio of nonperforming assets to total assets	<b>1.04</b>	%	0.99	%	0.14	%	0.12	%	0.18	%
Ratio of loan loss allowance to nonaccruing loans (2)	<b>108.30</b>	%	78.80	%	705.32	%	709.47	%	524.05	%

(1) Total loans exclude loans held-for-sale.

(2) The applicable allowance represents general valuation allowances only.

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Total nonperforming assets increased \$4.0 million during 2008. As a result, nonperforming assets as a percentage of total assets increased from 0.99% at December 31, 2007 to 1.04% at December 31, 2008. Non-performing loans declined from December 31, 2007 level as exposures migrated to assets acquired through foreclosure and \$8.4 million in losses were recognized on construction loans. Restructured loans of \$2.9 million contributed to the increase in non-performing assets. All of the restructured loans are residential mortgage loans to home owners and represent loans in which we have made concessions in order to assist the borrower in making their payments.

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The following table provides an analysis of the change in the balance of nonperforming assets during the last three years:

Year Ended December 31, (In Thousands)	2008		2007		2006
Beginning balance	\$ 31,809		\$ 4,220		\$ 3,469
Additions	48,152		37,017		5,697
Collections	(26,574	)	(3,029	)	(3,916
Transfers to accrual	(1,345	)	(295	)	(453
Charge-offs/write-downs	(16,282	)	(6,104	)	(577
Ending balance	\$ 35,760		\$ 31,809		\$ 4,220

As of December 31, 2008, we had \$70.2 million of loans, which, although performing at that date, are believed to require increased supervision and review; and may, depending on the economic environment and other factors, become non-performing assets in future periods. The amount of such loans at December 31, 2007 was \$40.7 million. The majority of the loans are secured by commercial real estate, with lesser amounts being secured by residential real estate, inventory and receivables.

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

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

Specific reserves are established for certain loans in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss has been incurred.

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

Pooled loans are loans that are usually smaller, not-individually-graded and homogenous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are based on a ten-year net charge-off history. The average loss allowance per homogenous pool is based on the product of average annual historical loss rate and the estimated duration of the pool multiplied by the pool balances. These separate risk pools are assigned a reserve for losses based upon this historical loss information and loss adjustment factors.

Historical loss adjustment factors are based upon our evaluation of various current conditions including those listed below:

- General economic and business conditions affecting our key lending areas,
- Credit quality trends,
- Recent loss experience in particular segments of the portfolio,
- Collateral values and loan-to-value ratios,
- Loan volumes and concentrations, including changes in mix,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Bank regulatory examination results, and



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- Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions and risks associated with individual problem loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for such losses. We also give consideration to the results of these regulatory agency examinations.

During 2008, the provision for loan losses were affected by increased credit-related costs due to the rapid deterioration in the economic environment during the fourth quarter: including (1) increased charge-offs; (2) a general migration to loans to lower credit grades; (3) higher reserves for new loans; (4) higher loss rate expectations; and (5) higher estimated reserves for economic conditions.

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

Year Ended December 31,	2008	2007	2006	2005	2004
(Dollars in Thousands)					
Beginning balance	\$ 25,252	\$ 27,384	\$ 25,381	\$ 24,222	\$ 22,386
Provision for loan losses	<b>23,024</b>	5,021	2,738	2,582	3,217
Charge-offs:					
Residential real estate	<b>628</b>	41	75	90	222
Commercial real estate (1)	<b>12,195</b>	1,398	—	104	148
Commercial	<b>1,992</b>	4,379	470	1,048	656
Overdrafts (2)	<b>1,327</b>	1,441	607	—	—
Consumer	<b>1,697</b>	790	483	631	817
Total charge-offs	<b>17,839</b>	8,049	1,635	1,873	1,843
Recoveries:					
Residential real estate	<b>7</b>	11	14	59	32
Commercial real estate (1)	<b>12</b>	127	170	42	—
Commercial	<b>100</b>	173	343	209	335
Overdrafts (2)	<b>384</b>	446	217	—	—
Consumer	<b>249</b>	139	156	140	95
Total recoveries	<b>752</b>	896	900	450	462
Net charge-offs	<b>17,087</b>	7,153	735	1,423	1,381
Ending balance	<b>\$ 31,189</b>	\$ 25,252	\$ 27,384	\$ 25,381	\$ 24,222
Net charge-offs to average gross loans outstanding,					
net of unearned income	<b>0.74</b>	%	0.34	%	0.04
				%	0.09
				%	0.10
					%

(1) Includes commercial mortgage and construction loans.

(2) Prior to April 2006, overdraft charge-offs/recoveries were recognized in other operating expense.



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The allowance for loan losses is allocated by major portfolio type. As these portfolios have developed, they have become a source of historical data in projecting delinquencies and loss exposure; however, such allocations are not a guarantee of where future losses may occur. While we have allocated the allowance for loan losses by portfolio type in the following table, the entire reserve is available for any loan portfolio to utilize. The allocation of the allowance for loan losses by portfolio type at the end of each of the last five fiscal years, and the percentage of outstanding loans in each category to total gross outstanding, at such dates follow:

December 31	2008		2007		2006		2005		2004						
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent					
<i>(Dollars in Thousands)</i>															
Residential real estate	\$ 2,480	17.1	%	\$ 1,304	19.8	%	\$ 1,645	23.1	%	\$ 1,632	25.4	%	\$ 1,468	28.1	%
Commercial real estate	10,656	32.8	%	12,151	32.9	%	11,343	32.5	%	10,978	32.7	%	9,211	34.6	%
Commercial	12,510	38.1	%	8,088	35.0	%	11,019	31.5	%	9,471	28.3	%	10,456	23.7	%
Consumer	5,543	12.0	%	3,709	12.3	%	3,377	12.9	%	3,300	13.6	%	3,087	13.6	%
Total	\$ 31,189	100.0	%	\$ 25,252	100.0	%	\$ 27,384	100.0	%	\$ 25,381	100.0	%	\$ 24,222	100.0	%

## LIQUIDITY

We manage our liquidity risk and funding needs through our treasury function and our Asset/Liability Committee. Historically, we have had success in growing our loan portfolio. For example, during the year ended December 31, 2008, net loan growth resulted in the use of \$236.7 million in cash. The loan growth was primarily the result of our continued success increasing corporate and small business lending. Management expects this trend to continue. While our loan-to-deposit ratio has been well above 100% for many years, management has significant experience managing its funding needs through borrowings and deposit growth.

As a financial institution, we have ready access to several sources of funding. Among these are:

- Deposit growth
- Brokered deposits
- Borrowing from the FHLB
- Fed Discount Window access
- Other borrowings such as repurchase agreements
- Cash flow from securities and loan sales and repayments
- Net income.

Our current branch expansion and renovation program is focused on expanding our retail footprint in Delaware and attracting new customers to provide additional deposit growth. Customer deposit growth was strong, equaling \$227.9 million, or 15% between December 31, 2007 and December 31, 2008.

Our portfolio of high-quality, liquid investments, primarily short-duration AAA-rated, mortgage-backed securities and Agency notes also provide a source of cash flow to meet current cash needs. If needed, portions of this portfolio, as well as portions of the loan portfolio, could be sold to provide cash to fund new loans. During the year ended December 31, 2008, \$46.4 million in cash was provided by operating activities.

We have a policy that separately addresses liquidity, and management monitors our adherence to policy limits. As part of the liquidity management process, we also monitor our available wholesale funding capacity. At December 31, 2008, we had \$267.4 million in funding capacity at the Federal Home Loan Bank of Pittsburgh and \$546.7 million in estimated funding capacity in brokered deposits. Also, liquidity risk management is a primary area of examination by the OTS.

We have not used and have no intention of using any significant off balance sheet financing arrangement for liquidity management purposes. Our financial instruments with off balance sheet risk are limited to obligations to fund loans to customers pursuant to existing commitments and obligations of letters of credit. In addition, we have not had and have no intention to have any significant transactions, arrangements or other relationships with any unconsolidated, limited purpose entities that could materially affect our liquidity or capital resources.

## CAPITAL RESOURCES

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Federal laws, among other things, require the OTS to mandate uniformly applicable capital standards for all savings institutions. These standards currently require institutions such as us to maintain a “tangible” capital ratio equal to 1.5% of adjusted total assets, “core” (or “leverage”) capital equal to 4.0% of adjusted total assets, “Tier 1” capital equal to 4.0% of “risk-weighted” assets and total “risk-based” capital (a combination of core and “supplementary” capital) equal to 8.0% of “risk-weighted” assets.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA), as well as other requirements, established five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized and critically under-capitalized. A depository institution’s capital tier depends upon its capital levels in relation to various relevant capital measures, which include leverage and risk-based capital measures and certain other factors. Depository institutions that are not classified as well-capitalized are subject to various

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restrictions regarding capital distributions, payment of management fees, acceptance of brokered deposits and other operating activities.

At December 31, 2008, we are classified as well-capitalized, the highest regulatory defined level, and in compliance with all regulatory capital requirements. Additional information concerning our regulatory capital compliance is included in Note 10 to the Consolidated Financial Statements.

Since 1996, the Board of Directors has approved several stock repurchase programs to acquire common stock outstanding. As part of these programs, we acquired approximately 73,500 shares in 2008 and 564,100 shares in 2007. At December 31, 2008, we held 9.6 million shares of our common stock as treasury shares. At December 31, 2008, we had 506,000 shares remaining under our current share repurchase authorization.

On January 23, 2009, under the U.S. Treasury's Capital Purchase Plan ("CPP"), we sold 52,625 shares of senior preferred stock to the U.S. Treasury, having a liquidation amount equal to \$1,000 per share, or \$52.6 million. Although we are currently well-capitalized under regulatory guidelines, the Board of Directors believed it was advisable to take advantage of the CPP to raise additional capital to ensure that during these uncertain times, we are well-positioned to support our existing operations as well as anticipated future growth. Additional information concerning the CPP is included in Note 21 to the Consolidated Financial Statements.

As part of the CPP program, any share repurchases or increase in the dividend level from the September 2008 quarterly payment of \$0.12 per share, must be approved by the U.S. Treasury department.

### OFF BALANCE SHEET ARRANGEMENTS

We have no off balance sheet arrangements that currently have, or are reasonably likely to have, a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. Additional information concerning our off balance sheet arrangements is included in Note 14 to the Consolidated Financial Statements.

### CONTRACTUAL OBLIGATIONS

At December 31, 2008, we had contractual obligations relating to operating leases, long-term debt, data processing and credit obligations. These obligations are summarized below. See Notes 7, 9 and 16 to the Consolidated Financial Statements for further discussion.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
(In Thousands)					
Operating lease obligations	\$ 54,616	\$ 5,323	\$ 10,060	\$ 8,535	\$ 30,698

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Long-term debt obligations	882,968	471,562	302,372	42,023	67,011
Data processing contracts	4,674	3,683	991	—	—
Credit obligations	700,540	700,540	—	—	—
Total	\$ 1,642,798	\$ 1,181,108	\$ 313,423	\$ 50,558	\$ 97,709

### IMPACT OF INFLATION AND CHANGING PRICES

Our Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without consideration of the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of our operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or the same extent as the price of goods and services.

### RECENT LEGISLATION

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

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

On October 14, 2008, the Secretary of the Department of the Treasury announced the Department of the Treasury will purchase equity stakes in a wide variety of banks and thrifts through TARP's CPP. Under this program, from the \$700 billion authorized by the EESA, the Treasury made \$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity in such institution issued under the CPP.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (the "TLGP"). The TLGP was announced by the FDIC on October 14, 2008, after the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLGP the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC insurance deposit insurance coverage for noninterest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts ("IOLTA") accounts held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000.

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

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

The executive compensation standards under ARRA are more stringent than those currently in effect under the CPP or those previously proposed by the U.S. Treasury. The new standards include (but are not limited to) (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of an employee's total annual compensation, (ii) prohibitions on golden parachute payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially





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inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) retroactive review of bonuses, retention awards and other compensation previously provided by TARP recipients if found by the U.S. Treasury to be inconsistent with the purposes of TARP or otherwise contrary to public interest, (vi) required establishment of a company-wide policy regarding “excessive or luxury expenditures,” and (vii) inclusion in a participant’s proxy statements for annual shareholder meetings of a nonbinding “Say on Pay” shareholder vote on the compensation of executives.

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

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

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

## **CRITICAL ACCOUNTING POLICIES**

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

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

### **Allowance for Loan Losses**

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

As part of our problem loan management process, we may, from time to time, make decisions to protect our interests which may affect the basis in a problem loan or our estimate of the realizable value of a problem loan. For example, to improve our first lien position in a non-accrual loan, in August 2008 we purchased a note related to this non-accrual loan from another lender for up to \$1 million. Related to the same credit, in August 2008, we made a loan to an interested third party that is expected to add up to \$2.8 million to its estimated realizable value.

### **Contingencies (Including Indemnifications)**

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

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

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

**Deferred Taxes**

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

## Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. See Note 15 to our Consolidated Financial Statements.

## RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (“SFAS 157”). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 did not have a material impact on our Consolidated Financial Statements.

