

2018 ANNUAL REPORT





About WSFS Financial Corporation

WSFS Financial Corporation is a multi-billion dollar financial services company. Its primary subsidiary, WSFS Bank, is the largest, longest-standing, locally-headquartered bank and trust company in the Greater Delaware Valley. As of December 31, 2018, WSFS Financial Corporation had \$7.2 billion in assets on its balance sheet and \$19.0 billion in assets under management and administration. **On March 1, 2019, WSFS Financial Corporation completed the acquisition of Beneficial Bancorp, Inc.** and its primary subsidiary, Beneficial Bank, and is now operating as one Company with approximately \$13.0 billion in assets. WSFS now operates from **150 offices** in Delaware (45), Pennsylvania (74), New Jersey (29), Virginia (1) and Nevada (1) and provides comprehensive financial services including commercial banking, retail banking, cash management and trust and wealth management.

Other subsidiaries and divisions include Beneficial Equipment Finance Corporation, Cash Connect®, Christiana Trust Group, Cypress Capital Management, LLC, Neumann Finance Company, Powdermill Financial Solutions, WSFS Institutional Services, WSFS Wealth Investments, West Capital Management, and WSFS Mortgage and Arrow Land Transfer. Serving the Greater Delaware Valley since 1832, WSFS Bank is one of the ten oldest banks in the United States continuously operating under the same name. For more information, please visit wsfsbank.com.

Our Foundation

MISSION

We Stand For Service®

VISION

We envision a day when all our constituents say, "I can't imagine a world without WSFS."

STRATEGY

Engaged Associates,
living our culture,
making a better life for all we serve.

VALUES

At WSFS we:
Do the right thing
Serve others
Are welcoming, open and candid
Grow and improve



Financial Highlights

(Dollars in millions)

At December 31,	2018	2017	2016
Total assets	\$ 7,249	\$ 7,000	\$ 6,765
Net loans, including held for sale	\$ 4,889	\$ 4,807	\$ 4,499
Deposits	\$ 5,640	\$ 5,248	\$ 4,738
Stockholders' equity	\$ 821	\$ 724	\$ 687
Nonperforming assets to total assets	0.66%	0.84%	0.60%
Number of offices	76	76	77

(Dollars in thousands, except earnings per share data)

For the years ended December 31,	2018	2017	2016
Net income*	\$ 134,743	\$ 50,244	\$ 64,080
Diluted earnings per common share*	\$ 4.19	\$ 1.56	\$ 2.06
Return on average assets*	1.92%	0.74%	1.06%
Return on tangible common equity*	23.72%	9.74%	12.85%

*Year-over-year comparability impacted by certain one-time items discussed in our Annual Report on Form 10-K

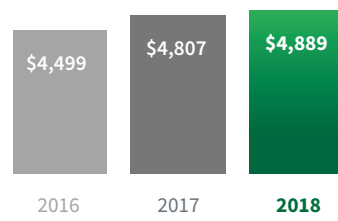
Core Highlights

(Dollars in thousands, except earnings per share data)

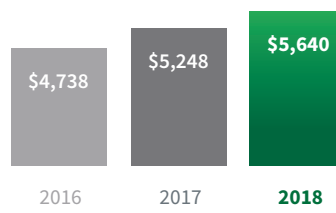
For the years ended December 31,	2018	2017	2016
Adjusted net income**	\$ 114,307	\$ 82,841	\$ 68,403
Diluted earnings per common share**	\$ 3.55	\$ 2.57	\$ 2.19
Return on average assets**	1.63%	1.21%	1.13%
Return on tangible common equity**	20.18%	15.82%	13.69%

**Excludes certain one-time items discussed in our Annual Report on Form 10-K

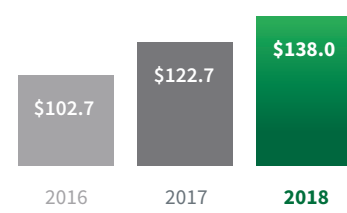
Net Loan Growth



Deposit Growth



Core Fee Income Growth†



(Dollars in millions)

† Excludes securities gains, and realized/unrealized gains on equity investments

Letter from Management



I am committed to leading our Company to new levels of performance that will deliver sustained and premium returns for our Owners and continued positive outcomes for all our Stakeholders.

The best days for WSFS lie ahead and I look forward to leading this journey with all of you.

Rodger Levenson
President & Chief Executive Officer

To our Associates, Customers, Owners, Community Partners and Friends:

2018 was a very successful year for WSFS and it marks the beginning of a transformation that will empower us to do more for all of our many communities for many years to come. It was an excellent year of growth; a year of achieving and often exceeding goals and objectives; and a year in which we honored your trust—which we have worked hard to earn—by investing in the immediate and long-term future of your Company through our merger with Philadelphia-based Beneficial Bank.

The successes we achieved in 2018 result from years of long-term Strategic Planning and execution, including our recently completed 2016-2018 Strategic Plan. In fact, the foundation for our success was established several Strategic Plans ago. In 2009, at the depth of the Great Recession, WSFS recorded effectively a breakeven year, which translated into a 0.02% Return on Assets (ROA). From 2010-2012, as other banking organizations retreated, WSFS proactively decided to accelerate investments in our franchise. By the introduction of our

next Strategic Plan in 2013, we had recorded an ROA of 0.70% and outlined the “Road To High Performance,” establishing a goal of sustainable performance that would rank in the top quintile among our peers. With continued investment, strong organic growth, and a number of key acquisitions, the 2016-2018 Strategic Plan set an even higher goal: an ROA of 1.30% by the 4th Quarter of 2018. After achieving this goal one year early, we set our sights on a full-year ROA of 1.50% for 2018.

As you can see in the accompanying charts, **WSFS produced record results for 2018** with Core Earnings Per Share (EPS) of \$3.55, a 39% increase over Core EPS of \$2.56 in 2017. These earnings translated into a Core Return on Tangible Common Equity (ROTCE) of 20.18%, a 28% increase compared to 15.82% in 2017 and a Core ROA of 1.63%, a 35% increase compared to 1.21% in 2017 and well above our lofty goal of 1.50%.



This performance would not have been possible without WSFS having one of the most engaged groups of Associates, not just in the Greater Delaware Valley or in the U.S., but in the entire world. According to Gallup, WSFS placed among the top 5% of workplaces and the 97th percentile of their worldwide database based on our 2018 Associate engagement survey. **Thanks also to our dedicated Associates, our Customer engagement continued to move higher, from the 75th percentile of the best Gallup-tracked companies in 2016 to the 83rd percentile in 2018.** These Associate and Customer engagement measurements are important metrics because they are the foundation of our culture and the leading indicators of our overall success in executing our Strategy—*Engaged Associates, living our culture, making a better life for all we serve.* As a result of these strong metrics, WSFS again earned accolades that help us attract and retain the best, brightest, and the most gifted professionals in the Greater Delaware Valley. In 2018, WSFS was named a **Top Workplace in Delaware for the 13th consecutive year** and a **Top Workplace in Southeastern Pennsylvania for the 5th consecutive year.** We were also honored to receive the **Gallup Great Workplace Award for the 3rd year in a row.**

Importantly, WSFS' growth continued to benefit the communities we serve. We gave back to our communities, both through financial contributions to support community partners and through the sweat equity of our passionate and community-focused Associates. In late 4th Quarter of 2017, the Company made a \$1.5 million (pre-tax) grant to the WSFS Foundation to fund the next generation of improvements in the communities we serve. We began to distribute these funds throughout 2018, while simultaneously expanding the WSFS Foundation's areas of focus. These include educational programs for children in K-12; health and human services that protect the lives of those in our communities; essential services for the homeless, including access to housing and warm meals; and economic development that promote business, job creation, and tax revenues. *Our passionate Associates also dedicated a record 14,672 volunteer hours to organizations that provide important services throughout Delaware and the Greater Delaware Valley.*

Our successes in ROA, EPS, ROTCE and Associate and Customer engagement give us significant momentum heading into our new 2019-2021 Strategic Plan. The theme of this Plan is transformation, and it outlines our path to address Customer and market expectations in a rapidly changing financial services industry while reaffirming the tenets (Mission, Vision, Strategy and Values) that have enabled WSFS to serve for nearly 190 years. **Our combination with Beneficial Bank is a critical development in this transformation and the strategic rationale behind this decision is significant yet relatively straightforward.** We believe that combined with Beneficial we can do more for all of our constituents—Associates, Customers, Communities and Owners—than we might have accomplished separately. Concurrent with the combination, we will invest half (about \$32 million over five years) of estimated cost savings from the consolidation of approximately 25% of

Continued on Page 5.



our combined retail network into a transformational investment in technology and delivery systems. This Delivery Transformation will facilitate the Company's adoption of emerging technologies that will further enhance Customer experiences across all business lines. **Our combined organization will have 90 retail banking offices to serve Customers in Delaware, Southern New Jersey, the City of Philadelphia and Southeastern Pennsylvania; the largest network of ATMs in the region; a full suite of financial products and customizable solutions; and the balance sheet to compete with larger regional and national banks. With these expanded capabilities, WSFS Bank will be the only locally-managed, locally-headquartered, full-service community bank with the size, scale and offerings to compete with banks of all sizes in the Greater Delaware Valley.**

At WSFS, we take pride in doing what we say we will do, from the execution of our Strategic Plans to achieving year-over-year goals and recovering reparations from those we believe are responsible for losses we incur. During 2018, we recovered \$9.6 million from two losses recorded in 2017 totaling \$14.8 million. **In addition, we were able to retain our ingrained entrepreneurial spirit.** This was demonstrated in our opportunistic, disciplined investment in Visa Class B shares yielding realized and recognized pre-tax gains totaling \$24.5 million in 2018. While not included in core results, the gains we derive from these and similar opportunities are used to invest in the franchise and/or returned to shareholders over time. These investments are one of the reasons we tend to outperform peers over the long term.

