MCKESSON CORP
Form S-3
May 13, 2005

Table of Contents

As filed with the Securities and Exchange Commission on May 13, 2005
Registration No. 333-

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

Delaware
(State or other jurisdiction of incorporation or organization)

94-3207296
(I.R.S. Employer Identification Number)

McKesson Plaza
One Post Street
San Francisco, California 94104
(415) 983-8300
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Ivan D. Meyerson
Executive Vice President, General Counsel and Secretary
McKesson Corporation
McKesson Plaza, One Post Street
San Francisco, California 94104
(415) 983-8300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
Gregg A. Noel, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
300 South Grand Avenue
Los Angeles, California 90071
(213) 687-5000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. þ

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock				
Rights to Purchase Series A Preferred Stock(4)				
Series Preferred Stock				
Senior Debt Securities, Senior Subordinated Debt Securities, Subordinated Debt Securities and Junior Subordinated Debt Securities (collectively, Debt Securities)				
Warrants				
Depositary Shares representing Preferred Stock(5)				
Stock Purchase Contracts				
Stock Purchase Units				
Total	$ 1,500,000,000.00	100%	$1,500,000,000.00	$176,550.00

(footnotes on next page)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

(footnotes from previous page)

(1) Pursuant to General Instruction II.D of Form S-3, the amount to be registered is not specified as to each class of securities. Subject to Rule 462(b) under the Securities Act, the aggregate public offering price of the securities registered hereby will not exceed $1,500,000,000, or if any securities are issued in any foreign currencies, composite currencies or currency units, the U.S. dollar equivalent of $1,500,000,000. This Registration Statement includes such indeterminate number of shares of Common Stock, Series Preferred Stock, Depositary Shares, Warrants, Stock Purchase Contracts and Stock Purchase Units and such indeterminate principal amount of Debt Securities. This Registration Statement includes such presently indeterminate number of securities registered hereunder as may be issuable from time to time upon conversion of, or in exchange for, or upon exercise of, convertible or exchangeable securities as may be offered pursuant to the prospectus filed with this Registration Statement.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act and exclusive of accrued interest and dividends, if any.

(3) Calculated pursuant to Rule 457(o) of the Securities Act, based on the maximum aggregate offering price of all the securities.

(4) Associated with the Common Stock of McKesson Corporation are rights to purchase Series A Junior Participating Preferred Stock of McKesson Corporation (the Series A Preferred Stock) that will not be exercisable or evidenced separately from the Common Stock prior to the occurrence of certain events. No separate consideration will be received by McKesson Corporation for the initial issuance of the rights to purchase the Series A Preferred Stock.

(5) Such indeterminate number of Depositary Shares to be evidenced by Depositary Receipts issued under a Deposit Agreement. If fractional interests in shares of Preferred Stock are issued, Depositary Receipts will be distributed for such fractional interests and the shares of Preferred Stock will be issued to the depositary under the Deposit Agreement.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 13, 2005

PROSPECTUS

$1,500,000,000
McKesson Corporation
Common Stock
Preferred Stock
Depositary Shares
Debt Securities
Warrants
Stock Purchase Contracts
Stock Purchase Units

McKESSON CORPORATION

- may sell common stock to the public;
- may sell preferred stock to the public;
- may sell depositary shares representing preferred stock to the public;
- may sell debt securities to the public;
- may sell warrants to the public; and
- may sell stock purchase contracts or stock purchase units to the public.

The common stock of McKesson Corporation is listed on the New York Stock Exchange under the symbol MCK. Our principal executive offices are located at McKesson Plaza, One Post Street, San Francisco, California 94104, and our telephone number is (415) 983-8300.

We urge you to read carefully this prospectus and the accompanying prospectus supplement, which will describe the specific terms of the securities being offered to you, before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

The date of this prospectus is .

TABLE OF CONTENTS

Unless otherwise indicated or the context otherwise requires, all references in this prospectus to McKesson, the company, we, our, us or similar terms refer to McKesson Corporation, together with its subsidiaries.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the Commission or SEC), using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of $1,500,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements, and other information with the SEC. Such reports, proxy statements, and other information concerning us can be read and copied at the SEC s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 or on the Internet at http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our common stock is listed on the New York Stock Exchange, and these reports, proxy statements and other information are also available for inspection at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This prospectus is part of a registration statement filed with the SEC by us. The full registration statement can be obtained from the SEC as indicated above, or from us.

The SEC allows us to incorporate by reference the information we file with the SEC. This permits us to disclose important information to you by referring to these filed documents. Any information referred to in this way is considered part of this prospectus, and any information filed with the SEC by us after the date of this prospectus will automatically be deemed to update and supersede this information. We incorporate by reference the following documents that have been filed with the SEC (other than information in such documents that is not deemed to be filed):

Annual Report on Form 10-K for the year ended March 31, 2005 and all amendments thereto; and

Current Report on Form 8-K dated April 28, 2005 (filed May 3, 2005).

We also incorporate by reference any future filings (other than information in such documents that is not deemed to be filed) made with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) until we file a post-effective amendment which indicates the termination of the offering of the securities made by this prospectus.

We will provide without charge upon written or oral request a copy of any or all of the documents that are incorporated by reference into this prospectus, other than exhibits which are specifically incorporated by reference into such documents. Requests should be directed to our Corporate Secretary at McKesson Corporation, McKesson Plaza, One Post Street, San Francisco, California 94104. Our telephone number is (415) 983-8300.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Exchange Act. Some of the forward-looking statements can be identified by the use of forward-looking words including, but not limited to, believes, expects, anticipates, may, will, should, seeks, approximately, i estimates or the negative of those words or other comparable terminology. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, those discussed under Additional Factors That May Affect Future Results in our Annual Report on Form 10-K, in any prospectus supplement related hereto, and in other information contained in our publicly available SEC filings and press releases.

You should not place undue reliance on any such forward-looking statements, which speak only as of the date hereof. Except to the extent required by federal securities laws, we do not intend to update forward-looking information or to release the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

McKESSON CORPORATION

We are a Fortune 15 corporation providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry. We conduct our business through three segments: Pharmaceutical Solutions, Medical-Surgical Solutions and Provider Technologies.

Table of Contents

Our principal executive offices are located at McKesson Plaza, One Post Street, San Francisco, California 94104, and our telephone number is (415) 983-8300.

USE OF PROCEEDS

Unless otherwise set forth in a prospectus supplement with respect to the proceeds from the sale of the particular securities to which such prospectus supplement relates, we intend to use the net proceeds from the sale of the offered securities for general corporate purposes, including repayment or redemption of outstanding debt or preferred stock, the possible acquisition of related businesses or assets thereof, and working capital needs.

DESCRIPTION OF SECURITIES

This prospectus contains a summary of our common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and stock purchase units. These summaries are not meant to be a complete description of each security. The particular terms of any security to be issued pursuant hereto will be set forth in a related prospectus supplement. This prospectus and the accompanying prospectus supplement will contain the material terms and conditions for each security.

DESCRIPTION OF CAPITAL STOCK

The following descriptions of our capital stock and of certain provisions of Delaware law do not purport to be complete and are subject to and qualified in their entirety by reference to our restated certificate of incorporation and bylaws and the Delaware General Corporation Law (DGCL), and, with respect to certain rights of holders of shares of common stock, our rights agreement. Copies of such documents have been filed with the SEC and are filed as exhibits to the registration statement to which this prospectus is a part.

As of the date hereof, our authorized capital stock consists of 900,000,000 shares, of which 800,000,000 shares are common stock, par value $0.01 per share, and 100,000,000 shares are preferred stock, par value $0.01 per share. As of April 30, 2005, there were 299,979,779 shares of common stock issued and outstanding, and no shares of preferred stock issued and outstanding. Of the preferred stock, 10,000,000 shares have been designated Series A Junior Participating Preferred Stock and reserved for issuance pursuant to our rights agreement. All of our outstanding shares of common stock are fully paid and non-assessable.

Our common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol MCK.