In September 2006, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue 06-04 *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*. In accordance with the EITF consensus, an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for in accordance with SFAS No. 106 *Employers’ Accounting for Postretirement Benefits Other Than Pensions* (“SFAS 106”) or Accounting Principles Board Opinion (“APB”) No. ~~12~~ *Unibus Opinion — 1967*. Furthermore, the purchase of a split dollar life insurance policy does not constitute a settlement under SFAS 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS 106 if the benefit is offered under an arrangement that constitutes a plan or under Accounting Principles Board No. 12 if it is not part of a plan. The provisions of EITF Issue 06-04 are to be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. We adopted this statement on January 1, 2008 and it did not have a material impact on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are recognized in earnings at each subsequent reporting date. We adopted SFAS 159 on January 1, 2008 and it did not have a material impact on our Consolidated Financial Statements.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (“SAB 109”). Previously, SAB 105 *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 was effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007 and did not have a material impact on our Consolidated Financial Statements.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). This Statement changes the requirements for an acquirer's recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS 141(R) is effective for annual

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periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

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

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DISCLOSURES**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

WSFS Financial Corporation:

We have audited the accompanying consolidated statement of condition of WSFS Financial Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WSFS Financial Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted FASB Statement No. 123 (revised), *Share-Based Payment*, a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, effective January 1, 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, effective January 1, 2007, and FASB Statement No. 157, *Fair Value Measurements*, effective January 1, 2008.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
Philadelphia, Pennsylvania  
March 16, 2009





## CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, (Dollars in Thousands, Except Per Share Data)	2008	2007	2006
<b>Interest income:</b>			
Interest and fees on loans	\$ 140,661	\$ 159,512	\$ 143,629
Interest on mortgage-backed securities	23,984	24,237	28,444
Interest and dividends on investment securities	1,331	1,353	1,884
Interest on investments in reverse mortgages	(1,077)	2,007	684
Other interest income	1,578	2,368	2,536
	<b>166,477</b>	<b>189,477</b>	<b>177,177</b>
<b>Interest expense:</b>			
Interest on deposits	39,809	57,311	42,707
Interest on Federal Home Loan Bank advances	29,620	38,561	45,878
Interest on federal funds purchased and securities sold under agreements to repurchase	2,397	3,153	3,790
Interest on trust preferred borrowings	3,275	4,753	5,053
Interest on other borrowings	2,157	3,690	1,850
	<b>77,258</b>	<b>107,468</b>	<b>99,278</b>
Net interest income	<b>89,219</b>	<b>82,009</b>	<b>77,899</b>
Provision for loan losses	<b>23,024</b>	<b>5,021</b>	<b>2,738</b>
Net interest income after provision for loan losses	<b>66,195</b>	<b>76,988</b>	<b>75,161</b>
<b>Noninterest income:</b>			
Credit/debit card and ATM income	17,229	19,750	18,835
Deposit service charges	16,484	15,419	12,250
Loan fee income	3,696	2,384	1,824
Investment advisory income	2,395	2,465	2,399
Bank-owned life insurance income	1,786	2,269	3,976
Mortgage banking activities, net	148	217	225
Securities gains (losses)	139	82	(1,981)
Non-recurring gains, net	—	1,979	—
Other income	4,112	3,601	2,777
	<b>45,989</b>	<b>48,166</b>	<b>40,305</b>
<b>Noninterest expenses:</b>			
Salaries, benefits and other compensation	46,654	43,662	39,369
Occupancy expense	8,416	8,280	5,508
Equipment expense	6,174	5,616	4,393
Data processing and operations expense	4,216	4,062	3,511
Marketing expense	3,920	3,911	2,713
Professional fees	4,082	2,662	2,070
Other operating expenses	15,636	13,838	11,750
	<b>89,098</b>	<b>82,031</b>	<b>69,314</b>
Income before minority interest and taxes	<b>23,086</b>	<b>43,123</b>	<b>46,152</b>
Less minority interest	—	—	51
Income before taxes	<b>23,086</b>	<b>43,123</b>	<b>46,101</b>
Income tax provision	<b>6,950</b>	<b>13,474</b>	<b>15,660</b>

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Net income	\$ 16,136	\$ 29,649	\$ 30,441
<b>Earnings per share:</b>			
Basic	\$ 2.62	\$ 4.69	\$ 4.59
Diluted	\$ 2.57	\$ 4.55	\$ 4.41

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

## CONSOLIDATED STATEMENT OF CONDITION

Year Ended December 31, (Dollars in Thousands, Except Per Share Data)	2008	2007
<b>Assets</b>		
Cash and due from banks	\$ 58,377	\$ 83,936
Cash in non-owned ATMs	189,965	182,523
Federal funds sold	—	—
Interest-bearing deposits in other banks	216	1,078
Total cash and cash equivalents	248,558	267,537
Investment securities held-to-maturity (fair value: 2008-\$1,071; 2007-\$1,498)	1,181	1,516
Investment securities available-for-sale including reverse mortgages	48,507	26,756
Mortgage-backed securities-available-for-sale	487,389	484,428
Mortgage-backed securities-trading	10,816	12,364
Loans held-for-sale	2,275	2,404
Loans, net of allowance for loan losses of \$31,189 at December 31, 2008 and \$25,252 at December 31, 2007	2,441,560	2,231,576
Bank-owned life insurance	59,337	57,551
Stock in Federal Home Loan Bank of Pittsburgh, at cost	39,305	45,537
Assets acquired through foreclosure	4,471	703
Premises and equipment	34,966	34,851
Accrued interest receivable and other assets	54,195	34,965
<b>Total assets</b>	<b>\$ 3,432,560</b>	<b>\$ 3,200,188</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing demand	\$ 311,322	\$ 290,424
Interest-bearing demand	214,749	171,363
Money market	326,792	303,931
Savings	208,368	196,571
Time	450,056	366,717
Jumbo certificates of deposit - customer	195,846	150,191
Total customer deposits	1,707,133	1,479,197
Other jumbo certificates of deposit	103,825	98,758
Brokered deposits	311,394	249,206
Total deposits	2,122,352	1,827,161
Federal funds purchased and securities sold under agreements to repurchase	75,000	75,000
Federal Home Loan Bank advances	815,957	898,280
Trust preferred borrowings	67,011	67,011
Other borrowed funds	108,777	94,869
Accrued interest payable and other liabilities	26,828	26,537
<b>Total liabilities</b>	<b>3,215,925</b>	<b>2,988,858</b>
<b>Minority Interest</b>	<b>—</b>	<b>—</b>
<b>Stockholders' Equity:</b>		

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Serial preferred stock \$.01 par value, 7,500,000 shares authorized; none issued and outstanding	—	—
Common stock \$.01 par value, 20,000,000 shares authorized; issued 15,739,768 at December 31, 2008 and 15,673,865 at December 31, 2007	<b>157</b>	157
Capital in excess of par value	<b>87,033</b>	83,077
Accumulated other comprehensive loss	<b>(12,613)</b> )	(3,861) )
Retained earnings	<b>390,338</b>	376,682
Treasury stock at cost, 9,580,569 shares at December 31, 2008 and 9,507,069 shares at December 31, 2007	<b>(248,280)</b> )	(244,725) )
<b>Total stockholders' equity</b>	<b>216,635</b>	211,330
<b>Total liabilities, minority interest and stockholders' equity</b>	<b>\$ 3,432,560</b>	\$ 3,200,188

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

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
(In Thousands)						
Balance, December 31, 2005	\$ 154	\$ 74,673	\$ (9,968 )	\$ 319,065	\$ (201,949 )	\$ 181,975
Comprehensive income:						
Net income	—	—	—	30,441	—	30,441
Other comprehensive loss (1)	—	—	1,956	—	—	1,956
Total comprehensive income						32,397
Adjustment to initially apply FASB Statement No. 158, net of tax \$(344)	—	—	(561 )	—	—	(561 )
Cash dividend, \$0.31 per share	—	—	—	(2,058 )	—	(2,058 )
Issuance of common stock, including proceeds from exercise of common stock options	2	4,610	—	—	—	4,612
Treasury stock at cost, 103,400 shares	—	—	—	—	(6,603 )	(6,603 )
Issuance of restricted stock	—	286	—	—	—	286
Tax benefit from exercises of common stock options	—	2,011	—	—	—	2,011
Balance, December 31, 2006	\$ 156	\$ 81,580	\$ (8,573 )	\$ 347,448	\$ (208,552 )	\$ 212,059
Comprehensive income:						
Net income	—	—	—	29,649	—	29,649
Other comprehensive income (1)	—	—	4,712	—	—	4,712
Total comprehensive income						34,361
Cumulative effect of change in accounting principle related to the adoption of FIN 48	—	—	—	1,988	—	1,988
Cash dividend, \$0.38 per share	—	—	—	(2,403 )	—	(2,403 )
Issuance of common stock, including proceeds from exercise of common stock options	1	3,704	—	—	—	3,705
Treasury stock at cost, 564,100 shares	—	—	—	—	(36,173 )	(36,173 )
Issuance of restricted stock	—	230	—	—	—	230
Tax liability from exercises of common stock options	—	(2,437 )	—	—	—	(2,437 )
Balance, December 31, 2007	\$ 157	\$ 83,077	\$ (3,861 )	\$ 376,682	\$ (244,725 )	\$ 211,330
<b>Comprehensive income:</b>						
<b>Net income</b>	—	—	—	<b>16,136</b>	—	<b>16,136</b>
<b>Other comprehensive income (1)</b>	—	—	<b>(8,752 )</b>	—	—	<b>(8,752 )</b>
<b>Total comprehensive income</b>						<b>7,384</b>
<b>Cash dividend, \$0.46 per share</b>	—	—	—	<b>(2,832 )</b>	—	<b>(2,832 )</b>
	—	<b>2,391</b>	—	—	—	<b>2,391</b>

**Issuance of common stock, including proceeds from exercise of common stock options**

Treasury stock at cost, 73,500 shares	—	—	—	—	(3,555 )	(3,555 )
Issuance of restricted stock	—	202	—	—	—	202
Reclassification adjustment of negative minority interest	—	—	—	352	—	352
Tax benefit from exercises of common stock options	—	1,363	—	—	—	1,363
<b>Balance, December 31, 2008</b>	<b>\$ 157</b>	<b>\$ 87,033</b>	<b>\$ (12,613 )</b>	<b>\$ 390,338</b>	<b>\$ (248,280 )</b>	<b>\$ 216,635</b>

(1) Other Comprehensive Income:

	2008	2007	2006
Net unrealized holding (losses) gains on securities available-for-sale arising during the period, net of taxes (2008 - \$(5,364); 2007 - \$2,855; 2006 - \$261)	\$ (8,752 )	\$ 4,657	\$ 426
Actuarial gain reclassified to periodic cost, net of income taxes (2007 - \$42)	—	68	—
Transition obligation reclassified to periodic cost, net of income taxes (2007 - \$23)	—	38	—
Net unrealized holding gains arising during the period on derivatives net of taxes (2006 - \$163)	—	—	302
Reclassification for losses (gains) included in income, net of taxes (2007 - \$(31); 2006 - \$753)	—	(51 )	1,228
<b>Total other comprehensive (loss) income</b>	<b>\$ (8,752 )</b>	<b>\$ 4,712</b>	<b>\$ 1,956</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, (In Thousands)	2008	2007	2006
<b>Operating activities:</b>			
Net income	\$ 16,136	\$ 29,649	\$ 30,441
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	23,024	5,021	2,738
Depreciation, accretion and amortization	6,218	4,930	4,507
(Increase) decrease in accrued interest receivable and other assets	(94 )	1,142	(3,066 )
Origination of loans held-for-sale	(31,358 )	(27,160 )	(23,914 )
Proceeds from sales of loans held-for-sale	31,648	25,362	21,406
Gain on mortgage banking activity	(148 )	(217 )	(224 )
Loss on mark to market adjustment on trading securities	1,616	—	—
Gain on sale of credit card portfolio	—	(882 )	—
Securities gain from the sale of Visa, Inc. common stock	(1,755 )	—	—
Gain on sale of former headquarters building	—	(1,093 )	—
(Gain) loss on sale of investments	—	(82 )	1,981
Stock-based compensation expense, net of tax benefit recognized	730	1,222	1,153
Excess tax (benefits) liability from share-based payment arrangements	(1,363 )	2,437	(2,011 )
Minority interest in net income	—	—	51
Increase (decrease) in accrued interest payable and other liabilities	1,693	(3,328 )	4,380
Loss (gain) on sale of assets acquired through foreclosure and valuation adjustments	816	(20 )	41
Increase in value of bank-owned life insurance	(1,786 )	(2,269 )	(3,976 )
Decrease (increase) in capitalized interest, net	1,009	(2,007 )	(1,097 )
Net cash provided by operating activities	46,386	32,705	32,410
<b>Investing activities:</b>			
Maturities of investment securities	14,440	41,893	13,569
Sales of investment securities available-for-sale	—	—	10,991
Purchases of investment securities available-for-sale	(37,298 )	(13,986 )	(20,718 )
Sales of mortgage-backed securities available-for-sale	—	2,690	49,412
Repayments of mortgage-backed securities available-for-sale	77,856	77,328	102,255
Purchases of mortgage-backed securities available-for-sale	(95,195 )	(52,507 )	(47,721 )
Repayments on reverse mortgages	1,248	3,532	1,347
Disbursements for reverse mortgages	(227 )	(2,964 )	(476 )
Purchase of 1 <sup>st</sup> Reverse Financial Services	(2,442 )	—	—
Acquisition of branches	(11,505 )	—	—
Sales of loans	—	909	11,379
Purchase of Cypress Capital Management, LLC	—	(240 )	(466 )
Purchase of ATM vault cash business	—	(440 )	—
Purchases of loans	(3,190 )	(2,656 )	(9,600 )
Payment of bank-owned life insurance	—	—	2,887
Net increase in loans	(236,674 )	(221,179 )	(246,432 )
Net decrease (increase) in stock of Federal Home Loan Bank of Pittsburgh	6,232	(5,665 )	6,421
Increase in assets acquired through foreclosure, net	1,674	120	80
Sale of credit card portfolio	—	6,295	—
Proceeds from the sale of Visa, Inc. shares	1,755	—	—