We also made a few additions and enhancements to our executive leadership team that I am excited to share with you. We named Lisa Brubaker, who has been a WSFS Associate her entire professional career, as our new Executive Vice President and Chief Technology Officer. Lisa is a highly respected leader with a proven record in digital and physical Customer delivery along with deep operational experience and institutional knowledge. We also welcomed Arthur Bacci as our new Executive Vice President and Chief Wealth Officer. Art has the experience and vision to build on the investments we made in expanding our wealth business. Both Lisa and Art have quickly become key members of our executive leadership team. Finally, Peggy Eddens assumed expanded responsibilities to oversee the growing role of our Company's Customer experience team as Executive Vice President and Chief Associate and Customer Experience Officer. Combining responsibility for Associate engagement and Customer experience aligns seamlessly with our Company's business model.

On January 1, 2019, I had the great honor and privilege to become the 13th President and CEO of WSFS, assuming the role from my friend, mentor and fellow Associate, Mark Turner. During Mark's tenure as President and CEO, WSFS delivered superior growth, profitability and shareholder returns and earned multiple marketplace accolades. I join my fellow WSFS Associates in thanking Mark for his decades of service to WSFS and our Communities and I look forward to working with him in his new role as Executive Chairman of the Board of Directors. I encourage you to read the accompanying letter, *A View from the Boardroom*, which compliments this letter. I am humbled by the trust that our Board has in me and I am grateful to lead our talented team of Associates who do so much good for our Customers and our Communities. **I am committed to leading our Company to new levels of performance that will deliver sustained, premium returns for our Owners and continued positive outcomes for all our Stakeholders. The best days for WSFS lie ahead, and I look forward to leading this journey with all of you.**

On behalf of all WSFS Associates and your Executive Management Team, thank you for your continued interest in, and support of, WSFS.

Rodger and the Team

Peggy H. Eddens
 Arthur Bacci
 Lisa M. Brubaker
 Thomas E. Stevenson
 Dennis P. Curran
 Patrick J. Ward
 Paul W. Dwyer



Pennsylvania

Philadelphia

Wilmington

WSFS is located within close proximity to major Mid-Atlantic cities such as Washington, DC, Baltimore, Philadelphia and New York.

MA

RI

NY

CT

PA

NJ

New York

Philadelphia

Baltimore

Washington, D.C.

MD

DE

VA

Maryland

Delaware

WSFS bank

Beneficial BANK

Photo Credit: DAS Architects, Inc.
and Matt Wargo Photography

A View from the Boardroom—Volume VII



Mark A. Turner
Executive Chairman,
Board of Directors



Eleuthère I. du Pont
Lead Independent Director

The most forward-looking and insightful organizations in all industries are **addressing the future of infrastructure and delivery in an increasingly digital age.**

Dear Fellow WSFS Owners:

2018 was a banner period for your Company in many respects.

A Record-Setting, Groundbreaking Year

Earnings in 2018 broke records, on both a reported and core basis. Core net revenues in the 4th quarter exceeded \$100 million for the first time ever.

Core Return on Assets (ROA), Return on Tangible Equity (ROTCE) and Earnings Per Share (EPS) all exceeded our lofty Strategic Plan and Annual Plan goals, as did most meaningful contributing factors like margin, asset quality, liquidity and efficiency. Combined Associate and Customer engagement scores also reached a record level since we began measuring and managing that vital metric over a generation ago. Following a series of well-executed and cohesive Strategic Planning cycles, WSFS has become a strong, well-diversified, sustainably high-performing organization.

Having built WSFS into a robust platform for serving all of our constituencies, we consider it not only an opportunity, but also our responsibility to grow WSFS prudently. As such, in 2018 the Company announced, and received overwhelming shareholder approval for, the largest merger in our history; and we also shared our plans for implementing better infrastructure and delivery to our combined communities. Finally, the Company also completed a smooth and thoughtful multi-year succession plan for both CEO and Board leadership. ***Details of these pursuits, and more, can be found in the companion letter before this one from President & CEO Rodger Levenson, which we encourage you to read in full.***

In this letter, your Board will discuss our involvement in Company strategy, M&A and succession planning, and we will show how all these components led to our full support for the groundbreaking and transformational Beneficial Bank merger and the associated “Delivery Transformation.”



Strategy, Business Combination and Delivery Transformation

In May 2018, after months of preparation, the Board and Management met offsite for the better part of three days to outline, broadly, “where we go next.”

In this pivotal Strategic Planning session, we left excited and unanimously focused on three objectives: (1) defining our next path for growth (and achieving better economies of scale in our chosen community banking niche); (2) transforming our infrastructure and delivery methods for the evolving digital age and the needs of our Associates and Customers; and (3) increasing our dedication to our inextricably intertwined free market and social purpose—serving our communities—which is the foundation of all of our success. ***This intertwined organizational purpose is detailed in the Corporate Responsibility and Sustainability section in the accompanying Proxy.***

Around that same time, Management of both WSFS and Beneficial Bank had engaged in some preliminary conversations regarding the potential of combining our similar and overlapping organizations. With intense evaluation and diligence, and steady guidance and counsel from both Boards over several months, it became abundantly clear that a combination of our two long-standing, local organizations would yield the immediate opportunity to address our strategic goals of greater growth, economies of scale and deeper commitment to our communities. In addition, a convergence of such size, scope, sophistication, talent and true local delivery within one banking organization has been absent from the Greater Delaware Valley market for over two decades. As a result, in addition to the immediate and obvious benefits, we also identified the long-term opportunity to further expand the largest, oldest premier local bank in our combined footprint, which includes a growing, top-10 US market. This position would ensure competitive and economic benefits for years to come.

Importantly, this combination also opens a pathway to address the challenge all banks face: **“How do we economically meld our physical and digital delivery for the future?”** As a result, after more careful evaluation, Management decided to consolidate or sell a full 25% of our combined physical locations, re-investing a large part of the savings in an expert and thoughtful way into updated digital infrastructure and delivery.

Since our announcement, a few large and small banks have issued organizational announcements reinforcing the soundness and power of using scale economies to invest in a similar Delivery Transformation. We believe this is neither coincidental nor “group think.” The most forward-looking and insightful organizations in all industries are addressing the future of infrastructure and delivery in an increasingly digital age. We believe most banks will make these changes incrementally, and take a generation or more to do so. In this transaction, we will be able to accomplish our transformation economically, in only a few short years, which will provide a huge benefit to our communities and a sizeable competitive advantage over our peers.

Our consistent and disciplined investment over almost 20 years in Associate engagement, Customer engagement and our unique culture has put us in a strong position to both grow and transform.

We will continue this intense investment in our engagement culture, and we will also apply it to our new investments in infrastructure and delivery. Our engagement culture has been, and will continue to be, our differentiator. It is our “competitive moat” in a crowded marketplace (both physical and digital), and therefore the primary driver of our success.

Governing Transformation and Transitioning Leadership

With these significant endeavors ahead of us, we understand that “we are in for a big lift.” We believe we are up for it. The effort is necessary and the opportunity is great. The Board was focused on proper evaluation, diligence, negotiation and integration planning before the Beneficial merger was finalized, and since the announcement we have been equally focused on governing the successful integration and Delivery Transformation. These are discussed in almost every governance meeting we have, and we formed a special integration and transformation committee of the Board that meets at least monthly to oversee this “big lift.”

Continued on Page 9.

We are also fortunate and pleased that Gerard P. Cuddy, CEO of Beneficial, and two other seasoned Board members from Beneficial, Karen Dougherty Buchholz and Michael J. Donahue, have joined the WSFS Board. They bring a wealth of banking, operations and administrative skills and experience, as well as adding intense local market knowledge, all of which are needed to help make this transformational combination a success.

We also rightly honor and sincerely thank long-time WSFS Director Cal Morgan, who is retiring from the Board in April 2019. Cal has been a tireless, thorough, thoughtful Director for the last 15 years. He has continuously brought broad experience, keen insight and sound judgment on local markets, businesses and banking to Management and the Board during an especially critical period of crisis in the economy and growth at WSFS.

Moreover, over this last half decade, we deftly executed a CEO transition from Mark Turner to his long-time senior lieutenant, Rodger Levenson. These two events, the Beneficial combination/Delivery Transformation and Rodger's ascension, were unrelated, but they couldn't have been more well-timed. With the full support and guidance of the Board, Rodger has been on the CEO development path for over five years. His well-rounded banking expertise, personal and professional experience in the Greater Delaware Valley, new vision and energy, acute appreciation for our unique business model and culture, and adept execution and leadership skills all make him the perfect choice to undertake the organizational transformations we are pursuing, and to lead WSFS for the next generation. On top of Rodger's leadership and the new Board members we have added, Mark will be active as Executive Chairman to contribute his accumulated experience, knowledge, years of contacts and leadership talents to help ensure all these endeavors—the leadership transition, the business combination and the Delivery Transformation—are fully successful.