In February 1997, McKesson Financing Trust issued an aggregate of 4,123,720 5% Trust Convertible Preferred Securities. Each trust security is convertible into common stock at any time prior to the close of business on the business day prior to June 1, 2027 (or prior to the date of redemption of the trust security), at the option of the holder, at the rate of 1.3418 shares of common stock for each trust security (equivalent to a conversion price of $37.26 per share of common stock), subject to adjustment in certain circumstances. As described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2005, we do not consolidate our investment in McKesson Financing Trust.

Common Stock

Dividends Rights. Subject to the dividend rights of the holders of any outstanding series of preferred stock, the holders of shares of common stock are entitled to receive ratably dividends out of assets legally available therefor at such times and in such amounts as our board of directors may from time to time determine.

Rights Upon Liquidation. Upon liquidation, dissolution or winding up of our affairs, the holders of common stock are entitled to share ratably in our assets that are legally available for distribution, after payment of all debts, other liabilities and any liquidation preferences of outstanding preferred stock.

Conversion, Redemption and Preemptive Rights. Holders of our common stock have no conversion, redemption, preemptive or similar rights.

Voting Rights. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Our restated certificate of incorporation does not provide for cumulative voting in the election of directors.

Preferred Stock

Our restated certificate of incorporation authorizes our board of directors, without further stockholder action, to provide for the issuance of up to 100,000,000 shares of preferred stock, in one or more series, and to fix the designations, terms, and relative rights and preferences, including the dividend rate, voting rights, conversion rights, redemption and sinking fund provisions and liquidation values of each of these series. We may amend from time to time our restated certificate of incorporation to increase the number of authorized shares of preferred stock. Any such amendment would require the approval of the holders of a majority of our stock entitled to vote.

The particular terms of any series of preferred stock that we offer under this prospectus will be described in the applicable prospectus supplement relating to that series of preferred stock. Those terms may include:

- the title and liquidation preference per share of the preferred stock and the number of shares offered;
- the purchase price of the preferred stock;
- the dividend rate (or method of calculation), the dates on which dividends will be paid, whether dividends shall be cumulative and, if so, the date from which dividends will begin to accumulate;
- any redemption or sinking fund provisions of the preferred stock;
- any conversion, redemption or exchange provisions of the preferred stock;
- the voting rights, if any, of the preferred stock; and
- any additional dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions of the preferred stock.

If the terms of any series of preferred stock being offered differ from the terms set forth in this prospectus, those terms will also be disclosed in the applicable prospectus supplement relating to that series of preferred stock. The summary in this prospectus is not complete. You should refer to the certificate of designations establishing a particular series of preferred stock which will be filed with the Secretary of State of the State of Delaware and the SEC in connection with the offering of the preferred stock.

Each prospectus supplement may describe certain U.S. federal income tax considerations applicable to the purchase, holding and disposition of the preferred stock that prospectus supplement covers.

Dividend Rights. The preferred stock will be preferred over the common stock as to payment of dividends. Before any dividends or distributions (other than dividends or distributions payable in common stock or other stock ranking junior to that series of preferred stock as to dividends and upon liquidation) on the common stock or other stock ranking junior to that series of preferred stock as to dividends and upon liquidation shall be declared and set apart for payment or paid, the holders of shares of each series of preferred stock (unless otherwise set forth in the applicable prospectus supplement) will be entitled to receive dividends when, as and if declared by our board of directors or, if dividends are cumulative, full cumulative dividends for the current and all prior dividend periods. We will pay those dividends either in cash, shares of preferred stock, or otherwise, at the rate and on the date or dates set forth in the applicable prospectus supplement. With respect to each series of preferred stock that has cumulative dividends, the dividends on each share of the series will be cumulative from the date of issue of the share unless some other date is set forth in the prospectus supplement relating to the series. Accruals of dividends will not bear interest. The applicable prospectus supplement will indicate the relative ranking of the particular series of the preferred stock as to the payment of dividends, as compared with then-existing and future series of preferred stock.

Rights Upon Liquidation. The preferred stock of each series will be preferred over the common stock and other stock ranking junior to that series of preferred stock as to assets, so that the holders of that series of

3

preferred stock (unless otherwise set forth in the applicable prospectus supplement) will be entitled to be paid, upon our voluntary or involuntary liquidation, dissolution or winding up, and before any distribution is made to the holders of common stock and other stock ranking junior to that series of preferred stock, the amount set forth in the applicable prospectus supplement. However, in this case the holders of preferred stock of that series will not be entitled to any other or further payment. If upon any liquidation, dissolution or winding up, our net assets are insufficient to permit the payment in full of the respective amounts to which the holders of all outstanding preferred stock are entitled, our entire remaining net assets will be distributed among the holders of each series of preferred stock in amounts proportional to the full amounts to which the holders of each series are entitled, subject to any provisions of any series of preferred stock that rank it junior or senior to other series of preferred stock upon liquidation. The applicable prospectus supplement will indicate the relative ranking of the particular series of the preferred stock upon liquidation, as compared with then-existing and future series of preferred stock.

Conversion, Redemption or Exchange Rights. The shares of a series of preferred stock will be convertible at the option of the holder of the preferred stock, redeemable at our option or the holder, as applicable, or exchangeable at our option, into another security, in each case, to the extent set forth in the applicable prospectus supplement.

Voting Rights. Except as indicated in the applicable prospectus supplement or as otherwise from time to time required by law, the holders of preferred stock will have no voting rights.

Anti-Takeover Effects of Provisions of the Our Restated Certificate of Incorporation and Bylaws

Our restated certificate of incorporation and bylaws contain certain provisions that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Pursuant to our restated certificate of incorporation, our board of directors is divided into three classes serving staggered three-year terms. Directors can be removed from office only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding shares of any class or series of our capital stock entitled to vote generally in the election of directors. Vacancies and newly created directorships on our board of directors may be filled only by a majority of the remaining directors or by the plurality vote of the stockholders.

Our restated certificate of incorporation also provides that any action required or permitted to be taken by the holders of common stock may be effected only at an annual or special meeting of such holders, and that stockholders may act in lieu of such meetings only by unanimous written consent. Our bylaws provide that special meetings of holders of common stock may be called only by our Chairman or President or board of directors. Holders of common stock are not permitted to call a special meeting or to require that our board of directors call a special meeting of stockholders.

Our bylaws establish an advance notice procedure for the nomination, other than by or at the direction of our board of directors, of candidates for election as directors as well as for other stockholder proposals to be considered at annual meetings of stockholders. In general, notice of intent to nominate a director or raise business at such meetings must be received by us not less than 90 nor more than 120 days prior to the date of the annual meeting and must contain certain specified information concerning the person to be nominated or the matters to be brought before the meeting and concerning the stockholder submitting the proposal.

Our restated certificate of incorporation provides that certain provisions of the bylaws may only be amended by the affirmative vote of the holders of 75% of our outstanding shares entitled to vote. Our restated certificate of incorporation also provides that, in addition to any affirmative vote required by law, the affirmative vote of holders of 80% of our outstanding voting stock and two-thirds of the voting stock other than voting stock held by an interested stockholder shall be necessary to approve certain business combinations proposed by an interested stockholder.

The foregoing summary is qualified in its entirety by the provisions of our restated certificate of incorporation and bylaws, copies of which have been filed with the SEC.

Table of Contents

Rights Plan

Pursuant to a rights agreement, our board of directors declared a dividend distribution of one right for each outstanding share of common stock to stockholders of record at October 22, 2004. Each right entitles the registered holder to purchase from us a unit consisting of one one-hundredth of a share of Series A Junior Participating Preferred Stock at a purchase price of $100 per unit. The rights expire on October 22, 2014, unless redeemed earlier by our board of directors. The terms of the rights are set forth in a rights agreement between us and a rights agent, a copy of which is filed with the SEC. The following summary outlines certain provisions of the rights agreement and is qualified in its entirety by reference to our rights agreement.