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Sale of former headquarters building	—	2,436	—
Deferred gain on sale of partnership interest	—	1,335	—
Investment in real estate partnership	—	1,172	24
Premises and equipment, net	<b>(4,989 )</b>	(9,181 )	(10,750 )
Net cash used for investing activities	<b>(288,315 )</b>	(171,108 )	(137,798 )

(Continued on next page)

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CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year Ended December 31, (In Thousands)	2008	2007	2006
<b>Financing activities:</b>			
Net increase in demand and saving deposits	\$ 112,850	\$ 82,363	\$ 56,803
Net increase in time deposits	195,584	4,256	294,365
Net increase (decrease) in securities sold under agreement to repurchase	—	1,600	(9,750 )
Receipts of FHLB advances	82,778,987	31,427,417	8,796,661
Repayments of FHLB advances	(82,861,310 )	(31,313,165 )	(9,021,354 )
Dividends paid on common stock	(2,832 )	(2,404 )	(2,058 )
Issuance of common stock and exercise of common stock options	1,863	2,713	3,355
Excess tax benefit (liability) from share-based payment arrangements	1,363	(2,437 )	2,011
Purchase of treasury stock, net of re-issuance	(3,555 )	(36,173 )	(6,603 )
Decrease in minority interest	—	(54 )	(203 )
Net cash provided by financing activities	222,950	164,116	113,227
(Decrease) increase in cash and cash equivalents from continuing operations	(18,979 )	25,713	7,839
Net cash provided by operating activities of discontinued operations	—	—	14
Net cash provided by investing activities of discontinued operations	—	—	20
Cash and cash equivalents at beginning of period	267,537	241,824	233,951
Cash and cash equivalents at end of period	\$ 248,558	\$ 267,537	\$ 241,824
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid in interest during the year	\$ 80,654	\$ 105,969	\$ 98,142
Cash paid for income taxes, net	10,521	18,056	13,597
Loans transferred to assets acquired through foreclosure	6,186	415	450
Net change in accumulated other comprehensive income	(8,752 )	4,712	1,395
Transfer of loans held for sale to loans	247	333	2,129

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

WSFS Financial Corporation (“the Company,” “our Company,” “WSFS”, “we,” “our” or “us”) is a thrift holding company organized under the laws of the State of Delaware. Our principal wholly-owned subsidiary, Wilmington Savings Fund Society, FSB (“WSFS Bank” or the “Bank”), is a federal savings bank organized under the laws of the United States which, at December 31, 2008, serves customers from its main office, 35 retail banking offices, loan production offices and operations centers located in Delaware, southeastern Pennsylvania and Virginia.

In preparing the Consolidated Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The material estimates that are particularly susceptible to significant changes in the near term relate to the allowance for loan losses for impaired loans and the remainder of the loan portfolios, investment in reverse mortgages, contingencies (including indemnifications) and income taxes.

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2009, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan losses and lending related commitments, goodwill and intangible assets, post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending related commitments as well as increased post-retirement expense.

*Basis of Presentation*

The Consolidated Financial Statements include the accounts of the parent company, Montchanin Capital Management, Inc. (Montchanin) and its wholly-owned subsidiary, Cypress Capital Management, LLC (Cypress), WSFS Bank and its wholly-owned subsidiary, WSFS Investment Group, Inc. WSFS Investment Group, Inc. markets various third-party insurance and securities products to Bank customers through WSFS’ retail banking system. WSFS Bank also owns a majority interest in 1<sup>st</sup> Reverse Financial Services, LLC (1<sup>st</sup> Reverse), specializing in reverse mortgage lending. Montchanin was formed to provide asset management products and services. In January 2006 and 2007, Montchanin increased its ownership in Cypress, a Wilmington-based investment advisory firm servicing high net-worth individuals and institutions, to 90% and 100%, respectively.

WSFS Capital Trust III (“the Trust”) is an unconsolidated affiliate of ours, and was formed in 2005 to issue \$67.0 million aggregate principal amount of Pooled Floating Rate Capital Securities. The proceeds from this issue were used to fund the redemption of \$51.5 million of Floating Rate WSFS Capital Trust I Preferred Securities (formerly WSFS Capital Trust I). The Trust invested all of the proceeds from the sale of the Pooled Floating Rate Capital Securities in Junior Subordinated Debentures of the Corporation.

Certain reclassifications have been made to the prior years’ Consolidated Financial Statements to conform them to the current year’s presentation. All significant intercompany transactions are eliminated in consolidation.

*Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash, cash in non-owned ATMs, cash due from banks, federal funds sold and securities purchased under agreements to resell.

*Debt and Equity Securities*

Investments in equity securities that have a readily determinable fair value and investments in debt securities are classified into three categories and accounted for as follows:

- Debt securities with the positive intention to hold to maturity are classified as “held-to-maturity” and reported at amortized cost.
- Debt and equity securities purchased with the intention of selling them in the near future are classified as “trading securities” and are reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified in either of the above are classified as “available-for-sale securities” and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, as a separate component of stockholders’ equity.

Debt and equity securities include mortgage-backed securities, municipal bonds, U.S. Government and agency securities and certain equity securities. Premiums and discounts on debt and equity securities, held-to-maturity and available-for-sale, are recognized in interest income using a level yield method over the period to expected maturity. The fair value of debt and equity securities is primarily obtained from third-party pricing services. Implicit in the valuation are estimated prepayments based on historical and current market conditions.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. We had no other than temporary losses in 2008, 2007 and 2006. The related write-downs are included in earnings as realized losses. Management is required to use its judgement to determine impairment in certain circumstances. The specific identification method is used to determine realized gains and losses on sales of investment and mortgage-backed securities. All sales are made without recourse.

#### *Investment in Reverse Mortgages*

We account for our investment in reverse mortgages in accordance with the instructions provided by the staff of the Securities and Exchange Commission (SEC) entitled “Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts,” which requires grouping the individual reverse mortgages into “pools” and recognizing income based on the estimated effective yield of the pool. In computing the effective yield, we must project the cash inflows and outflows of the pool including actuarial projections of the life expectancy of the individual contract holder and changes in the collateral value of the residence. At each reporting date, a new economic forecast is made of the cash inflows and outflows of each pool of reverse mortgages; the effective yield of each pool is recomputed, and income is adjusted retroactively and prospectively to reflect the revised rate of return. Because of this highly specialized accounting, the recorded value of reverse mortgage assets can result in significant volatility associated with estimations. As a result, income recognition can vary significantly from reporting period to reporting period.

During the fourth quarter of 2008 we recorded a \$1.4 million charge related to a mark-to-market adjustment on the \$12.4 million BBB+ rated mortgage-backed security (MBS) issued in connection with a 2002 reverse mortgage securitization. Despite this write-down, WSFS expects any holder of this security to recover all principal and interest, mainly because of its seasoning and it is well over-collateralized. We also recorded a \$1.0 million charge (taken through interest income) related to our second-lien interest in 21 whole-loan reverse mortgages during the fourth quarter of 2008.

#### *Loans*

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Loans are stated net of deferred fees and costs and unearned discounts. Loan interest income is accrued using various methods that approximate a constant yield. Loan origination and commitment fees and direct loan origination costs are deferred and recognized over the life of the related loans using a level yield method over the period to maturity.

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. Impaired loans include loans within our commercial, commercial mortgage, commercial construction, residential mortgages and consumer portfolios. Our policy for recognition of interest income on impaired loans is the same as for nonaccrual loans discussed below.

#### *Nonaccrual Loans*

Nonaccrual loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is contractually past due 90 days or more and 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 or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. Loans are returned to an accrual status when the borrower's ability to make periodic principal and interest payments has returned to normal (i.e.: brought current with respect to principal or interest or restructured) and the paying capacity of the borrower or the underlying collateral is deemed sufficient to cover principal and interest in accordance with our previously established loan-to-value policies.

#### *Allowances for Loan Losses*

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

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

Specific reserves are established for certain loans in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss has been incurred.

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



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Pooled loans are loans that are usually smaller, not-individually-graded and homogeneous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are based on a ten-year net charge-off history. The average loss allowance per homogeneous pool is based on the product's average annual historical loss rate and the average estimated duration of the pool multiplied by the pool balances. These separate risk pools are assigned a reserve for loss based upon this historical loss information and loss adjustment factors.

Historical loss adjustment factors are based upon management's evaluation of various current conditions, including those listed below:

- General economic and business conditions affecting WSFS' key lending areas,
- Credit quality trends,
- Recent loss experience in particular segments of the portfolio,
- Collateral values and loan-to-value ratios,
- Loan volumes and concentrations, including changes in mix,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Bank regulatory examination results, and
- Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions, and also risks associated with individual problem loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for such losses. We also give consideration to the results of these regulatory agency examinations.

During 2008, the provision for loan losses was affected by changes in estimates used in the calculation. These changes included additional reserves reflecting the effects of updated loss rate expectations on our loan portfolio. These changes resulted in an increase to the provision for loan losses of \$2.8 million or \$0.29 per share.

Allowances for estimated losses on investments in real estate and assets acquired through foreclosure are provided if the carrying value exceeds the fair value less estimated disposal costs.

During the fourth quarter of 2008, we recorded a \$14.9 million provision for loan losses and letter of credit contingency, which was primarily related to four large construction and land development (CLD) credits.

#### *Assets Held-for-Sale*

Assets held-for-sale include loans held-for-sale and are carried at the lower of cost or market of the aggregate or, in some cases, individual assets.

#### *Assets Acquired Through Foreclosure*

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Assets acquired through foreclosure are recorded at the lower of the recorded investment in the loans or fair value less estimated disposal costs. Costs subsequently incurred to improve the assets are included in the carrying value provided that the resultant carrying value does not exceed fair value less estimated disposal costs. Costs relating to holding the assets are charged to expense in the current period. An allowance for estimated losses is provided when declines in fair value below the carrying value are identified. Net costs of assets acquired through foreclosure include costs of holding and operating the assets, net gains or losses on sales of the assets and provisions for losses to reduce such assets to fair value less estimated disposal costs. During the fourth quarter of 2008, we booked \$700,000 in additional write-downs of values of assets acquired through foreclosure (REO).

### *Premises and Equipment*

Premises and equipment are stated at cost less accumulated depreciation and amortization. Costs of major replacements, improvements and additions are capitalized. Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, over the effective life of the

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related lease if less than the estimated useful life. In general, computer equipment, furniture and equipment and building renovations are depreciated over three, five and ten years, respectively.

### *Federal Funds Purchased and Securities Sold Under Agreements to Repurchase*

We enter into sales of securities under agreements to repurchase. Reverse repurchase agreements are treated as financings, with the obligation to repurchase securities sold reflected as a liability in the Consolidated Statement of Condition. The securities underlying the agreements are assets. Generally, federal funds are purchased for periods ranging up to 90 days.

### *Loss Contingency for Standby Letters of Credit*

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

### *Income Taxes*

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement basis and tax basis of assets and liabilities.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. FIN 48 became effective for us on January 1, 2007, and resulted in a \$2.0 million increase to our retained earnings on that date.



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### *Earnings Per Share*

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

	<b>2008</b>	2007	2006
	(In Thousands, Except Per Share Data)		
<b>Numerator:</b>			
Net income	<b>\$ 16,136</b>	\$ 29,649	\$ 30,441
<b>Denominator:</b>			
Denominator for basic earnings per share - weighted average shares	<b>6,158</b>	6,316	6,634
Effect of dilutive employee stock options	<b>132</b>	194	270
Denominator for diluted earnings per share - adjusted weighted average shares and assumed exercise	<b>6,290</b>	6,510	6,904
<b>Earnings per share:</b>			
<b>Basic:</b>			
Net income.	<b>\$ 2.62</b>	\$ 4.69	\$ 4.59
<b>Diluted:</b>			
Net income.	<b>\$ 2.57</b>	\$ 4.55	\$ 4.41
Outstanding common stock equivalents having no dilutive effect	<b>371</b>	194	197

### *Stock-Based Compensation*

Stock-based compensation is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). We adopted SFAS 123R beginning January 1, 2006 using the Modified Prospective Application Method. The impact of stock-based compensation for 2008 was \$851,000 or \$0.12 per share, to salaries, benefits and other compensation, compared to \$1.2 million, or \$0.16 per share in 2007.

### *Fair Value of Financial Assets*

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, Fair Value Measurements ("SFAS 157"), for financial assets and financial liabilities. In accordance with FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, we will delay application of SFAS 157 for nonfinancial assets and nonfinancial liabilities, until January 1, 2009.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

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

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- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of our financial assets carried at fair value effective January 1, 2008. The table below presents the balances of assets measured at fair value as of December 31, 2008 (there are no material liabilities measured at fair value):

Description	Quoted Prices in Active Markets for Identical Asset (Level 1) (in Thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets Measured at Fair Value on a Recurring Basis</b>				
Available for sale securities	\$ —	\$ 535,896	\$ —	\$ 535,896
Trading Securities	—	—	10,816	10,816
Total assets measured at fair value on a recurring basis	\$ —	\$ 535,896	\$ 10,816	\$ 546,712
<b>Assets Measured at Fair Value on a Nonrecurring Basis</b>				
Impaired Loans	\$ —	\$ 22,840	\$ —	\$ 22,840
Total assets measured at fair value on a nonrecurring basis	\$ —	\$ 22,840	\$ —	\$ 22,840

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. 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.





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Available for sale securities. Securities classified as available for sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately \$44.6 million in Federal Agency debentures, \$194.7 million in Federal Agency MBS, \$292.7 million of Private Label MBS, and \$3.9 million in municipal bonds. Agency and MBS securities are predominately AAA-rated. We believe that this Level 2 designation is appropriate for these securities under SFAS 157 as, with almost all fixed income securities, none are exchange traded, and 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.