Financial Performance and Total Shareholder Returns

As we do each year, we are sharing with you our financial performance and Total Shareholder Return (TSR) performance versus peers. **As mentioned, 2018 was a record year for WSFS, not just absolutely, but relative to peers.** Our GAAP results placed us at an average 97th percentile versus our peer groups* in our three key metrics of ROA, ROE and growth in EPS. This is by far the best percentile performance since we have been reporting on these the last seven years. The average for the past six years was at the 60th percentile performance, and the best individual year previously was an average 80th percentile for these three critical metrics. 2018 will be a tough year to top, but you have our commitment that we will always do our best, and as a sustainable, high-performing organization, our goal is to be in the top quintile of peer performance over the course of a full business cycle.

On the other hand, 2018 was not a good year for bank stocks. Many peer bank index TSR averages were down from 16 to 18%. Despite our record-breaking performance, WSFS TSR was down 20% for the year. The small differential versus peers all emanated from the market's reaction to the combination with Beneficial and the associated Delivery Transformation. Since our announcement in early August, we have underperformed the Nasdaq Bank Index by approximately 12%. We are not alone. Other large banking mergers announced in 2018 saw similar sub-peer performance since their announcements. The market views big, complex, groundbreaking efforts as having meaningful risk, and rightly so. We do, too. However, we see much more the potential for many years of significant competitive advantage, outsized growth and high-performance profitability. We are convinced that this transaction and transformation are both necessary and compelling. Over time, as we perform, we are confident we will make believers of the market as well.

As a Company with a 187-year history and a focus on excellent long-term returns, we make these types of investments from time to time. Our three, five, seven and 10 year TSRs are very positive, reflecting the success of our long-view strategy, investments and execution. We routinely outperform our bank peer and broader market indexes, often by large margins. In fact, we outperformed the seven relevant indexes 96% of the

time* in the above four time periods (versus 97% of the time as of the end of 2017, and 91% the year before). Further, as of December 31, 2018, our seven-year and 10-year TSRs were 235% and 297%, respectively; in comparison, the average of the seven indexes we track returned 140% and 128% respectively; and the closest any combination of the index returns came to our WSFS returns were 175% and 178%, respectively.

Summary

In short, we have assembled a formidable combination: a unique culture and a sustainable, high-performance business model; good momentum and compelling opportunities; and strong leadership and robust governance. All of this was accomplished in order to be successful for our many communities, including you, our Owners, for years to come. Our talented Management team and Associates deserve the vast majority of credit for this desirable positioning, and we thank them immensely for their constant hard work and dedication.

Thank you for your continued ownership of, and confidence in, WSFS. As always, if you have any comments or questions, contact us directly, or send an email to chairman@wsfsbank.com.

Sincerely,

Your WSFS Board of Directors

Mark J. Turner

Eladd

Scott S. ...

...

...

...

...

...

Chris T. ...

...

Robert A. ...

Mark ...

...

Patrick Ward

*Calculated consistently as compared to up to seven other relevant indexes, as discussed in detail in prior Board letters; which can be seen at: investors.wsfsbank.com/financial-information

2018 Key Accolades

We are honored and humbled by the awards we received in 2018.

WSFS was recognized with **The Gallup Great Workplace Award** for the third year in a row, as **a company who takes excellence to a new level** by not only embracing engagement, but also making it a fundamental foundation of their business.

For the thirteenth consecutive year, WSFS Bank was named a **Top Workplace in Delaware**. WSFS Bank was also recognized as a **Top Workplace by The Philadelphia Inquirer/Philly.com** for the fifth year in a row.

For the eighth year in a row, WSFS Bank was voted the #1 Bank in Delaware by the readers of *The News Journal*.

Additionally, our Associates were recognized for their outstanding achievements throughout the region.

Dominic Canuso, EVP, Chief Financial Officer, was named a 2018 Influencer in Finance by *The Philadelphia Inquirer*, *Daily News* and *Philly.com*; **Shari Kruzinski**, SVP, Director of Retail Delivery, was named a 2018 Female Business Leader of the Year by the Chester County

Chamber of Commerce and Industry (PA); **Peggy Eddens**, EVP, Chief Associate and Customer Experience Officer, was named a 2018 Women of Distinction Award Recipient by the *Philadelphia Business Journal*; **Lisa Brubaker**, EVP, Chief Technology Officer, was named a 2018 Woman in Business Award winner by *Delaware Today*; **Rodger Levenson**, President and CEO, was named to the Philadelphia Power 100 list by the *Philadelphia Business Journal*; and **Mark Turner**, Executive Chairman, was named the 2018 Community Banker of the Year by *American Banker* and a 2018 Most Admired CEO by the *Philadelphia Business Journal*.

From being named a fastest growing company in the Greater Philadelphia area **Soaring 76**, to being selected as a **Best of Chester County**, and a **First State Favorite Bank**, these achievements are meaningful to us and we appreciate our Customers and Communities for all their support.



Commitment to Community

Our social purpose is fueled by our dedicated Associates who give to our Communities with their generous time, expertise and efforts. Team WSFS, the WSFS corporate volunteer program, encourages Associates to volunteer with nonprofits of their choice. WSFS Associates also provide high-quality community leadership by serving on boards of directors. **Over 100 Associates currently serve on nonprofit community boards**, providing leadership and governance expertise to improve the effectiveness of these organizations. Our dedicated Associates volunteered **a record-breaking 14,672 volunteer hours in 2018**.



Board of Directors



Anat Bird
President & CEO
SCB Forums, Ltd.



Francis B. Brake
Chair, Integration and Delivery
Transformation Subcommittee
and Trust and Corporate
Development Committees
President, Epic Research, LLC



**Karen Dougherty
Buchholz**
Senior Vice President,
Administration
Comcast Corporation



Gerard P. Cuddy
Vice Chairman, WSFS Bank
Former President & CEO
Beneficial Bank



Rodger Levenson
President & CEO
WSFS Financial Corporation
and WSFS Bank



Calvert A. Morgan, Jr.
Vice Chairman, WSFS Bank
Former Chairman,
President & CEO
PNC Bank, Delaware

Many thanks to

Cal Morgan as he retires from the Board.
We appreciate his 15 years of
dedicated service to WSFS.



Marvin N. Schoenhals
Former Chairman,
President & CEO WSFS Financial
Corporation and WSFS Bank



Board of Directors



Jennifer Wagner Davis

Executive Vice President
& Chief Operating Officer
University of Virginia



Michael J. Donahue

Advisory Partner,
NewSpring Capital
Former Chief Operating Officer,
KPMG Consulting, Inc.



Eleuthère I. du Pont

Lead Independent Director,
Chair, Corporate Governance
and Nominating Committee
President, The Longwood
Foundation



Christopher T. Gheysens

Chair, Audit and
Trust Audit Committees,
President & CEO Wawa, Inc.



David G. Turner

Chair, Personnel and
Compensation Committee
Vice President & Partner
North America Financial Services
IBM Global Business Services



Mark A. Turner

Executive Chairman
of the Board of Directors,
Executive Committee
Chairman, WSFS Financial
Corporation and WSFS Bank

Mark's tenure as President and CEO, saw WSFS deliver superior growth, profitability and shareholder returns. He leads by example and is truly a gifted banker and community champion.

Mark, your fellow WSFS Associates **thank you** for your decades of service to WSFS and our Communities. We look forward to working with you in your new role as Executive Chairman of the Board of Directors.



Patrick J. Ward

Executive Vice President,
Pennsylvania Market President,
WSFS Financial Corporation
and WSFS Bank




NASDAQ CONGRATULATES
WSFS FINANCIAL CORP
ON YOUR ACQUISITION OF
BENEFICIAL BANCORP

WSFS bank

We Stand For Service®

WSFS NasdaqListed

 Nasdaq

MASTERMINDS.

NETFLIX

ED BY
IGHT
NEEDS

BEST
WORLD
SHOWS
THE GREAT

BRANDED CITIES

NASDAQ

Forward-Looking Statements

This Annual Report contains estimates, predictions, opinions, projections and other “forward-looking statements” as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to the Company’s predictions or expectations of future business or financial performance as well as its goals and objectives for future operations, financial and business trends, business prospects and management’s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. The words “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project” and similar expressions, among others, generally identify forward-looking statements. Such forward-looking statements are based on various assumptions (some of which may be beyond the Company’s control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to: those related to difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the markets in which the Company operates and in which its loans are concentrated, including the effects of declines in housing markets, an increase in unemployment levels and slowdowns in economic growth; the Company’s level of nonperforming assets and the costs associated with resolving problem loans including litigation and other costs; possible additional loan losses and impairment in the collectability of loans; changes in market interest rates, which may increase funding costs and reduce earning asset yields and thus reduce margin; the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of the Company’s investment securities portfolio; the credit risk associated with the substantial amount of commercial real estate, construction and land development and commercial and industrial loans in our loan portfolio; the extensive federal and state regulation, supervision and examination governing almost every aspect of the Company’s operations including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Economic Growth, Regulatory Relief, and Consumer Protection Act (which amended the Dodd-Frank Act) (the Economic Growth Act), and the rules and regulations issued in accordance therewith and potential expenses associated with complying with such regulations; the Company’s ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations; conditions in the financial markets that may limit the Company’s access to additional funding to meet its liquidity needs; impairments of the Company’s goodwill or other intangible assets; failure of the financial and operational controls of the Company’s Cash Connect® business; the success of the Company’s growth plans, including the successful integration of past and future acquisitions; the Company’s ability to fully realize the cost savings and other benefits of its acquisitions, manage risks related to business disruption following those acquisitions, and post-acquisition customer acceptance of the Company’s products and services and related customer disintermediation, including its pending acquisition of Beneficial Bancorp, Inc.(Beneficial); the Company’s ability to complete the pending merger with Beneficial on the terms proposed, which are subject to a number of conditions, risks and uncertainties, including the possibility that the proposed acquisition does not close when expected or at all because all conditions to closing are not received or satisfied on a timely basis or at all, the failure to close for any other reason, that the businesses of the Company and Beneficial will not be integrated successfully, that the cost savings and any synergies from the proposed acquisition may not be fully realized or may take longer to realize than expected, disruption from the proposed acquisition making it more difficult to maintain relationships with employees, customers or other parties with whom the Company or Beneficial have business relationships, diversion of management time on merger-related issues, risks relating to the potential dilutive effect of shares of the Company’s common stock to be issued in the transaction, and the reaction to the transaction of the companies’ customers, employees and counterparties; negative perceptions or publicity with respect to the Company’s trust and wealth management business; adverse judgments or other resolution of pending and future legal proceedings, and cost incurred in defending such proceeding; system failures or cybersecurity incidents or other 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 changes in the speed of prepayments of mortgage-backed securities due to changes in the interest rate environment, and the related acceleration of premium amortization on prepayments in the event that prepayments accelerate; regulatory limits on the Company’s ability to receive dividends from its subsidiaries and pay dividends to its stockholders; the effects of any reputation, 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, including those discussed in other documents filed by the Company with the Securities and Exchange Commission (SEC) from time to time.