The rights are attached to all common stock certificates representing shares outstanding at the record date and shares issued between the record date and the distribution date, and no separate rights certificates have been distributed. The rights will separate from the common stock, separate rights certificates will be issued (which will then be the sole evidence of the rights) and a distribution date will occur upon the earlier to occur of:

(1) ten business days following the date of a public announcement by us or an acquiring person that there is such an acquiring person (such date is referred to as the stock acquisition date),

(2) ten business days (or such later date as our board of directors may determine) following commencement of a tender or exchange offer that would result in the offeror beneficially owning 15% or more of the common stock, or

(3) ten business days after our of directors determine that the ownership of 10% or more of our outstanding common stock by a person is (A) intended to cause us to repurchase the common stock beneficially owned by such person or to cause pressure on us to take action or enter into a transaction or series of transactions intended to provide such person with short-term financial gain under circumstances where our directors determine that the best long-term interest of the company and its stockholders would not be served by taking such action or entering into such transactions or series of transactions at that time, or (B) is causing, or is reasonably likely to cause, a material adverse impact on us.

The term acquiring person means any person who, together with affiliates and associates, acquires beneficial ownership of shares of our common stock representing 15% or more of our outstanding common stock, but shall not include us, any of our subsidiaries, any of our employee benefit plans, any person or entity organized, appointed or established by us for or pursuant to the terms of such plan, any person who has acquired beneficial ownership of 15% or more of the outstanding shares of common stock as a result of repurchases of stock by us, certain inadvertent actions by institutional or certain other stockholders as of October 22, 2004, or any person who has entered into any agreement or arrangement with us or any subsidiary of ours for an acquisition transaction.

In the event that a person becomes an acquiring person (except pursuant to an offer for all outstanding shares of common stock which the independent directors determine to be fair to and otherwise in our best interests and in the best interests of our stockholders), each holder of a right will thereafter have the right to receive, upon exercise, common stock (or, in certain circumstances, cash, property or other securities of the company) having a calculated value equal to two times the exercise price of the right. Notwithstanding the foregoing, following the occurrence of such event, all rights that are, or (under certain circumstances specified in the rights agreement) were, beneficially owned by an acquiring person and certain related persons and transferees will be null and void. However, rights are not exercisable following the occurrence of such event until such time as the rights are no longer redeemable as set forth below.

At any time prior to the tenth day following the stock acquisition date, we may redeem the rights, in whole, but not in part, at a price of $0.0l per right.

Until a right is exercised, the holder thereof, as such, will have no rights as a stockholder, including without limitation, the right to vote or to receive dividends.

In general, the rights agreement may be amended by our board of directors (1) prior to the distribution date in any manner, and (2) on or after the distribution date in certain respects including (a) to shorten or

Table of Contents

lengthen at any time period and (b) in a manner not adverse to the interests of rights holders. However, amendments extending the redemption period must be made while the rights are still redeemable.

The rights have certain anti-takeover effects and will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. The rights should not interfere with any merger or other business combination approved by our board of directors, since our board of directors may redeem the rights as provided above.

Section 203 of Delaware General Corporation Law

We are subject to the business combination statute of the DGCL. In general, such statute prohibits a publicly held Delaware corporation from engaging in a business combination with any interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

(1) such transaction is approved by our board of directors prior to the date the interested stockholder obtains such status,

(2) upon consummation of such transaction, the interested stockholder beneficially owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by (a) persons who are directors and also officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or

(3) the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least $66^2/3\%$ of the outstanding voting stock which is not owned by the interested stockholder.

A business combination includes mergers, asset sales and other transactions resulting in financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns (or within three years, did own) beneficially 15% or more of a corporation s voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us.

Certain Effects of Authorized But Unissued Stock

Our authorized but unissued shares of common stock and preferred stock may be issued without additional stockholder approval and may be utilized for a variety of corporate purposes, including future offerings to raise additional capital or to facilitate corporate acquisitions.

The issuance of preferred stock could have the effect of delaying or preventing a change in control of us. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of our common stock or could adversely affect the rights and powers, including voting rights, of such holders. In certain circumstances, such issuance could have the effect of decreasing the market price of our common stock.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of management. Such, additional shares also could be used to dilute the stock ownership of persons seeking to obtain control of us.

We plan to issue additional shares of common stock (1) in connection with our employee benefit plans and (2) upon conversion of our trust securities. We do not currently have any plans to issue shares of preferred stock, although 10,000,000 shares of Series A Preferred Stock have been designated pursuant to our rights agreement.

Limitation of Liability of Directors

Our restated certificate of incorporation contains a provision that limits the liability of our directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the Delaware General Corporation Law. Such limitation does not, however, affect the liability of a director (1) for any breach of the director s duty of loyalty to us or our stockholders, (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) in respect of certain unlawful dividend payments or stock redemptions or purchases and (4) for any transaction from which the director derives an improper personal benefit. The effect of this provision is to eliminate our rights and the rights of our stockholders (through stockholders derivative suits) to recover monetary damages against a director for breach of the fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (1) through (4) above. This provision does not limit or eliminate our rights or the rights of our stockholders to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director s duty of care. In addition, our directors and officers have indemnification protection.

Transfer Agent and Registrar

The Bank of New York acts as transfer agent and registrar of our common stock.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol MCK .

DESCRIPTION OF DEPOSITARY SHARES

The following description of the depositary shares does not purport to be complete and is subject to and qualified in its entirety by the Deposit Agreement and the depositary receipt relating to the preferred stock that is attached to the Deposit Agreement. You should read these documents as they, and not this description, define your rights as a holder of depositary shares. Forms of these documents have been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part.

General

If we elect to offer fractional interests in shares of preferred stock, we will provide for the issuance by a depositary to the public of receipts for depositary shares. Each depositary share will represent fractional interests of preferred stock. We will deposit the shares of preferred stock underlying the depositary shares under a Deposit Agreement between us and a bank or trust company selected by us. The bank or trust company must have its principal office in the United States and a combined capital and surplus of at least $50 million. The depositary receipts will evidence the depositary shares issued under the Deposit Agreement.

The Deposit Agreement will contain terms applicable to the holders of depositary shares in addition to the terms stated in the depositary receipts. Each owner of depositary shares will be entitled to all the rights and preferences of the preferred stock underlying the depositary shares in proportion to the applicable fractional interest in the underlying shares of preferred stock. The depositary will issue the depositary receipts to individuals purchasing the fractional interests in shares of the related preferred stock according to the terms of the offering described in a prospectus supplement.

Dividends and Other Distributions

The depositary will distribute all cash dividends or other cash distributions received for the preferred stock to the entitled record holders of depositary shares in proportion to the number of depositary shares that the holder owns on the relevant record date. The depositary will distribute only an amount that can be distributed without attributing to any holder of depositary shares a fraction of one cent. The depositary will add the undistributed balance to and treat it as part of the next sum received by the depositary for distribution to holders of depositary shares.

If there is a non-cash distribution, the depositary will distribute property received by it to the entitled record holders of depositary shares, in proportion, insofar as possible, to the number of depositary shares owned by the holders, unless the depositary determines, after consultation with us, that it is not feasible to make such distribution. If this occurs, the depositary may, with our approval, sell such property and distribute the net proceeds from the sale to the holders. The Deposit Agreement also will contain provisions relating to how any subscription or similar rights that we may offer to holders of the preferred stock will be available to the holders of the depositary shares.

Conversion, Exchange and Redemption

If any series of preferred stock underlying the depositary shares may be converted or exchanged, each record holder of depositary receipts will have the right or obligation to convert or exchange the depositary shares represented by the depositary receipts.

Whenever we redeem shares of preferred stock held by the depositary, the depositary will redeem, at the same time, the number of depositary shares representing the preferred stock. The depositary will redeem the depositary shares from the proceeds it receives from the corresponding redemption, in whole or in part, of the applicable series of preferred stock. The depositary will mail notice of redemption to the record holders of the depositary shares that are to be redeemed between 30 and 60 days before the date fixed for redemption. The redemption price per depositary share will be equal to the applicable fraction of the redemption price per share on the applicable series of preferred stock. If less than all the depositary shares are to be redeemed, the depositary will select which shares to be redeemed by lot, proportionate allocation or any other method.

After the date fixed for redemption, the depositary shares called for redemption will no longer be outstanding. When the depositary shares are no longer outstanding, all rights of the holders will end, except the right to receive money, securities or other property payable upon redemption.