Trading securities. The amount included in the trading securities category represents the fair value of a BBB-rated tranche of a reverse mortgage security. There has never been an active market for these securities. As such, we classify these trading securities as Level 3 under FAS 157. As prescribed by FAS 157 management used various observable and unobservable inputs to develop a range of likely fair value prices where this security would be exchanged in an orderly transaction between market participants at the measurement date. The unobservable inputs reflect management's assumptions about the assumptions that market participants would use in pricing this asset. Included in these inputs were the median of a selection of other BBB-rated securities as well as quoted market prices from higher rated tranches of this asset class. As a result, the value assigned to this security is determined primarily through a discounted cash flow analysis. All of these assumptions require a significant degree of management judgment.

The changes in Level 3 assets measured at fair value are summarized as follows:

	Trading Securities (in Thousands)	
Balance at January 1, 2008	\$	12,364
Total net losses for the period included in net income		(1,548)
Purchases, sales, issuances, and settlements, net		—
Balance at December 31, 2008	\$	10,816

Impaired loans. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$22.8 million at December 31, 2008. The valuation allowance on impaired loans was \$395,000 as of December 31, 2008.

**2. INVESTMENT SECURITIES**

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

	Amortized Cost (In Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
<b>December 31, 2008:</b>				
Reverse mortgages (1)	\$ (61 )	\$ —	\$ —	\$ (61 )
U.S. Government and agencies	43,778	857	(1 )	44,634
State and political subdivisions	4,020	—	(86 )	3,934
	\$ 47,737	\$ 857	\$ (87 )	\$ 48,507
December 31, 2007:				
Reverse mortgages (1)	\$ 2,037	\$ —	\$ —	\$ 2,037
U.S. Government and agencies	20,477	99	—	20,576
State and political subdivisions	4,115	28	—	4,143
	\$ 26,629	\$ 127	\$ —	\$ 26,756
<b>Held-to-maturity:</b>				
<b>December 31, 2008:</b>				
State and political subdivisions	\$ 1,181	\$ —	\$ (110 )	\$ 1,071
	\$ 1,181	\$ —	\$ (110 )	\$ 1,071
December 31, 2007:				
State and political subdivisions	\$ 1,516	\$ 24	\$ 42	\$ 1,498
	\$ 1,516	\$ 24	\$ 42	\$ 1,498

(1) See Note 4 to the Consolidated Financial Statements for a further discussion of Reverse Mortgages.

Securities with book values aggregating \$45.9 million at December 31, 2008 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank, securities sold under agreement to repurchase and certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was \$409,000 and \$341,000 at December 31, 2008 and 2007, respectively.



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The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at December 31, 2008 were as follows:

	Held-to-Maturity		Available-for Sale	
	Amortized Cost (In Thousands)	Fair Value	Amortized Cost	Fair Value
Within one year (1)	\$ —	\$ —	\$ 3,940	\$ 4,054
After one year but within five years	630	630	42,522	43,220
After five years but within ten years	—	—	1,275	1,233
After ten years	551	441	—	—
	\$ 1,181	\$ 1,071	\$ 47,737	\$ 48,507

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

There were no sales of investment securities classified as available-for-sale during 2008 and 2007. Municipal bonds totaling \$440,000 were called by the issuers during 2008. Proceeds from the sale of investments classified as available-for-sale during 2006 was \$11.0 million. There were no net losses realized on sales in either 2008 or 2007. There was a net loss of \$41,000 realized on sales in 2006. The cost basis for all investment security sales was based on the specific identification method. There were no sales of investment securities classified as held-to-maturity in 2008, 2007 and 2006.

At December 31, 2008, we owned investment securities totaling \$6.3 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$197,000 at December 31, 2008. This temporary impairment is the result of changes in market interest rates since the purchase of the securities and a lack of liquidity in the securities market, depressing prices. Securities amounting to \$265,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired as these securities carry high credit ratings. In addition, we have the intent and ability to hold these securities until they recover. The following table includes unrealized losses aggregated by category:

	Less than 12 months		12 months or longer		Total	
	Fair Value (In Thousands)	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Held-to-maturity</b>						
State and political subdivisions	\$ 92	\$ —	\$ 265	\$ 110	\$ 357	\$ 110
<b>Available-for-sale</b>						
State and political subdivisions	3,934	86	—	—	3,934	86
U.S Government and agencies	2,053	1	—	—	2,053	1
<b>Total temporarily impaired investments</b>	<b>\$ 6,079</b>	<b>\$ 87</b>	<b>\$ 265</b>	<b>\$ 110</b>	<b>\$ 6,344</b>	<b>\$ 197</b>



**3. MORTGAGE-BACKED SECURITIES**

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

	Amortized Cost (In Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
<b>December 31, 2008:</b>				
<b>Collateralized mortgage obligations</b>	<b>\$ 419,177</b>	<b>\$ 2,595</b>	<b>\$ 25,728</b>	<b>\$ 396,044</b>
FNMA	35,578	932	—	36,510
FHLMC	30,477	830	—	31,307
GNMA	22,536	992	—	23,528
	<b>\$ 507,768</b>	<b>\$ 5,349</b>	<b>\$ 25,728</b>	<b>\$ 487,389</b>
<b>Weighted average yield</b>	<b>5.30%</b>			
<b>December 31, 2007:</b>				
Collateralized mortgage obligations	\$ 407,113	\$ 856	\$ 4,440	\$ 403,529
FNMA	35,654	—	1,009	34,645
FHLMC	31,357	34	937	30,454
GNMA	15,923	—	123	15,800
	<b>\$ 490,047</b>	<b>\$ 890</b>	<b>\$ 6,509</b>	<b>\$ 484,428</b>
<b>Weighted average yield</b>	<b>4.85%</b>			
<b>Trading securities:</b>				
<b>December 31, 2008:</b>				
<b>Collateralized mortgage obligations</b>	<b>\$ 10,816</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10,816</b>
	<b>\$ 10,816</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10,816</b>
<b>Weighted average yield</b>	<b>3.47%</b>			
<b>December 31, 2007:</b>				
Collateralized mortgage obligations	\$ 12,364	\$ —	—	\$ 12,364
	\$ 12,364	\$ —	\$ —	\$ 12,364
<b>Weighted average yield</b>	<b>7.79%</b>			

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The portfolio of available-for-sale mortgage-backed securities consists primarily of AAA-rated, currently cash flowing securities, backed by conventional 10 to 30-year mortgages. The weighted average duration of the mortgage-backed securities was 2.9 years at December 31, 2008.

At December 31, 2008, mortgage-backed securities with par values aggregating \$314.5 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. Accrued interest receivable relating to mortgage-backed securities was \$2.1 million and \$2.0 million at both December 31, 2008 and 2007, respectively. From time to time, mortgage-backed securities are pledged as collateral for Federal Home Loan Bank (FHLB) borrowings. The fair value of these pledged mortgage-backed securities at December 31, 2008 and 2007 was \$16.0 million and \$218.8 million, respectively. There were no sales of mortgage-backed



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securities available-for-sale in 2008. In 2007, proceeds from the sale of mortgage-backed securities available-for-sale were \$2.7 million, resulting in a gain of \$82,000. The cost basis of all mortgage-backed sales is based on the specific identification method.

We own \$12.4 million par value of SASCO RM-1 2002 securities which are classified as trading. \$10.0 million was originally received as partial consideration for the sale of a previously owned reverse mortgage portfolio, an additional \$1.0 million was purchased at par at the time of the securitization of these assets by a third party, and \$1.4 million of accrued interest was paid in kind. The current fair value of this security is \$10.8 million which includes a negative \$1.6 million mark-to-market adjustment for 2008. These floating rate notes represent the BBB+ rated tranche of a reverse mortgage securitization underwritten by Lehman Brothers and carry a coupon rate of one-month London InterBank Offered Rate (LIBOR) plus 300 basis points. We expect to recover all principal and interest, because of seasoning and the fact that these securities are well over-collateralized. For a further discussion of reverse mortgages, see the Reverse Mortgages discussion in Management's Discussion and Analysis and Note 4 to the Consolidated Financial Statements.

Based on SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), when these securities were acquired they were classified as trading. It was our intention to sell them in the near term. An active market for these securities has not developed since the issuance. Since there is no active market for these securities, we have used the guidance under SFAS 157 to provide a reasonable estimate of fair value in 2008. We estimated the value of these securities as of December 31, 2008 based on the pricing of BBB+ securities that have an active market through a technique which estimates the fair value of this asset using the income approach.

At December 31, 2008, we owned mortgage-backed securities totaling \$286.4 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$25.7 million at December 31, 2008. This temporary impairment is the result of changes in market interest rates since the purchase of the securities and a lack of liquidity in the mortgage-backed securities market, depressing prices. Most of these securities have been impaired for less than twelve months. We have determined that these securities are not "other than temporarily" impaired as these mortgage-backed securities carry high credit ratings. In addition, we have the intent and ability to hold these securities until they recover. The following table lists the unrealized losses aggregated by category:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In Thousands)						
Available-for-sale						
CMO	\$ 249,118	\$ 23,536	\$ 37,298	\$ 2,192	\$ 286,416	\$ 25,728
FNMA	—	—	—	—	—	—
FHLMC	—	—	—	—	—	—
GNMA	—	—	—	—	—	—
Total temporarily impaired MBS	\$ 249,118	\$ 23,536	\$ 37,298	\$ 2,192	\$ 286,416	\$ 25,728

#### 4. REVERSE MORTGAGES AND RELATED ASSETS

We hold an investment in reverse mortgages of \$(61,000) at December 31, 2008 representing a participation in reverse mortgages with a third party. The loans supporting this balance were originated in the early 1990's.

These reverse mortgage loans are contracts that require the lender to make monthly advances throughout the borrower's life or until the borrower relocates, prepays or the home is sold, at which time the loan becomes due and payable. Reverse mortgages are nonrecourse obligations, which means that the loan repayments are generally limited to the net sale proceeds of the borrower's residence.

We account for our investment in reverse mortgages by estimating the value of the future cash flows on the reverse mortgages at a rate deemed appropriate for these mortgages, based on the market rate for similar collateral. Actual cash flows from these mortgage loans can result in significant volatility in the recorded value of reverse mortgage assets. As a result, income varies significantly from reporting period to reporting period. For the year ended December 31, 2008, the Company lost \$1.1 million in interest income on reverse mortgages as compared to posting income of \$2.0 million in 2007 and \$684,000 in 2006. The loss in 2008 primarily resulted from the decrease in the values of the properties securing these mortgages, based on annual re-evaluations and consistent with the decrease in home values over the past year.

The projected cash flows depend on assumptions about life expectancy of the mortgagee and the future changes in collateral values. Projecting the changes in collateral values is the most significant factor impacting the volatility of reverse mortgage values. The current assumptions include a short-term annual depreciation rate of -8.0% in the first year, and a long-term annual appreciation rate of 0.5% in future years. If the long-term appreciation rate was increased to 1.5%, the resulting impact on income would have been \$26,000. Conversely, if the long-term appreciation rate was decreased to -0.5%, the resulting impact on income would have been \$(22,000).

We also hold \$10.8 million in BBB+ rated mortgage-backed securities classified as trading and have options to acquire up to 49.9% of Class "O" Certificates issued in connection with securities consisting of a portfolio of reverse mortgages we previously owned. The Class "O" Certificates are currently recorded on our financial statements at a zero value. At the time of the securitization, the third party securitizer (Lehman Brothers) retained 100% of the Class "O" Certificates from the securitization. These Class "O" Certificates have no priority over other classes of Certificates under the Trust and no distributions will be made on the Class "O" Certificates until, among other conditions, the principal amount of each other class of notes has been reduced to zero. The underlying assets, the reverse mortgages, are long-term assets. Hence, any cash flow that might inure to the holder of the Class "O" Certificates is not expected to occur until 2014. Additionally, the Company can exercise its option on 49.9% of the Class "O" Certificates in up to five separate increments for an aggregate purchase price of \$1.0 million any time between January 1, 2004 and the termination of the Securitization Trust. The option to purchase the Class "O" Certificates does not meet the definition of a derivative under SFAS No. 133, *Accounting for Derivative and Hedging Activities*. This certificate is an equity security with no readily determinable fair value; as such, it is excluded from the accounting treatment promulgated under SFAS 115. As a result, the option is carried at cost (which is zero). During the third quarter of 2008 Lehman Brothers Holdings filed for bankruptcy. We are currently in discussions with legal counsel to determine our legal rights with respect to the Class "O" certificates.

## 5. LOANS

The following table details our loan portfolio:

December 31, (In Thousands)	2008	2007
Real estate mortgage loans:		
Residential (1-4 family)	\$ 422,740	\$ 447,435
Other	558,979	465,928
Real estate construction loans	251,508	276,939
Commercial loans	942,920	787,538
Consumer loans	296,728	278,272
	<b>2,472,875</b>	<b>2,256,112</b>
Less:		
Deferred fees (costs), net	126	(716 )
Allowance for loan losses	<b>31,189</b>	<b>25,252</b>

Net loans

\$ **2,441,560**

\$ 2,231,576

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We had impaired loans of approximately \$28.4 million at December 31, 2008 compared to \$31.8 million and \$3.8 million at December 31, 2007 and 2006, respectively. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The average recorded balance of impaired loans was \$29.5 million, \$10.0 million and \$3.6 million during 2008, 2007 and 2006, respectively. The allowance for losses on impaired loans was \$395,000, \$738,000 and \$369,000 at December 31, 2008, 2007 and 2006, respectively. There was no interest income recognized on impaired loans.

The total amount of loans serviced for others were \$268.8 million, \$255.0 million and \$265.5 million at December 31, 2008, 2007 and 2006, respectively. We received fees from the servicing of loans of \$650,000, \$718,000 and \$724,000 during 2008, 2007 and 2006, respectively.