These risks and uncertainties and other risks and uncertainties that could adversely affect our business, results of operations, financial condition or future prospects are discussed in our Annual Report on Form 10-K, including under the heading “Risk Factors,” and in other documents filed by the Company with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. The Company disclaims any duty to revise or update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company for any reason, except as specifically required by law.

Stockholder Information

Stockholders or others seeking information regarding the Company may call or write:

WSFS Financial Corporation
Investor Relations

WSFS Bank Center
500 Delaware Avenue
Wilmington, DE 19801
302-792-6009
stockholderrelations@wsfsbank.com

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

Website

wsfsbank.com



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-35638

WSFS FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other Jurisdiction of Incorporation or Organization)

22-2866913

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

500 Delaware Avenue, Wilmington, Delaware

(Address of Principal Executive Offices)

19801

(Zip Code)

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

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

Title of Each Class

Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered

The Nasdaq Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant, based on the closing price of the registrant's common stock as quoted on Nasdaq as of June 30, 2018, was \$1,657,621,739. For purposes of this calculation only, affiliates are deemed to be directors, executive officers and beneficial owners of greater than 10% of the registrant's outstanding common stock.

As of February 21, 2019, there were issued and outstanding 31,374,091 shares of the registrant's common stock, par value \$0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019 are incorporated by reference in Part III hereof.

WSFS FINANCIAL CORPORATION
TABLE OF CONTENTS

	<u>Page</u>
<u>Part I</u>	
Item 1. Business	3
Item 1A. Risk Factors	26
Item 1B. Unresolved Staff Comments	39
Item 2. Properties	39
Item 3. Legal Proceedings	39
Item 4. Mine Safety Disclosures	39
<u>Part II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	40
Item 6. Selected Financial Data	42
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	44
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	59
Item 8. Financial Statements and Supplementary Data	61
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	128
Item 9A. Controls and Procedures	128
Item 9B. Other Information	131
<u>Part III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	131
Item 11. Executive Compensation	131
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	131
Item 13. Certain Relationships and Related Transactions, and Director Independence	131
Item 14. Principal Accountant Fees and Services	131
<u>Part IV</u>	
Item 15. Exhibits and Financial Statement Schedules	132
Item 16. Form 10-K Summary	133
Signatures	134

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, and exhibits thereto, contains estimates, predictions, opinions, projections and other “forward-looking statements” as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to the Company’s predictions or expectations of future business or financial performance as well as its goals and objectives for future operations, financial and business trends, business prospects and management’s outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality or other future financial or business performance, strategies or expectations. The words “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project” and similar expressions, among others, generally identify forward-looking statements. Such forward-looking statements are based on various assumptions (some of which may be beyond the Company’s control) and are subject to risks and uncertainties (which change over time) and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to:

- those related to difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the markets in which the Company operates and in which its loans are concentrated, including the effects of declines in housing markets, an increase in unemployment levels and slowdowns in economic growth;
- the Company’s level of nonperforming assets and the costs associated with resolving problem loans including litigation and other costs;
- possible additional loan losses and impairment in the collectability of loans;
- changes in market interest rates, which may increase funding costs and reduce earning asset yields and thus reduce margin;
- the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of the Company’s investment securities portfolio;
- the credit risk associated with the substantial amount of commercial real estate, construction and land development and commercial and industrial loans in our loan portfolio;
- the extensive federal and state regulation, supervision and examination governing almost every aspect of the Company’s operations including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Economic Growth, Regulatory Relief, and Consumer Protection Act (which amended the Dodd-Frank Act) (the Economic Growth Act), and the rules and regulations issued in accordance therewith and potential expenses associated with complying with such regulations;
- the Company’s ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms;
- possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations;
- conditions in the financial markets that may limit the Company’s access to additional funding to meet its liquidity needs;
- impairments of the Company’s goodwill or other intangible assets;
- failure of the financial and operational controls of the Company’s Cash Connect[®] business;
- the success of the Company’s growth plans, including the successful integration of past and future acquisitions;
- the Company’s ability to fully realize the cost savings and other benefits of its acquisitions, manage risks related to business disruption following those acquisitions, and post-acquisition customer acceptance of the Company’s products and services and related customer disintermediation, including its pending acquisition of Beneficial Bancorp, Inc. (Beneficial);
- the Company’s ability to complete the pending merger with Beneficial on the terms proposed, which are subject to a number of conditions, risks and uncertainties, including the possibility that the proposed acquisition does not close when expected or at all because all conditions to closing are not received or satisfied on a timely basis or at all, the failure to close for any other reason, that the businesses of the Company and Beneficial will not be integrated successfully, that the cost savings and any synergies from the proposed acquisition may not be fully realized or may take longer to realize than expected, disruption from the proposed acquisition making it more difficult to maintain relationships with employees, customers or other parties with whom the Company or Beneficial have business relationships, diversion of management time on merger-related issues, risks relating to the potential dilutive effect of shares of the Company’s common stock to be issued in the transaction, and the reaction to the transaction of the companies’ customers, employees and counterparties;
- negative perceptions or publicity with respect to the Company’s trust and wealth management business;

- adverse judgments or other resolution of pending and future legal proceedings, and cost incurred in defending such proceeding;
- system failures or cybersecurity incidents or other 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 changes in the speed of prepayments of mortgage-backed securities due to changes in the interest rate environment, and the related acceleration of premium amortization on prepayments in the event that prepayments accelerate;
- regulatory limits on the Company’s ability to receive dividends from its subsidiaries and pay dividends to its stockholders;
- the effects of any reputation, 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, including those discussed in other documents filed by the Company with the Securities and Exchange Commission (SEC) from time to time.

These risks and uncertainties and other risks and uncertainties that could adversely affect our business, results of operations, financial condition or future prospects are discussed herein, including under the heading “Risk Factors,” and in other documents filed by the Company with the SEC. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. The Company disclaims any duty to revise or update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company for any reason, except as specifically required by law.

As used in this Annual Report on Form 10-K, the terms “WSFS”, “the Company”, “registrant”, “we”, “us”, and “our” mean WSFS Financial Corporation and its subsidiaries, on a consolidated basis, unless the context indicates otherwise.

Cash Connect[®] is our registered trademark. Any other trademarks appearing in this Annual Report on Form 10-K are the property of their respective holders.

PART I

ITEM 1. BUSINESS

OUR BUSINESS

WSFS Financial Corporation (the Company or WSFS) 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 (WSFS Bank or the Bank), one of the ten oldest bank and trust companies in the United States (U.S.) continuously operating under the same name. At \$7.2 billion in assets and \$19.0 billion in assets under management (AUM) and administration at December 31, 2018, WSFS Bank is also the largest locally-managed 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 financial institutions. A fixture in the community, the Bank has been in operation for more than 185 years. In addition to its focus on stellar customer experiences, WSFS Bank has continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed banking institution. We state our mission simply: "We Stand for Service." Our strategy of "Engaged Associates delivering stellar experiences growing Customer Advocates and value for our Owners" focuses on exceeding customer expectations, delivering stellar experiences and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

Our core banking business is commercial lending primarily funded by customer-generated deposits. We have built a \$4.0 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 December 31, 2018, we service our customers primarily from our 76 offices located in Delaware (45), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com. We also offer a broad variety of consumer loan products, retail securities and insurance brokerage services 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 and abstract and title company specializing in a variety of residential mortgage and refinancing solutions.

Our Cash Connect[®] business is a premier provider of ATM vault cash, smart safe (safes that automatically accept, validate, record and hold cash in a secure environment) and other cash logistics services in the U.S. Cash Connect[®] manages over \$1.0 billion in total cash and services 24,300 non-bank ATMs and approximately 2,300 smart safes nationwide. Cash Connect[®] provides related services such as online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing equipment sales and deposit safe cash logistics. Cash Connect[®] also operates 441 ATMs for the Bank, which has the largest branded ATM network in our market.