Voting

When the depositary receives notice of a meeting at which the holders of the preferred stock are entitled to vote, the depositary will mail the particulars of the meeting to the record holders of the depositary shares. Each record holder of depositary shares on the record date may instruct the depositary on how to vote the shares of preferred stock underlying the holder s depositary shares. The depositary will try, if practical, to vote the number of shares of preferred stock underlying the depositary shares according to the instructions. The depositary will abstain from voting shares of the preferred stock to the extent it does not receive specific instructions from the holders of depositary shares representing such preferred stock. We will agree to take all reasonable action requested by the depositary to enable it to vote as instructed.

Record Date

Whenever (1) any cash dividend or other cash distribution shall become payable, any distribution other than cash shall be made, or any rights, preferences or privileges shall be offered with respect to the preferred stock, or (2) the depositary shall receive notice of any meeting at which holders of preferred stock are entitled to vote or of which holders of preferred stock are entitled to notice, or of the mandatory conversion of or any election on our part to call for the redemption of any preferred stock, the depositary shall in each such instance fix a record date (which shall be the same as the record date for the preferred stock) for the determination of the holders of depositary receipts (x) who shall be entitled to receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof or (y) who shall be entitled to give instructions for the exercise of voting rights at any such meeting or to receive notice of such meeting or of such redemption or conversion, subject to the provisions of the Deposit Agreement.

Amendments

We and the depositary may agree to amend the Deposit Agreement and the depositary receipt evidencing the depositary shares. Any amendment that (a) imposes or increases certain fees, taxes or other charges payable by the holders of the depositary shares as described in the Deposit Agreement or that (b) otherwise prejudices any substantial existing right of holders of depositary shares, will not take effect until 30 days after the depositary has mailed notice of the amendment to the record holders of depositary shares. Any holder of depositary shares that continues to hold its shares at the end of the 30-day period will be deemed to have agreed to the amendment.

Table of Contents

Termination

We may direct the depositary to terminate the Deposit Agreement by mailing a notice of termination to holders of depositary shares at least 30 days prior to termination. In addition, a Deposit Agreement will automatically terminate if:

- the depositary has redeemed all related outstanding depositary shares, or
- we have liquidated, terminated or wound up our business and the depositary has distributed the preferred stock of the relevant series to the holders of the related depositary shares.

The depositary may likewise terminate the Deposit Agreement if at any time 60 days shall have expired after the depositary shall have delivered to us a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment. If any depositary receipts remain outstanding after the date of termination, the depositary thereafter will discontinue the transfer of depositary receipts, will suspend the distribution of dividends to the holders thereof, and will not give any further notices (other than notice of such termination) or perform any further acts under the Deposit Agreement except as provided below and except that the depositary will continue (1) to collect dividends on the preferred stock and any other distributions with respect thereto and (2) to deliver the preferred stock together with such dividends and distributions and the net proceeds of any sales of rights, preferences, privileges or other property, without liability for interest thereon, in exchange for depositary receipts surrendered. At any time after the expiration of two years from the date of termination, the depositary may sell the preferred stock then held by it at public or private sales, at such place or places and upon such terms as it deems proper and may thereafter hold the net proceeds of any such sale, together with any money and other property then held by it, without liability for interest thereon, for the pro rata benefit of the holders of depositary receipts which have not been surrendered.

Payment of Fees and Expenses

We will pay all fees, charges and expenses of the depositary, including the initial deposit of the preferred stock and any redemption of the preferred stock. Holders of depositary shares will pay transfer and other taxes and governmental charges and any other charges as are stated in the Deposit Agreement for their accounts.

Resignation and Removal of Depositary

At any time, the depositary may resign by delivering notice to us, and we may remove the depositary. Resignations or removals will take effect upon the appointment of a successor depositary and its acceptance of the appointment. The successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50 million.

Reports

The depositary will forward to the holders of depositary shares all reports and communications from us that are delivered to the depositary and that we are required by law, the rules of an applicable securities exchange or our restated certificate of incorporation to furnish to the holders of the preferred stock. Neither we nor the depositary will be liable if the depositary is prevented or delayed by law or any circumstances beyond its control in performing its obligations under the Deposit Agreement. The Deposit Agreement limits our obligations and the depositary s obligations to performance in good faith of the duties stated in the Deposit Agreement. Neither we nor the depositary will be obligated to prosecute or defend any legal proceeding connected with any depositary shares or preferred stock unless the holders of depositary shares requesting us to do so furnish us with satisfactory indemnity. In performing our obligations, we and the depositary may rely upon the written advice of our counsel or accountants, on any information that competent people provide to us and on documents that we believe are genuine.

DESCRIPTION OF DEBT SECURITIES

The following descriptions of the debt securities do not purport to be complete and are subject to and qualified in their entirety by reference to the indenture, a form of which has been filed with the SEC as an exhibit to the registration statement of which this prospectus is a part. Any future supplemental indenture or

Table of Contents

similar document also will be so filed. You should read the indenture and any supplemental indenture or similar document because they, and not this description, define your rights as holder of our debt securities. All capitalized terms have the meanings specified in the indenture.

We may issue, from time to time, debt securities, in one or more series, that will consist of either our senior debt (Senior Debt Securities), our senior subordinated debt (Senior Subordinated Debt Securities), our subordinated debt (Subordinated Debt Securities) or our junior subordinated debt (Junior Subordinated Debt Securities and, together with the Senior Subordinated Debt Securities and the Subordinated Debt Securities, the Subordinated Securities). The debt securities we offer will be issued under an indenture between us and The Bank of New York Trust Company, N.A., acting as trustee. Debt securities, whether senior, senior subordinated, subordinated or junior subordinated, may be issued as convertible debt securities or exchangeable debt securities.

General Terms of the Indenture

The indenture does not limit the amount of debt securities that we may issue. It provides that we may issue debt securities up to the principal amount that we may authorize and may be in any currency or currency unit designated by us. Except for the limitations on consolidation, merger and sale of all or substantially all of our assets contained in the indenture, the terms of the indenture do not contain any covenants or other provisions designed to afford holders of any debt securities protection with respect to our operations, financial condition or transactions involving us.

We may issue the debt securities issued under the indenture as discount securities, which means they may be sold at a discount below their stated principal amount. These debt securities, as well as other debt securities that are not issued at a discount, may, for U.S. federal income tax purposes, be treated as if they were issued with original issue discount, or OID, because of interest payment and other characteristics. Special U.S. federal income tax considerations applicable to debt securities issued with original issue discount will be described in more detail in any applicable prospectus supplement.

The applicable prospectus supplement for a series of debt securities that we issue will describe, among other things, the following terms of the offered debt securities:

the title;

the aggregate principal amount;

whether issued in fully registered form without coupons or in a form registered as to principal only with coupons or in bearer form with coupons;

whether issued in the form of one or more global securities and whether all or a portion of the principal amount of the debt securities is represented thereby;

Increase in value of bank-owned life insurance		**(231)**	
Increase in capitalized interest, net, on reverse mortgage loans		**(1,193)**	
Net cash provided by (used for) operating activities	**$**	**17,705**	$
Investing activities:			
Purchases of investment securities held-to-maturity		**(3,329)**	
Repayments of investment securities held-to-maturity		**1,335**	
Maturities and calls of investment securities held-to-maturity		**400**	
Sale of investment securities available-for-sale		**38,932**	
Purchases of investment securities available-for-sale		**(91,963)**	
Repayments of investment securities available-for-sale		**15,463**	
Maturities of investment securities available for sale			
Repayments on reverse mortgages		**1,582**	
Disbursements for reverse mortgages		**(844)**	
Net increase in loans		**(30,748)**	
Net (increase) decrease in stock of FHLB		**(192)**	
Sales of assets acquired through foreclosure, net		**1,442**	
Investment in premises and equipment, net		**(1,234)**	
Net cash used for investing activities	**$**	**(69,156)**	$
Financing activities:			
Net increase in demand and saving deposits		**35,907**	(
(Decrease) increase in time deposits		**(26,072)**	
Increase in brokered deposits		**43,353**	
(Decrease) increase in loan payable		**(407)**	
Receipts from FHLB advances		**28,349,212**	14,
Repayments of FHLB advances		**(28,310,900)**	(14,
Receipts from federal funds purchased and securities sold under agreement to repurchase		**8,710,770**	6,
Repayments of federal funds purchased and securities sold under agreement to repurchase		**(8,711,445)**	(6,
Dividends paid		**(1,783)**	
Issuance of common stock and exercise of common stock options		**241**	