We record mortgage-servicing rights on our mortgage loan-servicing portfolio. Mortgage servicing rights represent the present value of the future net servicing fees from servicing mortgage loans acquired or originated by us. The value of these servicing rights was \$329,000 and \$588,000 at December 31, 2008 and 2007, respectively. The total of our servicing portfolio was \$76.5 million and \$81.9 million for December 31, 2008 and 2007, respectively. Mortgage loans serviced for others are not included in loans on the accompanying Consolidated Statement of Condition. Changes in the valuation of these servicing rights resulted in \$(259,000) and \$144,000 of noninterest income during 2008 and 2007, respectively. Revenues from originating, marketing and servicing mortgage loans as well as valuation adjustments related to capitalized mortgage servicing rights are included in mortgage banking activities, net on the Consolidated Statement of Operations.

Accrued interest receivable on loans outstanding was \$7.5 million and \$10.4 million at December 31, 2008 and 2007, respectively.

Nonaccruing loans aggregated \$28.4 million, \$31.8 million and \$3.8 million at December 31, 2008, 2007 and 2006, respectively. If interest on all such loans had been recorded in accordance with contractual terms, net interest income would have increased by \$1,955,000 in 2008, \$790,000 in 2007 and \$159,000 in 2006.

A summary of changes in the allowance for loan losses follows:

Year Ended December 31, (In Thousands)	2008	2007	2006
Beginning balance	\$25,252	\$27,384	\$25,381
Provision for loan losses	23,024	5,021	2,738
Loans charged-off (1)	(17,839)	(8,049)	(1,418)
Recoveries (2)	752	896	683
Ending balance	\$31,189	\$25,252	\$27,384

- (1) 2008 and 2007 include \$940,000 and \$1.4 million of overdraft charge-offs, respectively. Prior to 2006, these amounts were recognized in other operating expenses.
- (2) 2008 and 2007 include \$383,000 and \$446,000 of overdraft recoveries, respectively. Prior to 2006, these amounts were recognized in other operating expenses.



**6. ASSETS ACQUIRED THROUGH FORECLOSURE**

Assets acquired through foreclosure are summarized as follows:

December 31, (In Thousands)	2008	2007
Real estate	\$ 4,471	\$ 703
Less allowance for losses	—	—
	\$ 4,471	\$ 703

**7. PREMISES AND EQUIPMENT**

Land, office buildings, leasehold improvements and furniture and equipment, at cost, are summarized by major classifications:

December 31, (In Thousands)	2008	2007
Land	\$ 4,422	\$ 4,415
Buildings	10,797	10,713
Leasehold improvements	22,990	20,967
Furniture and equipment	29,892	27,817
	68,101	63,912
Less:		
Accumulated depreciation	33,135	29,061
	\$ 34,966	\$ 34,851

The Corporation occupies certain premises and operates certain equipment under noncancelable leases with terms ranging primarily from 1 to 25 years including some with renewal options. These leases are accounted for as operating leases. Accordingly, lease costs are expensed as incurred. Rent expense was \$5.0 million in 2008, \$4.5 million in 2007 and \$2.4 million in 2006. Future minimum payments under these leases at December 31, 2008 are as follows:

(In Thousands)	
2009	\$ 5,323
2010	5,100
2011	4,960
2012	4,407
2013	4,128
Thereafter	30,698
Total future minimum lease payments	\$ 54,616





**8. DEPOSITS**

The following is a summary of deposits by category, including a summary of the remaining time to maturity for time deposits:

December 31, <i>(In Thousands)</i>	2008	2007
Money market and demand:		
Noninterest-bearing demand	\$ 311,322	\$ 290,424
Interest-bearing demand	214,749	171,363
Money market	326,792	303,931
Total money market and demand	852,863	765,718
Savings	208,368	196,571
Customer certificates of deposit by maturity:		
Less than one year	287,546	320,474
One year to two years	107,593	40,191
Two years to three years	9,681	3,234
Three years to four years	42,161	1,022
Over four years	3,075	1,796
Total customer time certificates	450,056	366,717
Jumbo certificates of deposit--customer, by maturity:		
Less than one year	144,925	140,353
One year to two years	32,399	9,569
Two years to three years	1,463	102
Three years to four years	16,795	—
Over four years	264	167
Total jumbo certificates of deposit--customer	195,846	150,191
Subtotal retail deposits	1,707,133	1,479,197
Other jumbo certificates of deposit--by maturity:		
Less than one year	103,825	98,582
One year to two years	—	176
Two years to three years	—	—
Three years to four years	—	—
Over four years	—	—
Total other jumbo time certificates	103,825	98,758
Brokered deposits less than one year	311,394	249,206
Total deposits	\$ 2,122,352	\$ 1,827,161



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Interest expense by category follows:

Year Ended December 31, (In Thousands)	2008	2007	2006
Interest-bearing demand	\$ 1,064	\$ 1,393	\$ 785
Money market	5,909	11,870	8,090
Savings	736	1,679	2,237
Customer time deposits	20,775	22,357	15,309
Total customer interest expense	28,484	37,299	26,421
Other jumbo certificates of deposit	3,091	5,176	4,100
Brokered deposits	8,234	14,836	12,186
Total interest expense on deposits	\$ 39,809	\$ 57,311	\$ 42,707

### 9. BORROWED FUNDS

The following is a summary of borrowed funds by type:

	Balance at End of Period	Weighted Average Interest Rate	Maximum Outstanding at Month End During the Period	Amount Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
(Dollars in Thousands)					
<b>2008</b>					
<b>FHLB advances</b>	<b>\$ 815,957</b>	<b>2.74 %</b>	<b>\$ 942,922</b>	<b>\$ 841,005</b>	<b>3.46 %</b>
<b>Trust preferred borrowings</b>	<b>67,011</b>	<b>3.97</b>	<b>67,011</b>	<b>67,011</b>	<b>4.81</b>
<b>Federal funds purchased and securities sold under agreements to repurchase</b>	<b>75,000</b>	<b>1.87</b>	<b>99,999</b>	<b>75,844</b>	<b>3.11</b>
<b>Other borrowed funds</b>	<b>108,777</b>	<b>0.79</b>	<b>127,556</b>	<b>110,237</b>	<b>1.96</b>

<b>2007</b>					
FHLB advances	\$ 898,280	4.23 %	\$ 936,302	\$ 765,974	4.97 %
Trust preferred borrowings	67,011	6.89	67,011	67,011	7.00
Federal funds purchased and securities sold under agreements to repurchase	75,000	4.46	75,000	60,649	5.13
Other borrowed funds	94,869	3.84	95,087	86,602	4.26



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### *Federal Home Loan Bank Advances*

Advances from the FHLB of Pittsburgh with rates ranging from 0.57% to 5.45% at December 31, 2008 are due as follows:

	Amount (Dollars in Thousands)	Weighted Average Rate	
2009	\$ 471,562	1.98	%
2010	215,517	3.74	
2011	86,855	3.64	
2012 - 2013	42,023	4.27	
	\$ 815,957		

Pursuant to collateral agreements with the FHLB, advances are secured by qualifying first mortgage loans, qualifying fixed-income securities, FHLB stock and an interest-bearing demand deposit account with the FHLB.

As a member of the FHLB of Pittsburgh, we are required to acquire and hold shares of capital stock in the FHLB of Pittsburgh in an amount at least equal to 4.65% of its advances (borrowings) from the FHLB of, plus 0.65% of the unused borrowing capacity. We were in compliance with this requirement with a stock investment in FHLB of Pittsburgh of \$39.3 million at December 31, 2008. This stock is carried on the accompanying Consolidated Statement of Condition at cost, which approximates liquidation value.

In December 2008, the FHLB of Pittsburgh announced the suspension of both dividend payments and the repurchase of capital stock until such time as it determines it becomes prudent to reinstate both. During 2008 we received \$1.5 million in dividends from the FHLB of Pittsburgh.

Eight advances are outstanding at December 31, 2008 totaling \$180.0 million, with a weighted average rate of 4.37% maturing in 2009 and beyond. They are convertible on a quarterly basis (at the discretion of the FHLB) to a variable rate advance based upon the three-month LIBOR rate, after an initial fixed term. If any of these advances convert, WSFS has the option to prepay these advances at predetermined times or rates.

### *Trust Preferred Borrowings*

On April 6, 2005, we completed the issuance of \$67.0 million of aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. The proceeds from this issuance were used to fund the redemption of \$51.5 million of Floating Rate Capital Trust I Preferred Securities.

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### *Federal Funds Purchased and Securities Sold Under Agreements to Repurchase*

During 2008, we purchased federal funds as a short-term funding source. At December 31, 2008, we had purchased \$50.0 million in federal funds at a rate of 0.38%. At December 31, 2007, we also had \$50.0 million federal funds purchased.

During 2008, we sold securities under agreements to repurchase as a funding source. At December 31, 2008, securities sold under agreements to repurchase had a fixed rate of 4.87%. The underlying securities are mortgage-backed securities with a book value of \$29.5 million at December 31, 2008. Securities sold under

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agreements to repurchase with the corresponding carrying and market values of the underlying securities are due as follows:

	Borrowing Amount	Rate		Collateral Carrying Value	Market Value	Accrued Interest
<i>(Dollars in Thousands)</i>						
<b><u>2008</u></b>						
<b>Over 90 days</b>	<b>\$ 25,000</b>	<b>4.87</b>	<b>%</b>	<b>\$ 29,500</b>	<b>\$ 30,223</b>	<b>\$ 101</b>
<b><u>2007</u></b>						
Up to 30 days	\$ 25,000	4.87	%	\$ 29,086	\$ 28,155	\$ 99

### *Other Borrowed Funds*

Included in other borrowed funds are collateralized borrowings of \$108.8 million and \$94.9 million at December 31, 2008 and 2007, respectively, consisting of outstanding retail repurchase agreements, contractual arrangements under which portions of certain securities are sold overnight to retail customers under agreements to repurchase. Such borrowings were collateralized by mortgage-backed securities. The average rates on these borrowings were 0.79% and 3.84% at December 31, 2008 and 2007, respectively.

## 10. STOCKHOLDERS' EQUITY

Under Office of Thrift Supervision (OTS) capital regulations, savings institutions such as WSFS, must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4.0% of adjusted total assets, "Tier 1" capital equal to 4.0% of risk-weighted assets and "total" or "risk-based" capital (a combination of core and "supplementary" capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on WSFS' Financial Statements. At December 31, 2008 and 2007, WSFS was in compliance with regulatory capital requirements and was deemed a "well-capitalized" institution.

The following table presents WSFS' consolidated capital position as of December 31, 2008 and 2007:

	Consolidated			For Capital			To Be Well-Capitalized	
	Bank Capital			Adequacy Purposes			Under Prompt Corrective	
	Amount	Percent		Amount	Percent		Amount	Percent
<i>(In Thousands)</i>								
<b>As of December 31, 2008:</b>								
<b>Total Capital (to risk-weighted assets)</b>	<b>\$ 304,680</b>	<b>11.00</b>	<b>%</b>	<b>\$ 221,561</b>	<b>8.00</b>	<b>%</b>	<b>\$ 276,951</b>	<b>10.00</b>
<b>Core Capital (to adjusted tangible assets)</b>	<b>274,221</b>	<b>7.99</b>		<b>137,303</b>	<b>4.00</b>		<b>171,629</b>	<b>5.00</b>

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<b>Tangible Capital (to tangible assets)</b>	<b>274,221 7.99</b>	<b>51,489 1.50</b>	<b>N/A N/A</b>
<b>Tier 1 Capital (to risk-weighted assets)</b>	<b>274,221 9.90</b>	<b>110,780 4.00</b>	<b>166,170 6.00</b>

As of December 31, 2007:

Total Capital (to risk-weighted assets)	\$ 304,992 12.31 %	\$ 198,156 8.00 %	\$ 247,696 10.00 %
Core Capital (to adjusted tangible assets)	276,327 8.63	128,033 4.00	160,041 5.00
Tangible Capital (to tangible assets)	276,327 8.63	48,012 1.50	N/A N/A
Tier 1 Capital (to risk-weighted assets)	276,327 11.16	99,078 4.00	148,617 6.00



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We have a simple capital structure with one class of \$0.01 par common stock outstanding, each share having equal voting rights. In addition, we have authorized 7,500,000 shares of \$0.01 par preferred stock. No preferred stock was outstanding at December 31, 2008 and 2007. When infused into the Bank, the Trust Preferred Securities issued in 2005 qualify as Tier 1 capital. We are prohibited from paying any dividend or making any other capital distribution if, after making the distribution, we would be undercapitalized within the meaning of the OTS Prompt Corrective Action regulations. Since 1996, the Board of Directors has approved several stock repurchase programs to reacquire common shares. As part of these programs, we acquired approximately 73,500 shares in 2008 for \$3.6 million and 564,100 shares in 2007 for \$36.2 million.

### *The Holding Company*

In April 2005, WSFS Capital Trust III, an unconsolidated affiliate of WSFS Financial Corporation, issued \$67.0 million of aggregate principle of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. The proceeds were used to refinance the WSFS Capital Trust I November 1998 issuance of \$51.5 million of Trust Preferred Securities which had a variable rate of 250 basis points over the three-month LIBOR rate. At December 31, 2008, the coupon rate of the Capital Trust III securities was 3.97% with a scheduled maturity of June 1, 2035. The effective rate will vary, however, due to fluctuations in interest rates. The proceeds from the issue were invested in Junior Subordinated Debentures issued by WSFS Financial Corporation. These securities are treated as borrowings with the interest included in interest expense on the Consolidated Statement of Operations. In addition, we had an interest-rate cap with a notional amount of \$50.0 million, which limited the three-month LIBOR to 6.00%. This cap expired on December 1, 2008. Additional information concerning the Trust Preferred Securities and the interest rate cap is included in Notes 9 and 18 to the Consolidated Financial Statements. The proceeds were used primarily to extinguish higher rate debt and for general corporate purposes.