Our Wealth Management business provides a broad array of planning and advisory services, investment management, trust services, and credit and deposit products to individuals, business owners, corporate, and institutional clients through multiple integrated businesses. Combined, these businesses had \$19.0 billion of assets under management (AUM) and assets under administration (AUA) at December 31, 2018. WSFS Wealth Investments provides financial advisory services. Cypress, a registered investment adviser, is a fee-only wealth management firm managing a "balanced" investment style portfolio focused on preservation of capital and generating current income. West Capital, a registered investment adviser, is a fee-only wealth management firm operating under a multi-family office philosophy to provide customized solutions to institutions and high-net-worth individuals. The trust division of WSFS Bank (doing business as WSFS Institutional Services) provides personal trust and fiduciary services, as well as, trustee, agency, bankruptcy administration, custodial and commercial domicile services to corporate and institutional clients. Powdermill is a multi-family office providing independent solutions to high-net-worth individuals, families and corporate executives through a coordinated, centralized approach. WSFS Wealth Client Management provides comprehensive solutions to high-net-worth clients by delivering credit and deposit products as well as partnering with other wealth management units.

Subsidiaries

The Company has five consolidated subsidiaries: WSFS Bank, WSFS Wealth Management, LLC (Powdermill), WSFS Capital Management, LLC (West Capital), Cypress Capital Management, LLC (Cypress) and Christiana Trust Company of Delaware (Christiana Trust DE).

WSFS Bank has 3 wholly owned subsidiaries: WSFS Investment Group, Inc. (WSFS Wealth Investments), 1832 Holdings, Inc. and Monarch Entity Services LLC (Monarch). WSFS Wealth Investments markets various third-party investment and insurance products such as single-premium annuities, whole life policies and securities, primarily through our retail banking system and directly to the public. 1832 Holdings, Inc. was formed to hold certain debt and equity investment securities. Monarch offers commercial domicile services, which include providing employees, directors, sublease of office facilities and registered agent services in Delaware and Nevada.

WSFS has one unconsolidated subsidiary, WSFS Capital Trust III (the Trust), which was formed in 2005 to issue \$67.0 million aggregate principal amount of Pooled Floating Rate Capital Securities.

Segment Information

For financial reporting purposes, our business has three segments: WSFS Bank, Cash Connect[®] and Wealth Management. The WSFS Bank segment provides loans and other financial products to commercial and retail customers. Cash Connect[®] provides ATM vault cash, cash safe and other cash logistics services in the U.S through strategic partnerships with several of the largest network, manufacturers and service providers in the ATM industry. The Wealth Management segment provides a broad array of fiduciary, investment management, credit and deposit products to clients.

For segment financial information for the years ended December 31, 2018, 2017 and 2016, see Note 21 to the Consolidated Financial Statements in this report.

Recent Developments

On August 7, 2018, WSFS and Beneficial Bancorp, Inc. (Beneficial) entered into an Agreement and Plan of Reorganization, (as amended from time to time, the Merger Agreement) pursuant to which, and subject to the terms and conditions of the Merger Agreement, among other things, (i) Beneficial will merge with and into WSFS, with WSFS continuing as the surviving corporation (the Merger) and (ii) simultaneously, Beneficial Bank will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving bank (the Bank Merger and, together with the Merger, the Mergers). Subject to the terms and conditions of the Merger Agreement, stockholders of Beneficial will receive 0.3013 shares of WSFS common stock and \$2.93 in cash for each share of Beneficial common stock. Our stockholders approved the Mergers at a special meeting held on December 12, 2018, and Beneficial's stockholders approved the Mergers at a special meeting held on December 6, 2018. The Mergers, which are subject to customary closing conditions, are expected to close on March 1, 2019.

WSFS POINTS OF DIFFERENTIATION

While all banks offer similar products and services, we believe that WSFS, through its service model, has set itself apart from other banks in our market and the industry in general. In addition, community banks such as WSFS have been able to distinguish themselves from large national or international banks by providing our customers with the service levels, responsiveness and local decision making they prefer. The following factors summarize what we believe are our points of differentiation:

Building Associate Engagement and Customer Advocacy

Our business model is built on a concept called Human Sigma, which we have implemented in our strategy of “Engaged Associates delivering stellar experiences growing Customer Advocates and value for our Owners.” The Human Sigma model, identified by Gallup, Inc., begins with Associates who take ownership of their jobs and therefore perform at a higher level. We invest significantly in recruitment, training, development and talent management as our Associates are the cornerstone of our business model. This strategy motivates Associates and unleashes innovation and productivity to engage our most valuable asset, our Customers, by providing them with stellar experiences. As a result, we build Customer Advocates, or Customers who have developed an emotional attachment to the Bank. Research studies continue to show a direct link between Associate engagement, customer advocacy and a company’s financial performance. Our success with this strategy creates a virtuous cycle, further building an environment of engagement and advocacy.



Surveys conducted for us by Gallup, Inc. indicate that:

- Our Associate Engagement scores consistently rank in the top decile of companies polled. In 2018, our engagement ratio was 23.3:1, which means there were 23.3 engaged Associates for every actively disengaged Associate. This compares to a 2.6:1 ratio in 2003 and currently, a U.S. working population ratio of 2.1:1.
- 68% of customers surveyed ranked us a “five” out of “five,” strongly agreeing with the statement “WSFS is the perfect bank for me.”

By fostering a culture of engaged and empowered Associates, we believe we have become the employer and bank of choice in our market. In 2018, for the 13th consecutive year, we were named a top workplace in Delaware in *The News Journal*’s ‘Top Workplaces’ survey of our Associates. We were also named the ‘Top Bank’ in Delaware for the eighth year in a row by the readers of *The News Journal*, and named a fastest growing company in the Greater Philadelphia region ‘Soaring 76’ for the second year in a row by the *Philadelphia Business Journal*.

Community Banking Model

Our size and community banking model play a key role in our success. Our approach to business combines a service-oriented culture with a strong complement of products and services, all aimed at meeting the needs of our retail and business Customers. We believe the essence of being a community bank means that we are:

- Small enough to offer Customers responsive, personalized service and direct access to decision makers, yet
- Large enough to provide all the products and services needed by our target market customers.

As the financial services industry has consolidated, many independent banks have been acquired by national companies that have centralized their decision-making authority away from their customers and focused their mass-marketing on a regional or even national customer base. We believe this trend has underserved smaller business owners who have become accustomed to dealing directly with their bank's senior executives, discouraged retail customers who often experience deteriorating levels of service in branches and other service outlets, and frustrated bank employees who are no longer empowered to provide good and timely service to their customers.

Through our pending Merger with Beneficial, which we expect to close on March 1, 2019, we will create the largest, premier, locally-headquartered community bank in the Greater Delaware Valley, offering the benefits of local market knowledge and decision-making, a full-service product suite, the balance sheet to compete with larger regional and national banks, and most importantly, an ingrained culture of engaged Associates that bring to life WSFS' mission of *We Stand For Service* in our daily delivery of stellar Customer experiences.

WSFS Bank offers:

- One primary point of contact - each of our relationship managers is responsible for understanding his or her Customers' needs and bringing together the right resources in the Bank to meet those needs.
- A customized approach to our Customers - we believe this gives us an advantage over our competitors who are too large or centralized to offer customized products or services.
- Products and services that our Customers value - this includes a broad array of banking, cash management and trust and wealth management products, as well as a legal lending limit high enough to meet the credit needs of our Customers, especially as they grow.
- Rapid response and a company that is easy to do business with - our Customers tell us this is an important differentiator from larger, in-market competitors.

Strong Market Demographics

Our markets, which primarily include Delaware and southeastern Pennsylvania, are situated in the middle of the Washington, DC to New York corridor which includes the urban markets of Philadelphia and Baltimore. Delaware benefits from this urban concentration as well as from a unique political, legal, tax and business environment. The following table shows key demographics for our markets compared to the national average.

(Most recent available statistics)	Delaware	Southeastern Pennsylvania ⁽¹⁾	National Average
Unemployment (For December 2018) ⁽²⁾⁽³⁾	3.8%	3.2%	3.7%
Median Household Income (2013-2018) ⁽⁴⁾	\$63,036	\$82,349	\$57,652
Population Growth (2010-2018) ⁽⁴⁾⁽⁵⁾	7.7%	2.8%	6.0%

(1) Comprised of Chester, Delaware and Montgomery counties

(2) Bureau of Labor Statistics - Delaware and National unemployment rates as of November 2018, seasonally adjusted

(3) Bureau of Labor Statistics - Southeastern Pennsylvania unemployment rate is a simple average of the July 2017 (not seasonally adjusted) unemployment rates for Chester, Delaware, and Montgomery counties.

(4) U.S. Census Bureau - Quick Facts 2013 - 2018

(5) Southeastern Pennsylvania data is for 2010-2017

Balance Sheet Management

We put a great deal of focus on actively managing our balance sheet. This manifests itself in:

- **Prudent capital levels** - Maintaining prudent capital levels is key to our operating philosophy. At December 31, 2018, the Company's common equity to assets ratio was 11.32% and its tangible common equity to tangible assets ratio was 8.99%. At December 31, 2018 all regulatory capital levels for WSFS Bank were above well-capitalized levels. At December 31, 2018, WSFS Bank's common equity Tier 1 capital ratio was 12.69% and \$365.0 million in excess of the 6.5% "well-capitalized" level under the banking agencies' prompt corrective action framework: the Bank's Tier 1 capital ratio was 12.69% and \$276.6 million in excess of the 8% "well-capitalized" level, the Bank's total risk-based capital ratio was 13.37%, or \$198.9 million above the "well-capitalized" level of 10%, and the Bank's leverage ratio was 10.82%, or \$402.4 million above the 5% "well-capitalized" level.

The tangible common equity to tangible assets ratio is a non-GAAP financial measure. For a reconciliation of the tangible common equity to tangible assets ratio to net income and total assets, the most comparable U.S. generally accepted accounting principles (GAAP) measures, please refer to "Reconciliation of non-GAAP financial measures included in Item 1" located at the end of this section.