Purchase of treasury stock		**(8,995)**	
Excess tax benefit from stock-based compensation		**419**	
Net cash provided by financing activities	**$**	**80,300**	$
Increase (decrease) in cash and cash equivalents		**28,849**	
Cash and cash equivalents at beginning of period		**561,179**	
Cash and cash equivalents at end of period	**$**	**590,028**	$
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest during the period	**$**	**4,151**	$
Cash paid for income taxes, net		**9,554**	
Loans transferred to other real estate owned		**417**	
Loans transferred to portfolio from held-for-sale at fair value		**1,510**	
Net change in accumulated other comprehensive income		**10,758**	
Non-cash goodwill adjustments, net		**(358)**	

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

6

Table of Contents

WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE ENDED MARCH 31, 2016

(UNAUDITED)

1. BASIS OF PRESENTATION

General

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

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

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

Exchange Act: Securities Exchange Act of 1934

Overview

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

Table of Contents

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

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

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

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

Common Stock Split

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

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

Stock-Based Compensation

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

Stock-based compensation expense related to awards granted to Associates is recorded in salaries, benefits and other compensation; expense related to awards granted to directors is recorded in other operating expense. Total stock-based compensation expense recognized for the three months ended March 31, 2016 was $758,000 pre-tax ($430,000 after tax), or $0.01 per share. This compares to $842,000 pre-tax ($593,000 after tax), or $0.02 per share during the three months ended March 31, 2015.

Stock Options

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

Table of Contents

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

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

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

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

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

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

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

Forfeited	**(1,461)**		**14.97**
Vested	**(343,972)**		**16.83**
Unvested at end of period	**750,300**	**$**	**19.03**

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

9

Restricted Stock and Restricted Stock Units

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Guidance Adopted in 2016

In June 2014, the FASB issued ASU 2014-12, Accounting *for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* The standard update resolves the diverse accounting treatment for these share-based payments by requiring that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach applies to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statement at adoption, and to all new or modified awards thereafter. The adoption of this accounting guidance did not have a material effect on the Company s Consolidated Statements of Operations or Consolidated Statements of Condition.

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

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

Accounting Guidance Pending Adoption at March 31, 2016

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

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

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

Table of Contents

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

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

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

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

Table of Contents

2. BUSINESS COMBINATIONS

Penn Liberty Financial Corporation

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

Alliance Bancorp, Inc. of Pennsylvania

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

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

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

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

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

Table of Contents

The following table details the changes to goodwill in 2016:

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

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

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

3. EARNINGS PER SHARE

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

	Three Months Ended March 31,	
(In Thousands, Except Per Share Data)	**2016**	2015
Numerator:		
Net income	**$ 15,770**	$ 12,889
Denominator:		
Weighted average basic shares	**29,671**	28,218
Dilutive potential common shares	**558**	535
Weighted average fully diluted shares	**30,229**	28,753
Earnings per share:		
Basic	**$ 0.53**	$ 0.46
Diluted	**$ 0.52**	$ 0.45
Outstanding common stock equivalents having no dilutive effect	**42**	238

Table of Contents

4. INVESTMENT SECURITIES

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

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

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

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

15

Table of Contents

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

	Available-for-Sale	
(In Thousands)	Amortized Cost	Fair Value
March 31, 2016		
Within one year	**$ 6,001**	**$ 6,003**
After one year but within five years	**33,087**	**33,155**
After five years but within ten years	**255,484**	**261,034**
After ten years	**466,437**	**474,520**
	$ 761,009	**$ 774,712**
December 31, 2015		
Within one year	$ 3,997	$ 3,995
After one year but within five years	30,009	29,840
After five years but within ten years	218,023	215,018
After ten years	472,043	472,176
	$ 724,072	$ 721,029

	Held-to-Maturity	
(In Thousands)	Amortized Cost	Fair Value
March 31, 2016		
After one year but within five years	**3,229**	**3,249**
After five years but within ten years	**8,546**	**8,732**
After ten years	**155,187**	**158,559**
	$ 166,962	**$ 170,540**
December 31, 2015		
Within one year	$ 1,486	$ 1,488
After one year but within five years	3,465	3,456
After five years but within ten years	7,939	8,045
After ten years	152,972	154,754
	$ 165,862	$ 167,743

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

Investment securities with fair market values aggregating $423.8 million and $457.0 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of March 31, 2016 and December 31, 2015, respectively.

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

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

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

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

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

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

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

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

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

Table of Contents

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

5. LOANS

The following details our loan portfolio by category:

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

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

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

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

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

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

18

Table of Contents

6. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

We maintain an allowance for loan losses and charge losses to this allowance when such losses are realized. We established our allowance for loan losses in accordance with guidance provided in the SEC s Staff Accounting Bulletin 102 (SAB 102) and FASB ASC 450, *Contingencies* (ASC 450). When we have reason to believe it is probable that we will not be able to collect all contractually due amounts of principal and interest, loans are evaluated for impairment on an individual basis and a specific allocation of the allowance is assigned in accordance with ASC 310-10. We also maintain an allowance for loan losses on acquired loans when: (i) for loans accounted for under ASC 310-30, there is deterioration in credit quality subsequent to acquisition and (ii) for loans accounted for under ASC 310-20, the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition. The determination of the allowance for loan losses requires significant judgment reflecting our best estimate of impairment related to specifically identified impaired loans as well as probable loan losses in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios. The following are included in our allowance for loan losses:

- Specific reserves for impaired loans
- An allowance for each pool of homogenous loans based on historical loss experience
- Adjustments for qualitative and environmental factors allocated to pools of homogenous loans
- Allowance for model estimation and complexity risk

When it is probable that the Bank will be unable to collect all amounts due (interest and principal) in accordance with the contractual terms of the loan agreement, it assigns a specific reserve to that loan, if necessary. Unless loans are well-secured and collection is imminent, loans greater than 90 days past due are deemed impaired and their respective reserves are generally charged-off once the loss has been confirmed. Estimated specific reserves are based on collateral values, estimates of future cash flows or market valuations. We charge loans off when they are deemed to be uncollectible. During the three months ended March 31, 2016, net charge-offs totaled $313,000 or 0.03% of average loans, compared to $705,000, or 0.09% of average loans annualized, during the three months ended March 31, 2015.

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

Loss severity upon default is calculated as the actual loan losses (net of recoveries) on impaired loans in their respective pool during the same time frame. Retail loans are pooled into the following segments: residential mortgage, consumer secured and consumer unsecured loans. Pooled reserves for retail loans are calculated based solely on average net loss rates over the same 21 quarter look-back period.

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

- Current underwriting policies, staff, and portfolio mix
- Internal trends of delinquency, nonaccrual and criticized loans by segment
- Risk rating accuracy, control and regulatory assessments/environment
- General economic conditions - locally and nationally
- Market trends impacting collateral values
- A competitive environment as it could impact loan structure and underwriting

Table of Contents

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

The allowance methodology uses a loss emergence period (LEP), which is the period of time between an event that triggers the probability of a loss and the confirmation of the loss. We estimate the commercial LEP to be 8 quarters as of March 31, 2016. Further, our residential mortgage and consumer LEP remained at 4 quarters as of March 31, 2016. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our commercial LEP at least annually.