Pursuant to federal laws and regulations, WSFS' ability to engage in transactions with affiliated corporations is limited, and WSFS generally may not lend funds to nor guarantee indebtedness of the Company.

## **11. ASSOCIATE (EMPLOYEE) BENEFIT PLANS**

### *Associate 401(k) Savings Plan*

Certain subsidiaries of ours maintain a qualified plan in which Associates may participate. Participants in the plan may elect to direct a portion of their wages into investment accounts that include professionally managed mutual and money market funds and our common stock. Generally, the principal and earnings thereon are tax deferred until withdrawn. We match a portion of the Associates' contributions and periodically make discretionary contributions based on our performance into the plan for the benefit of Associates. Our total cash contributions to the plan on behalf of our Associates resulted in a cash expenditure of \$1.8 million, \$1.7 million and \$1.6 million for 2008, 2007 and 2006, respectively.

Effective November 2007, all of our discretionary contributions are invested in accordance with the Associates' selection of investments. If Associates do not designate how discretionary contributions are to be invested, 80% will be invested in a balanced fund and 20% will be invested in our common stock. Associates may make transfers to various other investment vehicles within the plan without any significant restrictions. The plan purchased 10,000, 25,000, and 13,000 shares of our common stock during 2008, 2007 and 2006, respectively.

### *Postretirement Benefits*

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

We account for our obligations under the provisions of SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106). SFAS 106 requires that the costs of these benefits be recognized over an Associate's active working career. 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.

On December 31, 2006, we adopted the recognition and disclosure provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires that we recognize the funded status of our defined benefit postretirement plan in our statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87, *Employers' Accounting for Pensions* (SFAS 87), all of which were previously netted against the plan's funded status in our statement of financial position pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as net periodic pension costs pursuant to our historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS 158.

The incremental effect of adopting the recognition and disclosure provisions of SFAS 158 on our Consolidated Statement of Condition at December 31, 2006 was a \$905,000 (pretax) decrease in other comprehensive income. This included a net actuarial loss of \$537,000 and a net transition obligation of \$368,000. Also related to the adoption of SFAS 158, the Company recorded a deferred tax asset of \$344,000 and a corresponding liability of \$905,000. During 2009, the Company expects to recognize \$18,000 in expense relating to the amortization of the net actuarial loss and \$61,000 in expense relating to the amortization of the net transition obligation.

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The following disclosures relating to postretirement benefits were measured at December 31, 2008:

	2008		2007		2006
<i>(Dollars in Thousands)</i>					
<b>Change in benefit obligation:</b>					
Benefit obligation at beginning of year	\$ 2,339		\$ 2,233		\$ 2,287
Service cost	142		137		108
Interest cost	137		125		93
Actuarial loss/(gain)	56		(29 )		(110 )
Benefits paid	(172 )		(127 )		(145 )
Benefit obligation at end of year	\$ 2,502		\$ 2,339		\$ 2,233
<b>Change in plan assets:</b>					
Fair value of plan assets at beginning of year	\$ —		\$ —		\$ —
Employer contributions	172		127		145
Benefits paid	(172 )		(127 )		(145 )
Fair value of plan assets at end of year	\$ —		\$ —		\$ —
<b>Funded status:</b>					
Funded status	\$ (2,502 )		\$ (2,339 )		\$ (2,233 )
Unrecognized transition obligation	—		—		—
Unrecognized net loss	—		—		—
Recognized net loss	774		795		905
Net amount recognized	\$ (1,728 )		\$ (1,544 )		\$ (1,328 )
<b>Components of net periodic benefit cost:</b>					
Service cost	\$ 142		\$ 137		\$ 108
Interest cost	137		125		93
Amortization of transition obligation	61		61		61
Net loss recognition	16		19		—
Net periodic benefit cost	\$ 356		\$ 342		\$ 262
<b>Assumptions used to determine net periodic benefit cost:</b>					
Discount rate	6.00	%	5.75	%	5.50 %
Health care cost trend rate	5.00	%	5.00	%	5.00 %
<b>Sensitivity analysis of health care cost trends:</b>					
Effect of +1% on service cost plus interest cost	\$ (12 )		\$ (7 )		\$ (8 )
Effect of -1% on service cost plus interest cost	9		7		7
Effect of +1% on APBO	(89 )		(74 )		(76 )
Effect of -1% on APBO	72		63		66
<b>Assumptions used to value the Accumulated Postretirement Benefit Obligation (APBO):</b>					
Discount rate	5.75	%	6.00	%	5.75 %
Health care cost trend rate	5.00	%	5.00	%	5.00 %
Ultimate trend rate	5.00	%	5.00	%	5.00 %
Year of ultimate trend rate	2008		2005		2005



**Estimated future benefit payments:**

The following table shows the expected future payments for the next ten years:

During 2009	\$ 113
During 2010	112
During 2011	111
During 2012	115
During 2013	117
During 2014 through 2018	640
	\$ 1,208

We assume that the average annual rate of increase for medical benefits will remain flat and stabilize at an average increase of 5% per annum. The costs incurred for retirees' health care are limited since certain current and all future retirees are restricted to an annual medical premium cap indexed (since 1995) by the lesser of 4% or the actual increase in medical premiums paid by the Company. For 2008, this annual premium cap amounted to \$2,400 per retiree. We estimate that we will contribute approximately \$113,000 to the plan during fiscal 2009.

We have three additional plans. They are a Supplemental Pension Plan with a corresponding liability of \$700,000, an Early Retirement Window Plan with a corresponding liability of \$464,000 and a Director's Plan with a corresponding liability of \$113,000.

**12. TAXES ON INCOME**

The Company and its subsidiaries file a consolidated federal income tax return and separate state income tax returns. Our income tax provision consists of the following:

Year Ended December 31, (In Thousands)	2008	2007	2006
Current income taxes:			
Federal taxes	\$ 9,741	\$ 10,389	\$ 14,662
State and local taxes	119	2,274	2,278
Deferred income taxes:			
Federal taxes	(2,910 )	811	(1,336 )
State and local taxes	—	—	56
Total	\$ 6,950	\$ 13,474	\$ 15,660

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Current federal income taxes include taxes on income that cannot be offset by net operating loss carryforwards.

Deferred income taxes 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. The following is a summary of the significant components of our deferred tax assets and liabilities as of December 31, 2008 and 2007:

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	2008	2007
<i>(In Thousands)</i>		
<b>Deferred tax liabilities:</b>		
Accelerated depreciation	\$ (802 )	\$ (618 )
Other	(99 )	(24 )
Prepaid expenses	(1,556 )	(1,505 )
Deferred loan costs	(1,959 )	(2,100 )
Total deferred tax liabilities	(4,416 )	(4,247 )
<b>Deferred tax assets:</b>		
Bad debt deductions	10,916	8,838
Tax credit carryforwards	150	150
Net operating loss carryforwards	—	2,482
Capital loss carryforwards	—	93
Loan fees	20	3
Reserves and other	4,379	2,732
Deferred gains	542	439
Unrealized losses on available-for-sale securities	7,731	2,366
Total deferred tax assets	23,738	17,103
Valuation allowance	—	(2,178 )
Net deferred tax asset	\$ 19,322	\$ 10,678

Included in the table above is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized. Such items consisted primarily of unrealized gains and losses on certain investments in debt and equity securities accounted for under SFAS 115. Also included above are \$369,000 of deferred tax assets recorded in conjunction with the acquisition of 1<sup>st</sup> Reverse.

Based on our history of prior earnings and our expectations of the future, it is anticipated that operating income and the reversal pattern of its temporary differences will, more likely than not, be sufficient to realize a net deferred tax asset of \$19.3 million at December 31, 2008. Adjustments to decrease gross deferred tax assets and the related valuation allowance in the amount of \$2,028,000, \$473,000 and \$51,000 were made in 2008, 2007 and 2006, respectively, to reflect federal and state tax net operating losses that have expired. No federal or state net operating losses remain at December 31, 2008.



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A reconciliation setting forth the differences between our effective tax rate and the U.S. Federal statutory tax rate is as follows:

Year Ended December 31,	<b>2008</b>		2007		2006	
Statutory federal income tax rate	<b>35.0</b>		% 35.0		% 35.0	%
State tax net of federal tax benefit	<b>0.3</b>		3.4		3.2	
Interest income 50% excludable	<b>(3.2)</b>	)	(1.7	)	(1.6	)
Bank-owned life insurance income	<b>(2.7)</b>	)	(1.8	)	(3.0	)
Charitable donation	<b>—</b>		(5.0	)	—	
Incentive stock option compensation	<b>0.7</b>		0.5		0.6	
Other	<b>—</b>		0.8		(0.2	)
Effective tax rate	<b>30.1</b>		% 31.2		% 34.0	%

During 2007, we donated an N.C. Wyeth mural which was previously displayed in our former headquarters. The estimated fair value of the mural was \$6.0 million, which was recorded as a charitable contribution expense. We recognized a related offsetting gain on the transfer of the asset during 2007. The expense and offsetting gain was shown net in our Consolidated Financial Statements. As the gain on the transfer of the asset is permanently excludable from taxation, the charitable contribution transaction results in a permanent deduction for income tax purposes. The amount of the deduction represents an income tax uncertainty because it is subject to evaluation by the Internal Revenue Service.

We record interest and penalties on potential income tax deficiencies as income tax expense. Federal tax years 2007 and 2008 remain subject to examination as of December 31, 2008, while tax years 2005 through 2008 remain subject to examination by state taxing jurisdictions. The IRS audit of our 2004, 2005 and 2006 federal income tax returns was completed during 2008. No state income tax return examinations are currently in process. We believe it is reasonably possible that between \$500,000 and \$1.0 million of unrecognized state tax benefits, net of federal tax, will be realized during 2009 as a result of the expiration of statutes of limitations. It is also reasonably possible that between \$100,000 and \$200,000 of additional reserves will be established during 2009 related to interest on existing unrecognized tax benefits.

During 2007, an additional \$3.6 million tax reserve was established related primarily to the Internal Revenue Service ("IRS") disallowance of the deduction for certain compensation in prior periods. This adjustment was the result of a routine IRS audit of our 2004 through 2006 tax years. Because the original tax benefit for this item was recorded as an increase to equity, \$3.4 million of the tax liability was recorded as a reduction to equity in 2007. Even though this matter was not yet settled, standards under FIN 48 required this reserve to be established during 2007. In order to stop interest from accruing on this tax liability until the matter could be resolved through the IRS appeals process, we deposited the entire \$3.4 million, plus interest in 2007 so that no reserve remained for this matter as of December 31, 2007. During 2008 we successfully completed the IRS appeal process and recovered \$863,000 of taxes plus \$145,000 of interest that were previously assessed during the audit phase. The tax recovery was recorded as an increase to equity in 2008 while the interest received was recorded as a reduction of income tax expense.

The total amount of unrecognized tax benefits as of December 31, 2008 was \$2.6 million, of which \$2.1 million would affect our effective tax rate if recognized. The total amount of accrued interest and penalties included in such unrecognized tax benefits were \$572,000 and \$0, respectively, of which \$175,000 was recorded as expense in 2008. A reconciliation of the total amounts of unrecognized tax benefits during 2008 is as follows:



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(In Thousands)

Unrecognized tax benefits at December 31, 2007	\$ 2,632
Additions as a result of tax positions taken during prior years	676
Additions as a result of tax positions taken during current year	—
Reductions relating to settlements with taxing authorities	—
Reductions as a result of a lapse of statutes of limitations	(723)
Unrecognized tax benefits at December 31, 2008	\$ 2,585

### 13. STOCK-BASED COMPENSATION

Stock-based compensation is accounted for in accordance with SFAS No. 123R. We have stock options outstanding under two plans (collectively, "Stock Incentive Plans") for officers, directors and Associates of the Company and its subsidiaries. After shareholder approval in 2005, the 1997 Stock Option Plan ("1997 Plan") was replaced by the 2005 Incentive Plan ("2005 Plan"). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. The number of shares reserved for issuance under the 2005 Plan is 862,000. At December 31, 2008, there were 327,851 shares available for future grants under the 2005 Plan.

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as nonincentive stock options (collectively, "Stock Options"). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of our common stock on the date of the grant. All Stock Options granted during 2008 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire in five years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans.

A summary of the status of our Stock Incentive Plans as of December 31, 2008, 2007 and 2006, and changes during the years then ended is presented below:

	2008		2007		2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<b>Stock Options:</b>						
Outstanding at beginning of year	722,582	\$ 43.14	703,427	\$ 39.52	742,404	\$ 31.92
Granted	33,250	49.08	121,375	54.25	106,905	64.93
Exercised	(60,240 )	20.51	(80,836 )	23.85	(143,346 )	19.01
Forfeited	(19,705 )	59.27	(21,384 )	60.08	(2,536 )	46.19
Outstanding at end of year	675,887	44.98	722,582	43.14	703,427	39.52
Exercisable at end of year	473,445	39.84	444,653	33.75	416,773	26.91
Weighted-average fair value of awards granted	\$ 10.57		\$ 11.36		\$ 13.52	



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Beginning January 1, 2008, 444,653 stock options were exercisable with an intrinsic value of \$8.4 million. In addition, at January 1, 2008 there were 277,929 nonvested options with a grant date fair value of \$12.43. During the year ended December 31, 2008, 105,479 options vested with an intrinsic value of \$57,000, and a grant date fair value of \$12.47 per option. Also during 2008, 60,240 options were exercised with an intrinsic value of \$2.0 million. In addition, 16,447 vested options were forfeited with an intrinsic value of \$7,000 and a grant date fair value of \$13.59, while 19,705 options were forfeited in total with a grant date fair value of \$13.41. There were 473,445 exercisable options remaining at December 31, 2008, with an intrinsic value of \$6.1 million and a remaining contractual term of 3.4 years. At December 31, 2008 there were 675,887 stock options outstanding with an intrinsic value of \$6.1 million and a remaining contractual term of 3.5 years and 202,442 nonvested options with a grant date fair value of \$12.10. During 2007, 80,836 options were exercised with an intrinsic value of \$3.3 million and 103,286 options vested with a grant date fair value of \$11.86 per option.