- **Disciplined lending** - We maintain discipline in our lending with a particular focus on portfolio diversification and granularity. Diversification includes limits on loans to one borrower as well as industry and product concentrations. We supplement this portfolio diversification with a disciplined underwriting process and the benefit of knowing our customers. We have also taken a proactive approach to identifying trends in our local economy and have responded to areas of concern.
- **Focus on credit quality** - We seek to control credit risk in our investment portfolio and use this portion of our balance sheet primarily to help us manage liquidity and interest rate risk, while providing marginal income and tax relief. Our philosophy and pre-purchase due diligence has allowed us to avoid the significant investment write-downs taken by many of our bank peers during the last economic downturn.
- **Asset/Liability management strategies** - We have created an investment portfolio that is consistent with our Board of Directors' approved risk appetite and we believe the portfolio contains minimal risks due to our exclusion of non-Agency (private label) mortgage-backed securities (MBS) and other asset-backed securities. We also believe that our thorough due diligence is effective in mitigating the credit risk associated with municipal securities that we have added. Further, our portfolio is highly liquid given our large amount of Agency MBS.

Disciplined Capital Management

We understand that our capital (or stockholders' equity) belongs to our stockholders. They have entrusted this capital to us with the expectation that it will earn an appropriate return relative to the risks we take. Mindful of this balance, we prudently, but aggressively, manage our capital.

Strong Performance Expectations and Alignment with Stockholder Priorities

We are focused on high-performing, long-term financial goals. We define "high-performing" as the top quintile of a relevant peer group in return on assets (ROA), return on tangible common equity (ROTCE) and EPS growth. Management incentives are, in large part, based on driving performance in these areas. More details on management incentive plans will be included in the proxy statement for our 2019 annual meeting of stockholders.

During 2018, we met or exceeded the goals in our 2016-2018 Strategic Plan. For the year ended December 31, 2018, WSFS reported ROA of 1.92%. Core ROA, which excludes non-core items, was 1.63% for 2018, demonstrating our steady progress toward the goals we set in our three year, 2016-2018 Strategic Plan. Core ROA for 2018 excludes (i) corporate development costs, (ii) securities gains, (iii) unrealized gains on equity investments, (iv) realized gain on sale of equity investment, (v) a recovery related to the settlement of a legal claim, and (vi) a recovery related to an unusual fraud loss.

Core ROA is a non-GAAP financial measure. For a reconciliation of Core ROA to ROA, the most comparable U.S. generally accepted accounting principles (GAAP) measure, please refer to "Reconciliation of non-GAAP financial measures included in Item 1" located at the end of this section.

For further information related to the legal settlement, see Note 24 to the Consolidated Financial Statements.

Growth

We have achieved success over the long-term in lending and deposit gathering, growing the Wealth Management segment's client base and growing Cash Connect[®]'s customer base and services. Our success has been the result of a focused strategy that provides service, responsiveness and careful execution in a consolidating marketplace. We plan to continue to grow by:

- Developing talented, service-minded Associates: We have successfully recruited Associates with strong ties to, and the passion to serve, their communities to enhance our service in existing markets and to provide a strong start in new communities. We also focus efforts on developing talent and leadership from our current Associate base to better equip those Associates for their jobs and prepare them for leadership roles at WSFS.
- Embracing the Human Sigma concept: We are committed to building Associate Engagement and Customer Advocacy as a way to differentiate ourselves and grow our franchise.
- Building fee income through investment in and growth of our Wealth Management and Cash Connect[®] segments.
- Continuing strong growth in commercial lending by:
 - Offering local decision-making by seasoned banking professionals.
 - Executing our community banking model that combines stellar experiences with the banking products and services our business customers demand.
 - Adding seasoned lending professionals that have helped us win customers in our Delaware and southeastern Pennsylvania markets.
- Continuing to grow deposits by:
 - Offering products through an expanded and updated branch network resulting from our pending Merger with Beneficial, increasing our market presence in Philadelphia and southeastern Pennsylvania.
 - Providing a stellar experience to our Customers.
 - Further expanding our commercial Customer relationships with deposit and cash management products.
 - Finding creative ways to build deposit market share such as targeted marketing programs.
- Seeking strategic acquisitions. We anticipate completing our Merger with Beneficial on March 1, 2019, thereby further expanding our presence in the southeastern Pennsylvania market. During 2018 and 2017, we focused on optimizing our recent acquisitions in southeastern Pennsylvania and our Wealth Management segment. During 2016, we acquired Penn Liberty Financial Corp. (Penn Liberty) and its wholly-owned subsidiary, Penn Liberty Bank, expanding our presence in the southeastern Pennsylvania market. In 2016, we also acquired the assets of Powdermill Financial Solutions, LLC and West Capital Management, Inc., an independent, fee-only wealth management firm. Over the next several years, we expect our growth to continue to be a mix of organic growth and acquisition-related growth, consistent with our long-term strategy.

Innovation

Our organization is committed to product and service innovation as a means to drive growth and to stay ahead of changing customer demands and emerging competition. We are focused on developing and maintaining a strong “culture of innovation” that solicits, captures, prioritizes and executes innovation initiatives, from product creation to process improvements. Cash Connect[®], a premier provider of ATM vault cash, smart safe and other cash logistics services in the U.S., serves as an innovation engine driving enhancements such as mobile phone cash withdrawals from WSFS ATMs, and has developed best-in-class cash logistics and reconciliation software. These innovations have created internal efficiencies and valued services for our local banking customers and merchants across the nation. We intend to continue to leverage technology and innovation to grow our business and to successfully execute on our strategy.

In conjunction with the announcement of our pending merger with Beneficial, we announced that we are embarking on a multi-year Delivery Transformation effort focused on melding our physical and digital delivery. Industry and customer behavior trends continue to shift as observed in reduced branch traffic and increased mobile adoption. As such, we have concluded through substantial internal and external analysis that we need to transform our delivery channels to meet these new expectations. As we embark on our 2019-2021 strategic plan, we will accelerate our transformation by optimizing our physical branch network and making strategic investments in meaningful technology solutions, supported by specialized talent. Those investments will provide our Customers with leading edge products and will elevate our Associates, as they strive to serve in a competitive and compelling way. We will design and integrate solutions to provide personalized experiences to our Customers, while retaining the essence of what makes WSFS great. Through our Delivery Transformation and our ongoing commitment to Stellar Service, we will continue to lead the community and regional banking industry with regards to service delivery and Customer experience.

Over the past several years, we have formed several strategic alliances which have allowed us to stay at the forefront of emerging technology in our industry. Through these partnerships, we look forward to offering and supporting even more innovative products to the financial services marketplace, continuing our organizational learning in this fast-developing space, and participating in value creation for our stockholders.

Values

Our values address integrity, service, accountability, transparency, honesty, growth and desire to improve. They are the core of our culture, they make us who we are and we live them every day.

At WSFS, we:

- Do the right thing.
- Serve others.
- Are welcoming, open and candid.
- Grow and improve.

Enterprise Risk Management

Since 2013, we have managed our risks through our Enterprise Risk Management (ERM) program administered by the Chief Risk Officer (CRO) and ERM Manager. Our stand-alone ERM department is separate from the lines of business. Formal Risk Appetite Statements have been developed for each major risk category throughout the institution; these Statements are reviewed and approved by the Board annually. Key Risk Indicators (KRI's) or Risk metrics are continually monitored in relation to risk appetite through a Risk Assessment Summary (RAS) dashboard. Each KRI has an assigned quantitative tolerance level which considers our overall risk appetite, regulatory requirements, the bank's peer group statistics, best practices, and general industry guidelines. As part of our ERM Program, approximately 130 KRIs are monitored company-wide. In the event that risk levels exceed our defined risk appetite, management action is required. The CRO, deputy CRO, and/or the ERM manager conduct meetings with management of respective business lines at least three times per year to discuss and gather information for ERM reporting. ERM reporting is provided to the Board of Directors three times per year. From a regulatory perspective, our ERM program is evaluated as part of the regular Safety and Soundness examination by the OCC.

Results

Our focus on these points of differentiation has allowed us to grow our core franchise and build value for our stockholders. Since 2014, our commercial loans which exclude loans held for sale have grown from \$2.7 billion to \$4.0 billion at December 31, 2018, a strong 8% compound annual growth rate (CAGR). Over the same period, customer deposits have grown from \$3.5 billion to \$5.4 billion, a 9% CAGR. Since 2008, stockholder value has increased at a far greater rate than our banking peers. An investment of \$100 in WSFS stock in 2008 would be worth \$262 at December 31, 2018. By comparison, \$100 invested in the Nasdaq Bank Index in 2008 would be worth \$200 at December 31, 2018.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

Condensed average balance sheets for each of the last three years and analyses of net interest income and changes in net interest income due to changes in volume and rate are presented in "Results of Operations" included in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CREDIT EXTENSION ACTIVITIES

Over the past several years we have focused on growing the more profitable, relationship-oriented segments of our loan portfolio. Our current portfolio lending activity is concentrated on small- to mid-sized businesses in the mid-Atlantic region of the U.S., primarily in Delaware, southern Pennsylvania, Maryland and New Jersey, as well as in northern Virginia. Since 2014, our total net commercial loans have increased by \$1.4 billion, or 51% and accounted for 83% of our net loan portfolio at December 31, 2018. Based on current market conditions, we expect our focus on growing commercial and industrial loans and other relationship-based commercial loans to continue during the remainder of 2019 and beyond.