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

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

The following tables provide the activity of our allowance for loan losses and loan balances for three months ended March 31, 2016:

housands)	Commercial	Owner-Occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk (1)	Total
e months ended March 31, 2016								
vance for loan losses								
nning balance	$ 11,156	$ 6,670	$ 6,487	$ 3,521	$ 2,281	$ 5,964	$ 1,010	$ 37,0
ge-offs	(179)		(17)	(26)	(14)	(631)		(8
veries	110	38	79	46	22	259		5
sion (credit)	484	(6)	(37)	72	(20)	400	14	9
sion for acquired loans	(89)		4	(4)		(38)		(1
g balance	$ 11,482	$ 6,702	$ 6,516	$ 3,609	$ 2,269	$ 5,954	$ 1,024	$ 37,5
d-end allowance allocated to:								
s individually evaluated for impairment	$ 1,473	$	$	$ 211	$ 911	$ 208	$	$ 2,8
s collectively evaluated for impairment	10,005	6,680	6,427	3,398	1,354	5,746	1,024	34,6
ired loans evaluated for impairment	4	22	89		4			1
g balance	$ 11,482	$ 6,702	$ 6,516	$ 3,609	$ 2,269	$ 5,954	$ 1,024	$ 37,5
d-end loan balances evaluated for:								
s individually evaluated for impairment	$ 5,278	$ 1,270	$ 2,678	$ 1,419	$ 15,260	$ 7,795	$	$ 33,7

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

20

Table of Contents

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

(In Thousands)	**Commercial**	**Owner-Occupied Commercial**	**Commercial Mortgages**	**Construction**	**Residential**	**Consumer**	**Complexity Risk [1]**	**Total**
Three months ended March 31, 2015								
Allowance for loan losses								
Beginning balance	$ 12,837	$ 6,643	$ 7,266	$ 2,596	$ 2,523	$ 6,041	$ 1,520	$ 39,426
Charge-offs	(131)	(330)	(39)		(125)	(450)		(1,075)
Recoveries	26	4	79	49	11	201		370
Provision (credit)	316	722	(782)	307	(29)	234	18	786
Ending balance	$ 13,048	$ 7,039	$ 6,524	$ 2,952	$ 2,380	$ 6,026	$ 1,538	$ 39,507
Period-end allowance allocated to:								
Loans individually evaluated for impairment	$ 3,169	$ 284	$ 223	$ 210	$ 751	$ 197	$	$ 4,834
Loans collectively evaluated for impairment	9,879	6,755	6,301	2,742	1,629	5,829	1,538	34,673
Acquired loans evaluated for impairment								
Ending balance	$ 13,048	$ 7,039	6,524	$ 2,952	$ 2,380	$ 6,026	$ 1,538	$ 39,507
Period-end loan balances evaluated for:								
Loans individually evaluated for impairment	$ 11,707	$ 1,552	$ 7,595	$ 1,419	$ 14,749	$ 6,157	$	$ 43,179[2]
Loans collectively evaluated for	876,434	754,044	770,991	138,495	184,337	310,427		3,034,728

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

(1) Represents the portion of the allowance for loan losses established to capture factors not already included in other components in our allowance for loan losses methodology.

(2) The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of $13.9 million and $22.5 million for the periods ending March 31, 2016 and 2015, respectively. Accruing troubled debt restructured loans are considered impaired loans.

(3) Ending loan balances do not include deferred costs.

Nonaccrual and Past Due Loans

Nonaccruing loans are those on which the accrual of interest has ceased. We discontinue accrual of interest on originated loans after payments become more than 90 days past due or earlier if we do not expect the full collection of principal or interest in accordance with the terms of the loan agreement. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the accretion of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on our assessment of the ultimate collectability of principal and interest. Loans greater than 90 days past due and still accruing are defined as loans contractually past due 90 days or more as to principal or interest payments, but remain in accrual status because they are considered well secured and in the process of collection.

Table of Contents

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

March 31, 2016 (In Thousands)	**30 59 Days Past Due and Still Accruing**	**60 89 Days Past Due and Still Accruing**	**Greater Than 90 Days Past Due and Still Accruing**	**Total Past Due And Still Accruing**	**Accruing Current Balances**	**Acquired Impaired Loans**	**Nonaccrual Loans**	**Total Loans**
Commercial	**$ 1,378**	**$ 1,354**	**$**	**$ 2,732**	**$ 1,062,856**	**$ 12,600**	**$ 4,933**	**$ 1,083,121**
Owner-Occupied commercial	**678**			**678**	**888,907**	**4,603**	**1,269**	**895,457**
Commercial mortgages	**127**			**127**	**973,786**	**10,557**	**2,596**	**987,066**
Construction					**223,784**	**3,564**		**227,348**
Residential	**4,332**	**418**		**4,750**	**238,482**	**955**	**6,878**	**251,065**
Consumer	**851**	**339**	**127**	**1,317**	**354,219**	**5**	**4,115**	**359,656**
Total (1)	**$ 7,366**	**$ 2,111**	**$ 127**	**$ 9,604**	**$ 3,742,034**	**$ 32,284**	**$ 19,791**	**$ 3,803,713**
% of Total Loans	**0.19%**	**0.06%**	**%**	**0.25%**	**98.38%**	**0.85%**	**0.52%**	**100%**

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

December 31, 2015 (In Thousands)	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	Greater Than 90 Days Past Due and Still Accruing	Total Past Due And Still Accruing	Accruing Current Balances	Acquired Impaired Loans	Nonaccrual Loans	Total Loans
Commercial	$ 1,686	$ 270	$ 12,355	$ 14,311	$ 1,028,973	$ 12,985	$ 5,328	$ 1,061,597
Owner-Occupied commercial	713	217	4,886	5,816	869,048	4,688	1,091	880,643
Commercial mortgages	141	4	288	433	952,426	10,513	3,326	966,698
Construction					242,229	3,544		245,773
Residential	5,263	621	251	6,135	245,307	950	7,287	259,679
Consumer	1,222	36	252	1,510	354,599	7	4,133	360,249
Total (1)	$ 9,025	$ 1,148	$ 18,032	$ 28,205	$ 3,692,582	$ 32,687	$ 21,165	$ 3,774,639
% of Total Loans	0.24%	0.03%	0.48%	0.75%	97.83%	0.86%	0.56%	100 %

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

Impaired Loans

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

Table of Contents

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

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

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

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

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

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

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

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

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

Reserves on Acquired Nonimpaired Loans

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

Credit Quality Indicators

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

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

Table of Contents

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

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

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

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

Residential and Consumer Loans

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

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

Commercial Credit Exposure

s)	Commercial		Owner-Occupied Commercial		Commercial Mortgages		Construction		Total Commercial[1]		
									Mar. 31, 2016		Dec. 3 2015
	Mar. 31, 2016	Dec. 31 2015	**Mar. 31, 2016**	Dec. 31 2015	**Mar. 31, 2016**	Dec. 31 2015	**Mar. 31, 2016**	Dec. 31 2015	Amount	%	Amount
ng:											
	$ 6,992	$ 5,620	**$ 11,982**	$ 9,535	**$ 8,900**	$ 12,323	**$**	$	**$ 27,874**		$ 27,478
rd:											
	36,428	33,883	**20,905**	22,901	**2,523**	2,547	**8,322**	8,296	**68,178**		67,627

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

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

Table of Contents

Residential and Consumer Credit Exposure

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

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

(2) Total includes $89.0 million and $94.2 million in acquired nonimpaired loans as of March 31, 2016 and December 31, 2015, respectively.

Troubled Debt Restructurings (TDR)

TDRs are recorded in accordance with FASB ASC 310-40, *Troubled Debt Restructuring by Creditors (ASC 310-40).* The balance of TDRs at March 31, 2016 and December 31, 2015 was $25.6 million and $24.6 million, respectively. The balance at March 31, 2016 included approximately $11.7 million of TDRs in nonaccrual status and $13.9 million of TDRs in accrual status compared to $11.0 million in nonaccrual status and $13.6 million in accrual status at December 31, 2015. Approximately $2.7 million and $2.1 million in related reserves have been established for these loans at March 31, 2016 and December 31, 2015, respectively.

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

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

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

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

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

25

Table of Contents

7. REVERSE MORTGAGE LOANS

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

Our investment in reverse mortgages totaled $24.7 million at March 31, 2016. The portfolio consists of 90 loans with an average borrowers age of 94 years old and there is currently significant overcollateralization in the portfolio, as the realizable collateral value (the lower of collectible principal and interest, or appraised value and annual broker price opinion of the home) of $45.6 million exceeds the outstanding book balance at March 31, 2016. Broker price opinions are updated at least annually. Additional broker price opinions are obtained when our quarterly review indicates that a home s value has increased or decreased by at least 50% during any given period.