The total amount of compensation cost related to nonvested stock options as of December 31, 2008 was \$1.5 million. The weighted-average period over which it is expected to be recognized is 2.6 years. We issue new shares upon the exercise of options.

During 2008, we granted 33,250 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options. Significant assumptions used in the model included a weighted-average risk-free rate of return of between 1.1% and 2.7% in 2008; an expected option life of three and three-quarter years; and an expected stock price volatility of between 23.4% and 29.6% in 2008. For the purposes of this option-pricing model, a dividend yield of between 0.8% and 1.1% was used as the expected dividend yield. The expected option life was determined based on the mid-point between the vesting date and the end of the contractual term.

The Black-Scholes and other option-pricing models assume that options are freely tradable and immediately vested. Since options are not transferable, have vesting provisions, and are subject to trading blackout periods imposed by us, the value calculated by the Black-Scholes model may significantly overstate the true economic value of the options.

During 2008, we created two new performance-based incentive programs under the terms of the 2005 Plan. Under these programs shares of WSFS stock may be awarded to certain members of management.

We created a Performance-Based Restricted Stock Unit Program which would have awarded restricted stock to senior management if a specified earnings per share (EPS) target was achieved during 2008. At December 31, 2008 the target was not achieved, therefore no awards were made.

The Long-Term Performance-Based Restricted Stock Unit Program (Long-Term Program) will award up to an aggregate of 109,200 shares of WSFS stock to seventeen participants, only after the achievement of targeted levels of return on assets ("ROA"). Under the terms of the plan, if an annual ROA performance level of 1.20% is achieved, up to 54,900 shares will be awarded. If an annual ROA performance level of 1.35% is achieved, up to 76,100 shares will be awarded. If an annual ROA performance level of 1.50% or greater is achieved, up to 109,200 shares will be awarded. If these targets are achieved in any year up until 2011, the awarded stock will then vest in 25% increments over four years.

We did not recognize any compensation expense in 2008 for these two new programs. The Performance-Based Restricted Stock Unit Program was effective only for 2008 and has expired. Compensation expense for the Long-Term Program will be based on the closing stock price as of May 28, 2008 and will begin to be recognized once the achievement of target performance is considered probable.

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Currently we have 327,851 shares available for issuance under the 2005 Plan. Full share awards, such as restricted stock, have the equivalence of four option grants for the purpose of calculating shares available for issuance. Under the

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provisions of the Long Term Program, if a performance level is achieved and there are insufficient shares available for grant, then we would have the option of granting the available shares with the remainder being paid in cash.

The impact of stock-based compensation for the year ended December 31, 2008 was \$851,000 pretax (\$731,000 after tax), or \$0.12 per share, to salaries, benefits and other compensation, compared to \$1.2 million pretax (\$1.0 million after tax), or \$0.16 per share in 2007 and \$1.5 million pretax (\$1.3 million after tax), or \$0.19 per share in 2006. The decrease in expense related to stock-based compensation in 2008 was due to a timing change made during 2008. In prior years, stock options have been granted to Associates during the fourth quarter. The stock options that would have been awarded in the fourth quarter of 2008 have been delayed until the first quarter of 2009. This delay and the effect of immediately expensing stock-based compensation to retirement eligible Associates accounted for the reduction in compensation expense related to stock options.

The following table summarizes all stock options outstanding and exercisable for Option Plans as of December 31, 2008, segmented by range of exercise prices:

	Outstanding			Exercisable	
	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
<b>Stock Options:</b>					
\$6.90-\$13.80	40,270	\$ 10.89	1.9 years	40,270	\$ 10.89
\$13.81-\$20.70	118,570	16.88	2.7 years	118,570	16.88
\$20.71-\$27.60	—	—	— years	—	—
\$27.61-\$34.50	61,755	33.40	4.0 years	61,755	33.40
\$34.51-\$41.40	—	—	— years	—	—
\$41.41-\$48.30	85,215	44.49	6.2 years	61,681	43.77
\$48.31-\$55.20	120,915	53.20	4.0 years	32,726	53.16
\$55.21-\$62.10	71,027	58.84	5.5 years	50,291	58.89
\$62.11-\$69.00	178,135	64.53	2.5 years	108,152	64.34
<b>Total</b>	<b>675,887</b>	<b>\$ 44.98</b>	<b>3.7 years</b>	<b>473,445</b>	<b>\$ 39.84</b>

During 2008, 2007 and 2006, we issued 185, 129 and 15,269 shares, respectively, of restricted stock. These awards vest over five years: 0% in the first two years, 25% in each of the third and fourth years and 50% in the fifth year.

### 14. COMMITMENTS AND CONTINGENCIES

#### *Lending Operations*

At December 31, 2008, we had commitments to extend credit of \$700.5 million. Consumer lines of credit totaled \$47.7 million of which \$27.9 million was secured by real estate. Outstanding letters of credit were \$59.7 million and outstanding commitments to make or acquire mortgage loans aggregated \$8.3 million. Approximately \$7.5 million of these mortgage loan commitments were at fixed rates ranging from 4.38% to 6.38%, and approximately \$757,000 was at variable rates ranging from 5.75% to 6.88%. Mortgage commitments generally have closing dates within a six-month period.



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### *Data Processing Operations*

We have entered into contracts to manage our network operations, data processing and other related services. The projected amounts of future minimum payments contractually due (in thousands) are as follows:

2009	\$ 3,683
2010	\$ 906
2011	\$ 74
2012	\$ 11

### *Legal Proceedings*

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

We, as successor to originators, are from time to time involved in arbitration or litigation with reverse mortgage loan borrowers or with the heirs of borrowers. Because reverse mortgages are a relatively new and uncommon product, there can be no assurances regarding how the courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of our reverse mortgage rights and obligations.

### *Financial Instruments With Off-Balance Sheet Risk*

We are a party to financial instruments with off-balance sheet risk in the normal course of business primarily to meet the financing needs of our customers. To varying degrees, these financial instruments involve elements of credit risk that are not recognized in the Consolidated Statement of Condition.

Exposure to loss for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. We generally require collateral to support such financial instruments in excess of the contractual amount of those instruments and essentially use the same credit policies in making commitments as we do for on-balance sheet instruments.

The following represents a summary of off-balance sheet financial instruments at year-end:

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December 31,	2008	2007
<i>(In Thousands)</i>		
Financial instruments with contract amounts which represent potential credit risk:		
Construction loan commitments	\$ 208,307	\$ 154,875
Commercial mortgage loan commitments	126,918	105,094
Commercial loan commitments	249,643	223,181
Commercial standby letters of credit	59,703	45,977
Residential mortgage loan commitments	8,270	8,435
Consumer loan commitments	47,699	48,690

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. We evaluate each customer's creditworthiness and obtain collateral based on management's credit evaluation of the counterparty.

### *Indemnifications*

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

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

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

At December 31, 2008, there were thirty-nine variable-rate to fixed-rate swap transactions between the third-party financial institution and our customers with an initial notional amount aggregating approximately \$176.6 million, and with maturities ranging from four months to fourteen years. The aggregate fair value of these swaps to the customers was a liability of \$20.9 million as of December 31, 2008, and all of the swap transactions were in a paying position to third-party financial institutions.

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

## 15. 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 year-end or that will be realized in the future.



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

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

*Investments and Mortgage-Backed Securities:* Fair value for investment and mortgage-backed securities is based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted prices for similar securities. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional discussion of our mortgage-backed securities-trading, see Footnote 1 to the Consolidated Financial Statements.

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

*Bank-Owned Life Insurance:* The estimated fair value approximates the book value for this investment

*Stock in the Federal Home Loan Bank of Pittsburgh:* The fair value of FHLB stock is assumed to be essentially equal to its cost basis, since the stock is non-marketable but redeemable at its part value.

*Deposit Liabilities:* The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, money market and interest-bearing demand deposits and savings deposits, is assumed to be equal to the amount payable on demand. The carrying value of variable rate time deposits and time deposits that reprice frequently also approximates fair value. The fair value of the remaining time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with comparable remaining maturities.

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

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



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

December 31,	<b>2008</b>		2007	
	<b>Book Value</b>	<b>Fair Value</b>	Book Value	Fair Value
<i>(In Thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 248,558	\$ 248,558	\$ 267,537	\$ 267,537
Investment securities	49,688	49,578	28,272	28,254
Mortgage-backed securities	498,205	498,205	496,792	496,284
Loans, net	2,443,835	2,435,135	2,233,980	2,240,847
Bank-owned life insurance	59,337	59,337	57,551	57,551
Stock in Federal Home Loan Bank of Pittsburgh	39,305	39,290	45,537	45,455
Accrued interest receivable	11,609	11,609	12,905	12,905
Financial liabilities:				
Deposits	2,122,352	2,101,881	1,827,161	1,811,947
Borrowed funds	1,066,745	1,035,401	1,135,160	1,136,020
Accrued interest payable	6,794	6,794	10,189	10,189

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

December 31,	2008	2007
<i>(In Thousands)</i>		
Off-balance sheet instruments:		
Commitments to extend credit	\$5,926	\$4,942
Standby letters of credit	597	460

### 16. RELATED PARTY TRANSACTIONS

We routinely enter into transactions with our directors and officers. Such transactions are made in the ordinary course of business and management believes they are on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and do not, in the opinion of management, involve more than the normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was \$5.0 million and \$5.4 million at December 31, 2008 and 2007, respectively. During 2008, new loans and credit line advances to such related parties amounted to \$5.3 million and repayments amounted to \$5.8 million.

Our Chairman was also the Chairman of the FHLB of Pittsburgh. At December 31, 2008, we had borrowed funds outstanding from the FHLB of Pittsburgh of \$816.0 million and owned \$39.3 million of FHLB of Pittsburgh stock.

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During 2007 we engaged a law firm that is affiliated with one of our directors for general legal services. Total fees for such services amounted to \$56,000 during 2007. We paid no fees to this firm during 2008.



## 17. PARENT COMPANY FINANCIAL INFORMATION

## Condensed Statement of Financial Condition

December 31, (In Thousands)	2008	2007
Assets:		
Cash	\$ 3,228	\$ 682
Investment in subsidiaries	277,439	275,258
Investment in interest rate cap	—	—
Investment in Capital Trust III	2,011	2,011
Other assets	1,232	800
Total assets	\$ 283,910	\$ 278,751
Liabilities:		
Borrowings	\$ 67,011	\$ 67,011
Interest payable	229	372
Other liabilities	35	38
Total liabilities	67,275	67,421
Stockholders' equity:		
Common stock	157	157
Capital in excess of par value	87,033	83,077
Comprehensive loss	(12,613 )	(3,861 )
Retained earnings	390,338	376,682
Treasury stock	(248,280 )	(244,725 )
Total stockholders' equity	216,635	211,330
Total liabilities and stockholders' equity	\$ 283,910	\$ 278,751

**Condensed Statement of Operations**

Year Ended December 31, (In Thousands)	2008	2007	2006
Income:			
Interest income	\$ 324	\$ 337	\$ 594
Noninterest income	134	166	354
	<b>458</b>	503	948
Expenses:			
Interest expense	3,275	4,752	5,053
Other operating expenses	(941 )	(1,437 )	(1,386 )
	<b>2,334</b>	3,315	3,667
Loss before equity in undistributed income of subsidiaries	(1,875 )	(2,812 )	(2,719 )
Equity in undistributed income of subsidiaries	18,011	32,461	33,160
Net income	\$ 16,136	\$ 29,649	\$ 30,441

**Condensed Statement of Cash Flows**

Year Ended December 31, (In Thousands)	2008	2007	2006
<b>Operating activities:</b>			
Net income	\$ 16,136	\$ 29,649	\$ 30,441
Adjustments to reconcile net income to net cash used for operating activities:			
Equity in undistributed income of subsidiaries	(18,011 )	(32,461 )	(33,160 )
Amortization	—	—	560
Decrease (increase) in other assets	(432 )	443	(606 )
(Decrease) increase in other liabilities	(146 )	(38 )	51
Net cash used for operating activities	(2,453 )	(2,407 )	(2,714 )
<b>Investing activities:</b>			
Decrease (increase) in investment in subsidiaries	7,430	34,898	(646 )
Net cash provided by (used for) investing activities	7,430	34,898	(646 )
<b>Financing activities:</b>			
Issuance of common stock	3,956	1,784	6,907
Dividends paid on common stock	(2,832 )	(2,403 )	(2,057 )
Treasury stock, net of reissuance	(3,555 )	(36,174 )	(6,603 )
Net cash used for financing activities	(2,431 )	(36,793 )	(1,753 )
(Decrease) increase in cash	2,546	(4,302 )	(5,113 )
Cash at beginning of period	682	4,984	10,097
Cash at end of period	\$ 3,228	\$ 682	\$ 4,984



## 18. ACCOUNTING FOR INTEREST RATE CAP

We had an interest-rate cap with a notional amount of \$50.0 million, which limited the three-month LIBOR to 6.00% for the ten years ending December 1, 2008. The fair value of the cap was estimated using a standard option model. The cap was considered a free standing derivative and all changes in the fair value of the cap were recorded in the Consolidated Statement of Operations. During 2008, 2007 and 2006 we recognized interest expense related to the cap of zero, \$30,000 and \$560,000, respectively.