The following table shows the composition of our loan portfolio at year-end for the last five years:

(Dollars in thousands)	At December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Types of Loans										
Commercial real estate:										
Commercial mortgage	\$ 1,162,739	23.9%	\$ 1,187,705	24.9%	\$ 1,163,554	26.2%	\$ 966,698	25.8%	\$ 805,459	25.3%
Construction	316,566	6.5%	281,608	5.9%	222,712	5.0%	245,773	6.5%	142,497	4.5%
Total commercial real estate	1,479,305	30.4%	1,469,313	30.8%	1,386,266	31.2%	1,212,471	32.3%	947,956	29.8%
Commercial and industrial	1,472,489	30.3%	1,464,554	30.7%	1,287,731	29.0%	1,061,597	28.3%	920,072	28.9%
Commercial — owner-occupied	1,059,974	21.8%	1,079,247	22.6%	1,078,162	24.3%	880,643	23.5%	788,598	24.8%
Total commercial loans	4,011,768	82.5%	4,013,114	84.1%	3,752,159	84.5%	3,154,711	84.1%	2,656,626	83.5%
Consumer loans:										
Residential real estate ⁽¹⁾	218,099	4.5%	253,301	5.3%	289,611	6.5%	283,963	7.6%	247,627	7.8%
Consumer	680,939	14.0%	558,493	11.7%	450,029	10.1%	360,249	9.5%	327,543	10.3%
Total consumer loans	899,038	18.5%	811,794	17.0%	739,640	16.6%	644,212	17.1%	575,170	18.1%
Gross loans	4,910,806	101.0%	4,824,908	101.1%	4,491,799	101.1%	3,798,923	101.2%	3,231,796	101.6%
Less:										
Deferred fees (unearned income)	7,348	0.2%	7,991	0.2%	7,673	0.2%	8,500	0.2%	6,420	0.3%
Allowance for loan losses	39,539	0.8%	40,599	0.9%	39,751	0.9%	37,089	1.0%	39,426	1.3%
Net loans ⁽²⁾	\$ 4,863,919	100.0%	\$ 4,776,318	100.0%	\$ 4,444,375	100.0%	\$ 3,753,334	100.0%	\$ 3,185,950	100.0%

(1) Includes reverse mortgages, at fair value of \$16.5 million; \$19.8 million; \$22.6 million; \$24.3 million; and \$29.3 million at December 31, 2018, 2017, 2016, 2015 and 2014 respectively.

(2) Excludes \$25,318; \$31,055; \$54,782; \$41,807; and \$28,508 of residential mortgage loans held for sale at December 31, 2018, 2017, 2016, 2015, and 2014, respectively

The following tables show our loan portfolio by remaining contractual maturity as of December 31, 2018. The first table details the total loan portfolio by type of loan. The second table details the total loan portfolio by those with fixed interest rates and those with adjustable interest rates. Loans may be pre-paid, so the actual maturity may differ from the contractual maturity. Prepayments tend to be highly dependent upon the interest rate environment. Loans having no stated maturity or repayment schedule are reported in the "Less than One Year" category.

<i>(Dollars in thousands)</i>	Less than One Year	One to Five Years	Over Five Years	Total
Commercial mortgage loans	\$ 142,601	\$ 568,528	\$ 451,610	\$ 1,162,739
Construction loans	107,462	148,070	61,034	316,566
Commercial and industrial loans	489,046	574,727	408,716	1,472,489
Commercial owner-occupied loans	70,843	359,898	629,233	1,059,974
Residential real estate loans ⁽¹⁾	6,543	8,391	186,616	201,550
Consumer loans	31,179	46,884	602,876	680,939
Total gross loans	\$ 847,674	\$ 1,706,498	\$ 2,340,085	\$ 4,894,257
Rate sensitivity:				
Fixed	\$ 134,617	\$ 751,751	\$ 871,521	\$ 1,757,889
Adjustable ⁽²⁾	713,057	954,747	1,468,564	3,136,368
Total gross loans	\$ 847,674	\$ 1,706,498	\$ 2,340,085	\$ 4,894,257

(1) Excludes reverse mortgages at fair value of \$16.5 million.

(2) Includes hybrid adjustable-rate mortgages.

Commercial Real Estate, Commercial Owner-Occupied, Construction and Commercial Lending

Pursuant to section 5(c) of the Home Owners' Loan Act (HOLA), federal savings banks are generally permitted to invest up to 400% of their total regulatory capital in nonresidential real estate loans and up to 20% of their assets in commercial loans, but no more than 10% may be in loans that do not qualify as small business loans. As a federal savings bank that was formerly chartered as a Delaware savings bank, the Bank has certain additional lending authority.

Commercial, commercial owner-occupied, commercial mortgage and construction loans have higher levels of risk than residential mortgage lending. These loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and may be more subject to adverse conditions in the commercial real estate market or in the general economy than residential mortgage loans. The majority of our commercial and commercial real estate loans are concentrated in Delaware and Pennsylvania.

We offer commercial real estate mortgage loans on multi-family properties and on other commercial real estate. Generally, loan-to-value ratios for these loans do not exceed 80% of appraised value at origination.

Our commercial mortgage portfolio was \$1.2 billion at December 31, 2018. Generally, this portfolio is diversified by property type, with no type representing more than 33% of the portfolio. The largest type is retail-related (non-mall, neighborhood shopping centers and other retail) with balances of \$347.0 million. The average size of a loan in the commercial mortgage portfolio is \$0.6 million and only nine loans are greater than \$8.0 million, with one loan greater than \$12.0 million.

We offer commercial construction loans to developers. In some cases these loans are made as "construction/permanent" loans, which provides for disbursement of loan funds during construction with automatic conversion to mini-permanent loans (one - five years) upon completion of construction. These construction loans are short-term, usually not exceeding two years, with interest rates indexed to our WSFS prime rate, the "Wall Street" prime rate or London InterBank Offered Rate (LIBOR), in most cases, and are adjusted periodically as these indices change. The loan appraisal process includes the same evaluation criteria as required for permanent mortgage loans, but also takes into consideration: completed plans, specifications, comparables and cost estimates. Prior to approval of each loan, these criteria are used as a basis to determine the appraised value of the subject property when completed. Our policy requires that all appraisals be reviewed independently from our commercial business development staff. At origination, the loan-to-value ratios for construction loans generally do not exceed 75%. The initial interest rate on the permanent portion of the financing is determined by the prevailing market rate at the time of conversion to the permanent loan. At December 31, 2018, \$486.4 million was committed for construction loans, of which \$316.6 million was outstanding. The residential construction and land development (CLD) portfolio represented \$133.9 million, or 3%, of total loans and 18% of Tier 1 capital (Tier 1 + ALLL), and the commercial CLD portfolio represented \$93.7 million, or 2%, of total loans. These portfolios include \$15.2 million of "land hold" loans, which are land loans not currently being developed, at December 31, 2018.

Commercial and industrial and owner-occupied commercial loans make up the remainder of our commercial portfolio and include loans for working capital, financing equipment and real estate acquisitions, business expansion and other business purposes. These relationships generally range in amounts of up to \$40.0 million with an average loan balance in the portfolio of \$0.3 million and terms ranging from less than one year to ten years. The loans generally carry variable interest rates indexed to our WSFS prime rate, "Wall Street" prime rate or LIBOR. At December 31, 2018, our commercial and industrial and owner-occupied commercial loan portfolios were \$2.5 billion and represented 52% of our total loan portfolio. These loans are diversified by industry, with no industry representing more than 13% of the portfolio.

Federal law limits the Bank's extensions of credit to any one borrower to 15% of our unimpaired capital (approximately \$112.2 million), and an additional 10% if the additional extensions of credit are secured by readily marketable collateral. Extensions of credit include outstanding loans as well as contractual commitments to advance funds, such as standby letters of credit. At December 31, 2018, no borrower had collective (relationship) total extensions of credit exceeding these legal lending limits.

Residential Real Estate Lending

Generally, we originate held-for-sale residential first mortgage loans with loan-to-value ratios of up to 80% and require private mortgage insurance or government guarantee for up to 35% of the mortgage amount for mortgage loans with loan-to-value ratios exceeding 80%. On a very limited basis, we have originated or purchased loans with loan-to-value ratios exceeding 80% without a private mortgage insurance requirement or government guarantee. At December 31, 2018, the balance of all such loans was approximately \$9.7 million.

Generally, our residential mortgage loans are underwritten and documented in accordance with standard underwriting criteria published by Fannie Mae, Freddie Mac, Federal Housing Agency, Veterans Administration, the U.S. Department of Agriculture and other secondary market participants to assure maximum eligibility for subsequent sale in the secondary market.

To protect the propriety of our liens, we require borrowers to provide title insurance. We also require fire, extended coverage casualty and flood insurance (where applicable) for properties securing residential loans. All properties securing our residential loans are appraised by independent, licensed and certified appraisers and are subject to review in accordance with our standards.

The majority of our adjustable-rate, residential real estate loans have interest rates that adjust yearly after an initial period. The change in rate for the first adjustment date could be higher than the typical limited rate change of two percentage points at each subsequent adjustment date. Adjustments are generally based upon a margin (currently 2.75% for U.S. Treasury index; 2.25% for LIBOR index) over the weekly average yield on U.S. Treasury securities adjusted to a constant maturity, as published by the Board of Governors of the Federal Reserve System (the Federal Reserve).

Usually, the maximum rate on these loans is five percent above the initial interest rate. We underwrite adjustable-rate loans under standards consistent with private mortgage insurance and secondary market underwriting criteria. We do not originate adjustable-rate mortgages with payment limitations that could produce negative amortization.