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

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

1) Move-out rates We used the actuarial estimates of contract termination provided in the United States Mortality Rates Period Life Table, 2011, published by the Office of the Actuary - Social Security in 2015, adjusted for expected prepayments and relocations which we adopted during 2016.

2) House Price Appreciation We utilize house price forecasts from various market sources. Based on this information, we forecasted a 2.5% increase in housing prices during 2016 and a 2.0% increase in the following year and thereafter. We believe this forecast continues to be appropriate given the nature of reverse mortgage collateral and historical under-performance to the broad housing market. Annually, during the fourth quarter, current collateral values are updated through broker price opinions.

3) Internal Rate of Return As of March 31, 2016, the internal rate of return (IRR) of 19.32% was the effective yield required on the life of the portfolio to reduce the net investment to zero at the time the final reverse mortgage contract is liquidated.

Table of Contents

As of March 31, 2016, the Company s actuarially estimated cash payments to reverse mortgagors are as follows:

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

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

The amount of the contract value that would be forfeited if we were not to make cash payments to reverse mortgagors in the future is $6.2 million.

The future cash flows depend on the HPA assumptions. If the future changes in collateral value were assumed to be zero, income would decrease by $745,000 for the quarter ended March 31, 2016 with an IRR of 18.41%. If the future changes in collateral value were assumed to be reduced by 1%, income would decrease by $343,000 with an IRR of 18.90%.

The net present value of the projected cash flows depends on the IRR used. If the IRR increased by 1%, the net present value would increase by $984,000. If the IRR decreased by 1%, the net present value would decrease by $957,000.

8. GOODWILL AND INTANGIBLES

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

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

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

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

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

Table of Contents

The following table summarizes other intangible assets:

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

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

The following presents the estimated amortization expense of intangibles:

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

Table of Contents

9. ASSOCIATE BENEFIT PLANS

Postretirement Benefits

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

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

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

10. INCOME TAXES

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

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

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

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

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

Table of Contents

11. FAIR VALUE DISCLOSURES OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

(In Thousands) Description	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets measured at fair value on a recurring basis				
Available-for-sale securities:				
CMO	**$**	**$ 273,902**	**$**	**$ 273,902**
FNMA MBS		**341,623**		**341,623**
FHLMC MBS		**100,918**		**100,918**
GNMA MBS		**19,111**		**19,111**
GSE		**39,158**		**39,158**
Total assets measured at fair value on a recurring basis	**$**	**$ 774,712**	**$**	**$ 774,712**
Assets measured at fair value on a nonrecurring basis				

Other real estate owned	**$**	**$**	**$ 3,979**	**$ 3,979**
Loans held-for-sale		**36,178**		**36,178**
Impaired loans			**33,701**	**33,701**
Total assets measured at fair value on a nonrecurring basis	**$**	**$ 36,178**	**$ 37,680**	**$ 73,858**

Table of Contents

(In Thousands) Description	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets measured at fair value on a recurring basis				
Available-for-sale securities:				
CMO	$	$ 251,488	$	$ 251,488
FNMA MBS		318,471		318,471
FHLMC MBS		99,442		99,442
GNMA MBA		20,714		20,714
GSE		30,914		30,914
Total assets measured at fair value on a recurring basis	$	$ 721,029	$	$ 721,029
Assets measured at fair value on a nonrecurring basis				
Other real estate owned	$	$	$ 5,080	$ 5,080
Loans held-for sale		41,807		41,807
Impaired loans (collateral dependent)			35,086	35,086
Total assets measured at fair value on a nonrecurring basis	$	$ 41,807	$ 40,166	$ 81,973

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

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

Available-for-sale securities

As of March 31, 2016 securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately $39.2 million in U.S. Treasury Notes and Federal Agency debentures, and $735.6 million in Federal Agency MBS. We believe that this Level 2 designation is appropriate for these securities under ASC 820-10 as, with almost all fixed income securities, none are exchange traded, and all are priced by correlation to observed market data. For these securities we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security s terms and conditions, among other factors.

Other real estate owned

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

Loans held-for-sale

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

Table of Contents

Impaired loans

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

Impaired loans, which are measured for impairment by either calculating the expected future cash flows discounted at the loan s effective interest rate or determining the fair value of the collateral for collateral dependent loans has a gross amount of $36.6 million and $37.7 million at March 31, 2016 and December 31, 2015, respectively. The valuation allowance on impaired loans was $2.9 million as of March 31, 2016 and $2.6 million as of December 31, 2015.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Cash and cash equivalents

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

Investment securities

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

Loans held-for sale

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

Loans

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

Reverse mortgage loans

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

Table of Contents

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

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

Other assets

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

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

Deposits

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

Borrowed funds

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

Off-balance sheet instruments

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

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

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

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

(1) Excludes impaired loans, net.

Table of Contents

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

12. SEGMENT INFORMATION

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

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

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

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

Table of Contents

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

For the three months ended March 31, 2016:

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

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

Table of Contents

For the three months ended March 31, 2015:

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

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

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

13. INDEMNIFICATIONS AND GUARANTEES

Secondary Market Loan Sales

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

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

Swap Guarantees.

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

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

Table of Contents

14. CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

(In Thousands)	Net change in investment securities available-for-sale	Net change in securities held-to-maturity	Net change in defined benefit plan	Total
Balance, December 31, 2015	**$ (1,887)**	**$ 1,795**	**$ 788**	**$ 696**
Other comprehensive income before reclassifications	**10,572**			**10,572**
Less: Amounts reclassified from accumulated other comprehensive income	**(189)**	**(103)**	**478**	**186**
Net current-period other comprehensive income (loss)	**10,383**	**(103)**	**478**	**10,758**
Balance, March 31, 2016	**$ 8,496**	**$ 1,692**	**$ 1,266**	**$ 11,454**
Balance, December 31, 2014	$ 446	$ 2,207	$ 847	$ 3,500
Other comprehensive income before reclassifications	4,567			4,567
Less: Amounts reclassified from accumulated other comprehensive loss	(280)	(171)	(15)	(466)
Net current-period other comprehensive income (loss)	4,287	(171)	(15)	4,101
Balance, March 31, 2015	$ 4,733	$ 2,036	$ 832	$ 7,601

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

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

Securities available-for-sale:					
Realized gains on securities transactions	**$**	**(305)**	$	(451)	Security gains, net
Income taxes		**116**		171	Income tax provision
Net of tax	**$**	**(189)**	$	(280)	
Net unrealized holding gains on securities transferred between available-for-sale and held-to-maturity:					
Amortization of net unrealized gains to income during the period	**$**	**(168)**	$	(171)	Interest income on investment securities
Income taxes		**65**			Income tax provision
Net of tax	**$**	**(103)**	$	(171)	
Amortization of Defined Benefit Pension items:					
Prior service (credits) costs	**$**	**(7)**	$	(19)	
Transition obligation					
Actuarial losses (gains)		**791**		(5)	
Total before tax	**$**	**784**	$	(24)	Salaries, benefits and other compensation
Income taxes		**(306)**		9	Income tax provision
Net of tax		**478**		(15)	
Total reclassifications	**$**	**186**	$	(466)	

38

Table of Contents

15. LEGAL AND OTHER PROCEEDINGS

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

On November 24, 2015 the Court entered summary judgment in favor of WSFS Bank on all but one of the remaining counts, leaving one count for resolution at trial. Based upon available information we believe the estimate of the aggregate range of reasonably possible losses for this legal proceeding is from approximately $0 to approximately $5.0 million at March 31, 2016. Costs of litigation were initially covered by insurance; however, such costs have now exceeded the limits of insurance coverage for this case.