## 19. SEGMENT INFORMATION

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

The WSFS segment provides financial products to commercial and retail customers through its main office, 35 retail banking and loan production offices and operations center. Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking and other banking business units are operating departments of WSFS. These departments share the same regulator, market, many of the same customers and provide similar products and services through the general infrastructure of the Company. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS segment of the Company in accordance with SFAS 131.

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

Montchanin provides asset management products and services to customers in the Company's primary market area. Montchanin has one consolidated wholly-owned subsidiary, Cypress. Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. WSFS Investment Group, Inc. markets various third-party insurance products and securities directly to the public and through the Bank's retail banking system. The Wealth Management Services Division provides wealth management and personal trust services to customers in the Company's primary market area. 1<sup>st</sup> Reverse originates and subsequently sells reverse mortgage loans.

An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the years ended December 31, 2008, 2007 and 2006 follows:



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For the Year Ended December 31, 2008: (In Thousands)	WSFS	CashConnect	All Others <sup>(1)</sup>	Total
External customer revenues:				
Interest income	\$ 166,477	\$ —	\$ —	\$ 166,477
Noninterest income	27,479	13,752	4,758	45,989
Total external customer revenues	193,956	13,752	4,758	212,466
Intersegment revenues:				
Interest income	3,545	—	5	3,550
Noninterest income	3,567	641	—	4,208
Total intersegment revenues	7,112	641	5	7,758
Total revenue	201,068	14,393	4,763	220,224
External customer expenses:				
Interest expense	77,258	—	—	77,258
Noninterest expenses	75,813	5,978	7,307	89,098
Provision for loan loss	23,024	—	—	23,024
Total external customer expenses	176,095	5,978	7,307	189,380
Intersegment expenses:				
Interest expense	5	3,524	21	3,550
Noninterest expenses	641	868	2,699	4,208
Total intersegment expenses	646	4,392	2,720	7,758
Total expenses	176,741	10,370	10,027	197,138
Income (loss) before taxes	\$ 24,327	\$ 4,023	\$ (5,264 )	\$ 23,086
Provision for income taxes				6,950
Consolidated net income				\$ 16,136
Cash and cash equivalents	\$ 56,489	\$ 189,965	\$ 2,104	\$ 248,558
Other segment assets	3,168,467	12,836	2,699	3,184,002
Total segment assets	\$ 3,224,956	\$ 202,801	\$ 4,803	\$ 3,432,560
Capital expenditures	\$ 4,587	\$ 204	\$ 109	\$ 4,900

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

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For the Year Ended December 31, 2007: (In Thousands)	WSFS	CashConnect	All Others <sup>(1)</sup>	Total
External customer revenues:				
Interest income	\$ 189,477	\$ —	\$ —	\$ 189,477
Noninterest income	27,991	16,584	3,591	48,166
Total external customer revenues	217,468	16,584	3,591	237,643
Intersegment revenues:				
Interest income	8,684	—	—	8,684
Noninterest income	2,544	675	—	3,219
Total intersegment revenues	11,228	675	—	11,903
Total revenue	228,696	17,259	3,591	249,546
External customer expenses:				
Interest expense	107,468	—	—	107,468
Noninterest expenses	72,657	4,683	4,691	82,031
Provision for loan loss	5,021	—	—	5,021
Total external customer expenses	185,146	4,683	4,691	194,520
Intersegment expenses:				
Interest expense	—	8,684	—	8,684
Noninterest expenses	675	1,076	1,468	3,219
Total intersegment expenses	675	9,760	1,468	11,903
Total expenses	185,821	14,443	6,159	206,423
Income (loss) before taxes and minority interest	\$ 42,875	\$ 2,816	\$ (2,568 )	\$ 43,123
Provision for income taxes				13,474
Minority interest				
Consolidated net income				\$ 29,649
Cash and cash equivalents	\$ 83,650	\$ 182,523	\$ 1,364	\$ 267,537
Other segment assets	2,913,328	17,314	2,009	2,932,651
Total segment assets	\$ 2,996,978	\$ 199,837	\$ 3,373	\$ 3,200,188
Capital expenditures	\$ 8,134	\$ 194	\$ 5	\$ 8,333

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





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For the Year Ended December 31, 2006: (In Thousands)	WSFS	CashConnect	All Others <sup>(1)</sup>	Total
External customer revenues:				
Interest income	\$ 177,177	\$ —	\$ —	\$ 177,177
Noninterest income	21,472	15,644	3,189	40,305
Total external customer revenues	198,649	15,644	3,189	217,482
Intersegment revenues:				
Interest income	8,071	—	—	8,071
Noninterest income	1,704	685	—	2,389
Total intersegment revenues	9,775	685	—	10,460
 Total revenue	 208,424	 16,329	 3,189	 227,942
External customer expenses:				
Interest expense	99,278	—	—	99,278
Noninterest expenses	61,521	4,222	3,571	69,314
Provision for loan loss	2,738	—	—	2,738
Total external customer expenses	163,537	4,222	3,571	171,330
Intersegment expenses:				
Interest expense	—	8,071	—	8,071
Noninterest expenses	685	688	1,016	2,389
Total intersegment expenses	685	8,759	1,016	10,460
 Total expenses	 164,222	 12,981	 4,587	 181,790
 Income (loss) before taxes and minority interest	 \$ 44,202	 \$ 3,348	 \$ (1,398 )	 \$ 46,152
 Provision for income taxes				 15,660
Minority interest				51
Consolidated net income				\$ 30,441
 Cash and cash equivalents	 \$ 74,905	 \$ 166,092	 \$ 827	 \$ 241,824
Other segment assets	2,738,531	15,228	1,813	2,755,572
Total segment assets	\$ 2,813,436	\$ 181,320	\$ 2,640	\$ 2,997,396
 Capital expenditures	 \$ 9,790	 \$ 382	 \$ 20	 \$ 10,192

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

## 20. BUSINESS COMBINATIONS

### *1st Reverse Financial Services, LLC Acquisition*

On April 30, 2008, we completed the acquisition of a 51% majority stake in 1st Reverse Financial Services, LLC ("1st Reverse"). Operating results of 1st Reverse are included in the consolidated financial statements since the date of acquisition. As a result of the acquisition, we expect to build on the knowledge and experience we have gained over nearly 15 years of success with reverse mortgages and promote this senior-friendly product to customers on a national basis. This business is expected to enhance our revenue and fee income, further diversify and strengthen our business model and move towards our goal of high performance.

The acquisition resulted in recording \$685,000 of goodwill, which is the excess cost over the fair value of its assets at the time of acquisition. Other intangibles amounting to \$658,000 were also identified in the transaction, with amortization periods of 5-10 years using straight-line methods. A portion of the goodwill and all the intangibles will be deducted for tax purposes.

### *Sun National Bank Branch Purchase*

On October 24, 2008, we completed the acquisition of six branches from Sun National Bank and their respective deposits. The operating results of these branches have been included in the consolidated financial statements since the date of acquisition. We expect this acquisition to further solidify our market share in Delaware, expand our customer base to enhance deposit fee income and provide an opportunity to market additional products and services to new customers.

The aggregate cash purchase price was \$11.5 million. The purchase price resulted in approximately \$10 million in goodwill and \$2 million in core deposit intangibles ("CDI"). This CDI will be amortized over 7.5 years, using straight-line methods. The goodwill and intangible assets will be deducted for tax purposes. In the transaction, WSFS acquired \$95.3 million of deposits.

The goodwill related to both the 1st Reverse acquisition and the Sun National Bank branch purchase will not be amortized, but instead will be evaluated periodically for impairment.

## 21. SUBSEQUENT EVENT

In January 2009, WSFS entered into a definitive agreement with the U.S. Treasury. Pursuant to the agreement, WSFS sold to the U.S. Treasury, 52,625 shares of senior preferred stock, having a liquidation amount equal to \$1,000 per share, or \$52.6 million. These shares of senior preferred stock also has an attached warrant (Warrant) to purchase 175,105 shares of WSFS' common stock, par value \$0.01 per share, for the aggregate price of \$7.9 million. The preferred stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per year, for the first five years, and 9% per year thereafter.



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The Warrant has a 10-year term with 50% vesting immediately upon issuance and the remaining 50% vesting on January 1, 2010 if certain qualified equity offerings are not satisfied. The Warrant has an exercise price, subject to anti-dilution adjustments, equal to \$45.08 per share of common stock.

**QUARTERLY FINANCIAL SUMMARY (Unaudited)**

<b>Three months ended</b>	<b>12/31/08</b>	<b>09/30/08</b>	<b>06/30/08</b>	<b>03/31/08</b>	<b>12/31/07</b>	<b>09/30/07</b>	<b>06/30/07</b>	<b>03/31/07</b>
<i>(In Thousands, Except Per Share Data)</i>								
Interest income	\$ 39,785	\$ 41,337	\$ 40,795	\$ 44,560	\$ 48,143	\$ 47,579	\$ 46,667	\$ 47,088
Interest expense	17,209	18,030	18,428	23,591	27,433	27,480	26,527	26,028
Net interest income	22,576	23,307	22,367	20,969	20,710	20,099	20,140	21,060
Provision for loan losses <sup>(1)</sup>	14,699	3,502	2,433	2,390	2,376	1,001	1,273	371
Net interest income after provision for loan losses	7,877	19,805	19,934	18,579	18,334	19,098	18,867	20,689
Noninterest income	10,128	11,684	11,671	12,506	13,008	12,809	11,616	10,733
Noninterest expenses	23,969	23,022	21,170	20,937	22,313	21,333	19,027	19,358
Income before minority interest and taxes	(5,964 )	8,467	10,435	10,148	9,029	10,574	11,456	12,064
Less minority interest	—	—	—	—	—	—	—	—
Income before taxes	(5,964 )	8,467	10,435	10,148	9,029	10,574	11,456	12,064
Income tax provision	(2,644 )	2,957	3,735	2,902	1,533	3,431	4,227	4,283
Net Income	\$ (3,320 )	\$ 5,510	\$ 6,700	\$ 7,246	\$ 7,496	\$ 7,143	\$ 7,229	\$ 7,781
Earnings per share:								
Basic	(0.54 )	0.90	1.09	1.17	1.21	1.14	1.15	1.19
Diluted	(0.54 )	0.88	1.07	1.15	1.18	1.11	1.11	1.15

(1) During the fourth quarter of 2008, we recorded a \$14.7 million provision for loan losses, which was primarily related to the impairment of four large construction and land development (CLD) credits.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Listed below are all financial statements and exhibits filed as part of this report, and are incorporated by reference.

1. The consolidated statements of Condition of WSFS Financial Corporation and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2008, together with the related notes and the independent auditors' report of KPMG LLP, independent registered public accounting firm.
2. Schedules omitted as they are not applicable

The following exhibits are incorporated by reference herein or annexed to this Annual Report:

**Exhibit**

**Number      Description of Document**

- |      |  |
|------|--|
| 3.1  | Registrant's Certificate of Incorporation, as amended is incorporated herein by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.  |
| 3.2  | Amended and Restated Bylaws of WSFS Financial Corporation, incorporated herein by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed on October 27, 2008.   |
| 3.3  | Certificate of Designations for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.   |
| 4.1  | Form of Certificate for the Series A Preferred Stock, incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.  |
| 4.2  | Warrant for Purchase of Shares of Common Stock, incorporated herein by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.  |
| 10.1 | WSFS Financial Corporation, 1994 Short Term Management Incentive Plan Summary Plan Description is incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.  |
| 10.2 | Amended and Restated Wilmington Savings Fund Society, Federal Savings Bank 1997 Stock Option Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-26099) filed with the Commission on April 29, 1997.   |
| 10.3 | 2000 Stock Option and Temporary Severance Agreement among Wilmington Savings Fund Society, Federal Savings Bank, WSFS Financial Corporation and Marvin N. Schoenhals on February 24, 2000 is incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. |

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- 10.4 WSFS Financial Corporation Severance Policy for Executive Vice Presidents dated February 28, 2008. \*
- 10.5 WSFS Financial Corporation's 2005 Incentive Plan is incorporated herein by reference to appendix A of the Registrant's Definitive Proxy Statement on Schedule 14-A for the 2005 Annual Meeting of Stockholders. \*
- 10.6 Amendment to WSFS Financial Corporation 2005 Incentive Plan for IRC 409A and FAS 123R dated December 31, 2008. \*
- 10.7 Amendment to the WSFS Financial Corporation Severance Policy for Executive Vice Presidents dated December 31, 2008. \*
- 10.8 Letter Agreement, dated January 23, 2009, between WSFS Financial Corporation and the United States Department of Treasury, with respect to the issuance and sale of the Series A Preferred Stock and the Warrant, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.
- 10.9 Form of Waiver, executed by Messrs. Marvin N. Schoenhals, Mark A. Turner, Stephen A. Fowle, Richard M. Wright, Rodger Levenson and Mrs. Barbara J. Fischer, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.
- 10.10 Form of Letter Agreement, executed by Messrs. Marvin N. Schoehals, Mark A. Turner, Stephen A. Fowle, Richard M. Wright, Rodger Levenson and Mr. Barbara J. Fischer, incorporated herein by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on January 23, 2009.
- 21 Subsidiaries of Registrant. \*
- 23 Consent of KPMG LLP

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31 Certification pursuant to Rule 13a-14 of the Exchange Act

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed as an exhibit to the Annual Report on Form 10-K filed on March 16, 2009.

Exhibits 10.1 through 10.10 represent management contracts or compensatory plan arrangements.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: March 23, 2009

BY: /s/ Mark A. Turner  
Mark A. Turner  
President and Chief Executive Officer  
(Duly Authorized Officer)