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

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

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

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

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

16. SUBSEQUENT EVENTS

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

Table of Contents

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

OVERVIEW

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

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains estimates, predictions, opinions, projections and other forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to the Company s predictions or expectations of future business or financial performance as well as its goals and objectives for future operations, financial and business trends, business prospects, and management s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words such as believe, expect, anticipate, intend, target, estimate, continue, positions, pr potential, by future conditional verbs such as will, would, should, could or may , or by variations of such wor similar expressions. Such forward-looking statements are based on various assumptions (some of which may be beyond the Company s control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to, those related to difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the market areas in which the Company operates and in which its loans are concentrated, including the effects of declines in housing markets, an increase in unemployment levels and slowdowns in economic growth; the Company s level of nonperforming assets and the costs associated with resolving any problem loans including litigation and other costs; changes in market interest rates may increase funding costs and reduce earning asset yields thus reducing margin; the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of the Company s investment securities portfolio; the credit risk associated with the substantial amount of commercial real estate, construction and land development, and commercial and industrial loans in our loan portfolio; the extensive federal and state regulation, supervision and examination governing almost every aspect of the Company s operations including the changes in regulations affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations being issued in accordance with this statute and potential expenses associated with complying with such regulations; possible additional loan losses and impairment of the collectability of loans; the Company s ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations; any impairment of the Company s goodwill or other intangible assets; failure of the financial and operational controls of the Company s Cash Connect division; conditions in the financial markets that may limit the Company s access to additional funding to meet its liquidity needs; the success of the Company s growth plans, including the successful integration of past and future acquisitions; the Company s ability to complete the pending merger with Penn Liberty on the terms and conditions proposed which are subject to a number of conditions, risks and uncertainties delay in closing the merger, difficulties and delays in integrating the Penn Liberty business or fully realizing cost savings and other benefits of the merger, business disruption following the merger, Penn Liberty s customer acceptance of the Company s products and services and related customer disintermediation; negative perceptions or publicity with respect to the Company s trust and wealth management business; system failure or cybersecurity breaches of the Company s network security; the Company s ability to recruit and retain key employees; the effects of problems encountered by other financial institutions that adversely affect the Company or the banking industry generally; the effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes as well as effects from geopolitical instability and man-made disasters including terrorist attacks; possible changes in the speed of loan prepayments by the Company s customers and loan origination or sales volumes; possible acceleration of prepayments of mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on prepayments on mortgage-backed securities due to low interest rates; regulatory limits on the Company s ability to receive dividends from its subsidiaries and pay dividends to its shareholders; the effects of any reputational, credit, interest rate, market, operational, legal, liquidity, regulatory and compliance risk resulting from developments related to any of the risks discussed above; and the costs associated with resolving any problem loans, litigation and other risks and uncertainties, discussed in the Company s Form 10-K for the year ended December 31, 2015 and other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward looking statements are as of the date they are made, and the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Table of Contents

CRITICAL ACCOUNTING POLICIES

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

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

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Financial Condition

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

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

Capital Resources

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

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

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

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

Table of Contents

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

(In Thousands)	Consolidated Bank Capital Amount	Consolidated Bank Capital % of Assets	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes % of Assets	To be Well-Capitalized Under Prompt Corrective Action Provisions Amount	To be Well-Capitalized Under Prompt Corrective Action Provisions % of Assets
Total Capital (to Risk-Weighted Assets)	$ 616,271	12.96 %	$ 380,291	8.00 %	$ 475,364	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	578,113	12.16	285,218	6.00	380,291	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	578,113	12.16	213,914	4.50	308,987	6.50
Tier 1 Leverage Capital	578,113	10.50	220,291	4.00	275,364	5.00

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

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

At March 31, 2016, WSFS Bank was in compliance with regulatory capital requirements and all of its regulatory capital ratios exceeded well-capitalized regulatory benchmarks. WSFS Bank s total risk based capital ratio was 12.96%, Tier 1 capital ratio and total common equity tier 1 capital was 12.16%. In addition, and not included in the WSFS Bank capital, WSFS separately held $36.9 million in cash to support share repurchases, potential dividends, acquisitions, strategic growth plans and other general capital purposes.

Liquidity

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

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

During the three months ended March 31, 2016, cash and cash equivalents increased $28.8 million to $590.0 million from $561.2 as of December 31, 2015. This increase was primarily the result of a $43.3 million increase in brokered deposits, a $38.3 million increase in FHLB advances, a $8.9 million increase in customer deposits, and a $14.0 million increase in retained earnings due primarily to net income for the three months ended March 31, 2016. This increase was partially offset by a $53.7 million increase in investment securities, available-for-sale, and a $23.0 million increase in net loans.

Table of Contents

NONPERFORMING ASSETS

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

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

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

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

(2) Total loans exclude loans held for sale.

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

Table of Contents

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

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

The timely identification of problem loans is a key element in our strategy to manage our loan portfolio. Problem loans include special mention, sub-standard (performing and nonperforming excluding purchase credit impaired) and 90 days delinquent and still accruing. Timely identification enables us to take appropriate action and, accordingly, minimize losses. An asset review system established to monitor the asset quality of our loans and investments in real estate portfolios facilitates the identification of problem assets. In general, this system utilizes guidelines established by federal regulation.

INTEREST RATE SENSITIVITY

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. We regularly review our interest rate sensitivity and adjust the sensitivity within acceptable tolerance ranges. At March 31, 2016, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by $105.7 million. Our interest-sensitive liabilities as a percentage of interest-sensitive assets within the one-year window decreased from 103.9% at December 31, 2015 to 103.7% at March 31, 2016. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to 1.86% at March 31, 2016 from 1.96% at December 31, 2015. The low rate level of sensitivity reflects our continuing efforts to effectively manage interest rate risk.

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

Table of Contents

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

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

(1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.

(2) The economic value of equity ratio of the Company in a stable interest rate environment and the economic value of equity ratio as projected under the various rate change environments.

(3) Sensitivity indicated by a decrease of 200 or 300 basis points is not deemed meaningful (NMF) given the low absolute level of interest rates at that time.

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

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2016 AND MARCH 31, 2015

Results of Operations

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

Table of Contents

Net Interest Income

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

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

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

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

Table of Contents

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

Provision/Allowance for Loan Losses

We maintain an allowance for loan losses at an appropriate level based on our assessment of estimable and probable losses in the loan portfolio, pursuant to GAAP, which is discussed in *Nonperforming Assets* . Our evaluation is based upon a review of the portfolio and requires significant, complex and difficult judgments. For the three months ended March 31, 2016 and 2015, we recorded a provision for loan losses of $780,000 and $786,000, respectively.

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

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

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

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

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

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

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

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

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

Table of Contents

Noninterest (fee) Income

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

Noninterest Expense

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

Income Taxes

We and our subsidiaries file a consolidated federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded an income tax expense of $8.7 million during the three months ended March 31, 2016, compared to an income tax expense of $7.3 million for the same period in 2015.

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

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

We frequently analyze our projections of taxable income and make adjustments to our provision for income taxes accordingly.

Table of Contents

RECONCILIATION OF NON-GAAP MEASUREMENT TO GAAP

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

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

RECENT LEGISLATION

General

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

CEO pay ratio disclosure

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

Table of Contents

Basel III

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

The phase-in period for the final rules began for us on January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule and should be fully phased-in by January 1, 2019. Our capital levels at March 31, 2016 remain in excess of the well-capitalized regulatory benchmarks under the new rules.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.** Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act), our principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

(b) **Changes in internal control over financial reporting.** During the quarter ended March 31, 2016, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Table of Contents

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

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended March 31, 2016.

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

(1) Amounts include shares repurchased that were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by employees as payment for taxes on vesting of restricted stock.

(2) During the fourth quarter of 2015, the Board of Directors approved a stock buyback program of up to 5% of total outstanding shares of common stock. Under the program, purchases may be made from time to time in the open market or through negotiated transactions, subject to market conditions and other factors, and in accordance with applicable securities laws. There is no fixed termination date for the repurchase program, and the repurchase program may be suspended or discontinued at any time.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

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

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

(d) Exhibit 101.INS XBRL Instance Document

(e) Exhibit 101.SCH XBRL Schema Document

(f) Exhibit 101.CAL XBRL Calculation Linkbase Document

(g) Exhibit 101.LAB XBRL Labels Linkbase Document

(h) Exhibit 101.PRE XBRL Presentation Linkbase Document

(i) Exhibit 101.DEF XBRL Definition Linkbase Document

Table of Contents

SIGNATURES

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

	WSFS FINANCIAL CORPORATION
Date: May 06, 2016	/s/ Mark A. Turner Mark A. Turner President and Chief Executive Officer (Principal Executive Officer)
Date: May 06, 2016	/s/ Rodger Levenson Rodger Levenson Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

53