The adjustable-rate mortgage loans in our loan portfolio help mitigate the risk related to our exposure to changes in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of re-pricing adjustable-rate mortgage loans. During periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest costs to the borrower. Further, although adjustable-rate mortgage loans allow us to increase the sensitivity of our asset base to changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limitations. Accordingly, there can be no assurance that yields on our adjustable-rate mortgages will adjust sufficiently to compensate for increases to our cost of funds during periods of extreme interest rate increases.

The original contractual loan payment period for residential loans is normally 10 to 30 years. Because borrowers may refinance or prepay their loans without penalty, these loans tend to remain outstanding for a substantially shorter period of time. First mortgage loans customarily include "due-on-sale" clauses. This provision gives us the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage. We enforce due-on-sale clauses through foreclosure and other legal proceedings to the extent available under applicable laws.

In general, loans are sold without recourse except for the repurchase right arising from standard contract provisions covering violation of representations and warranties or, under certain investor contracts, a default by the borrower on the first payment. We also have limited recourse exposure under certain investor contracts in the event a borrower prepays a loan in total within a specified period after sale, typically 120 days. The recourse is limited to a pro rata portion of the premium paid by the investor for that loan, less any prepayment penalty collectible from the borrower. There were no repurchases in 2018, 2017 and 2016.

Consumer Lending

Our primary consumer credit products (excluding first mortgage loans) are home equity lines of credit and equity-secured installment loans. At December 31, 2018, home equity lines of credit outstanding totaled \$287.7 million and equity-secured installment loans totaled \$231.9 million. In total, these product lines represented 76% of total consumer loans. Typically, maximum loan to value (LTV) limits are 89% for primary residences and 75% for all other properties. At December 31, 2018, we had \$595.2 million in total commitments for home equity lines of credit. Home equity lines of credit offer customers the convenience of checkbook and debit card access, and revolving credit features for a portion of the life of the loan and typically are more attractive in a low interest rate environment. Home equity lines of credit expose us to the risk that falling collateral values may leave us inadequately secured. This credit risk is mitigated as the loans amortize over time. Additionally, during 2018 we purchased certain second-lien home equity installment loans through our partnership with Spring EQ, LLC (Spring EQ). These select loans meet or exceed our current underwriting standards and are similar to home equity loans originated through our branch network. Further, during 2018, we grew student loans through our partnership with LendKey Technologies Inc. (LendKey). These loans are primarily to consolidate existing student debt and are also underwritten in accordance with our current credit standards.

The following table shows the composition of our consumer loan portfolio at year-end for the last five years:

(Dollars in thousands)	At December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Equity secured installment loans	\$ 231,930	34.1%	\$ 148,212	26.5%	\$ 82,182	18.3%	\$ 89,218	24.7%	\$ 72,795	22.2%
Home equity lines of credit	287,721	42.3	301,658	54.0	290,310	64.5	226,592	62.9	218,683	66.8
Student loans	113,370	16.6	72,105	12.9	42,932	9.5	15,941	4.4	587	0.2
Personal loans	23,274	3.4	21,401	3.8	22,007	4.9	17,604	4.9	16,082	4.9
Unsecured lines of credit	16,677	2.4	12,194	2.2	10,613	2.4	9,244	2.6	9,415	2.9
Other	7,967	1.2	2,923	0.6	1,985	0.4	1,650	0.5	9,981	3.0
Total consumer loans	\$ 680,939	100.0%	\$ 558,493	100.0%	\$ 450,029	100.0%	\$ 360,249	100.0%	\$ 327,543	100.0%

Loan Originations, Purchases and Sales

We engage in traditional lending activities primarily in Delaware, southeastern Pennsylvania, and contiguous areas of neighboring states. As a federal savings bank, however, we may originate, purchase and sell loans throughout the U.S. We purchase loans from outside our traditional lending area through our relationships with Spring EQ and LendKey, when such purchases are deemed appropriate. We originate fixed-rate and adjustable-rate residential real estate loans through our banking offices and WSFS Mortgage, our mortgage banking company.

Commercial: We originate commercial real estate and commercial loans through our commercial lending division and Small Business Administration (SBA) loan program. Commercial loans are made for working capital, financing equipment acquisitions, business expansion and other business purposes. During 2018 we originated \$1.4 billion of commercial and commercial real estate loan exposures compared to \$1.2 billion in 2017. To reduce our exposure on certain types of these loans, and/or to maintain relationships within internal lending limits, at times we will sell a portion of our commercial loan portfolio, typically through loan participations. Commercial loan sales totaled \$29.4 million and \$33.3 million in 2018 and 2017, respectively. These amounts represent gross contract amounts and do not necessarily reflect amounts outstanding on those loans. We also periodically buy loan participations from other banks. Commercial loan participation purchases totaled \$53.1 million and \$19.3 million in 2018 and 2017, respectively.

Any significant modification or additional exposure to one borrowing relationship exceeding \$3.5 million must be approved by the Loan Committee. The Executive Committee of the Board of Directors reviews the minutes of the Loan Committee meetings. The Executive Committee also approves new credit exposures exceeding \$10.0 million and new credit exposures in excess of \$5.0 million for customers with higher risk profiles or larger existing relationship exposures. Depending upon their experience and management position, individual officers of the Bank have the authority to approve smaller loan amounts. Our credit policy includes a "House Limit" to any one borrowing relationship, which increased to \$40 million in August 2017 from \$30 million consistent with overall growth in capital and the size of our loan portfolio. In rare circumstances, we will approve exceptions to the "House Limit." Our policy allows for only 15 such relationships with an aggregate exposure of 10% of Tier I Capital plus ALLL. At December 31, 2018, no relationships exceeded the \$40.0 million "House Limit." After the close of our pending merger with Beneficial, we expect these limits to increase, reflective of the risk profile of the combined organization.

Residential and Consumer: During 2018, we originated \$325.1 million of residential real estate loans, compared with \$353.7 million in 2017. From time to time, we have purchased whole loans and loan participations in accordance with our ongoing asset and liability management objectives. There were no such purchases in 2018 or 2017. We sell most newly originated mortgage loans in the secondary market as a means of generating fee income to control the interest rate sensitivity of our balance sheet and to manage overall balance sheet mix. Residential real estate loan sales totaled \$300.6 million in 2018 and \$346.1 million in 2017. We hold certain fixed-rate mortgage loans for investment, consistent with our current asset/liability management strategies and our relationship-based lending philosophy.

At December 31, 2018, we serviced \$98.6 million of residential first mortgage loans and reverse mortgage loans for others, compared to \$102.5 million at December 31, 2017. We also serviced residential first mortgage loans and reverse mortgage loans for our own portfolio totaling \$218.1 million and \$253.3 million at December 31, 2018 and 2017 respectively.

Our consumer lending activity is conducted primarily through our branch offices and referrals from other parts of our business. We originate a variety of consumer credit products including home improvement loans, home equity lines of credit, automobile loans, unsecured lines of credit and other secured and unsecured personal installment loans.

We offer government-insured reverse mortgages to our customers. These loans do not close in our name and we process them as a reverse mortgage broker. During 2018 and 2017 we originated \$3.4 million and 3.1 million in reverse mortgages, respectively.

Fee Income from Lending Activities

We earn fee income from lending activities, including fees for originating loans, servicing loans and selling loans and loan participations. We also receive fee income for making commitments to originate construction, residential and commercial real estate loans. Additionally, we collect fees related to existing loans which include prepayment charges, late charges, assumption fees and interest rate swap fees. As part of the loan application process, the borrower also may pay us for out-of-pocket costs to review the application, whether or not the loan is closed.

Most loan fees are not recognized in our Consolidated Statements of Income immediately, but are deferred as adjustments to yield in accordance with GAAP, and are reflected in interest income over the expected life of the loan. Those fees represented interest income of \$5.5 million, \$5.1 million and \$4.2 million during 2018, 2017 and 2016 respectively. Loan fee income was mainly due to fee accretion on new and existing loans (including the acceleration of the accretion on loans that paid early), loan growth and prepayment penalties. The increase in loan fee income was concentrated in commercial and industrial and construction loans due to the associated growth in these portfolio categories.

LOAN LOSS EXPERIENCE, PROBLEM ASSETS AND DELINQUENCIES

Our results of operations can be negatively impacted by nonperforming assets, which include nonaccruing loans, other real estate owned and restructured loans. Nonaccruing loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in our opinion, collection is doubtful, or when principal or interest is past due 90 days and collateral is insufficient to cover principal and interest payments. 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.

We manage our portfolio to identify problem loans as promptly as possible and take immediate actions to minimize losses. To accomplish this, our Loan Administration and Risk Management Department monitors the asset quality of our loans and investments in real estate portfolios and reports such information to the Credit Policy, Audit and Executive Committees of the Board of Directors and the Bank's Controller's Department.

SOURCES OF FUNDS

We manage our liquidity risk and funding needs through our Treasury function and our Asset/Liability Committee. As a result of increased deposit growth, our loan-to-total customer funding ratio at December 31, 2018 was 90%⁽¹⁾, better than our 2018 strategic plan goal of 100%. We have significant experience managing our funding needs through both borrowings and deposit growth.

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

- Retained earnings
- Commercial and retail deposit programs
- Loan repayments
- Federal Home Loan Banks (FHLB) borrowings
- Repurchase agreements
- Federal Discount Window access
- Brokered deposits
- Senior debt

Our branch strategy has been focused on expanding our market penetration and retail footprint in Delaware and southeastern Pennsylvania and attracting new customers in part to provide additional deposit growth. During 2018, CDs increased \$43.9 million, or 7%, consistent with our strategy to attract longer-term, fixed-rate funding in a rising-rate environment. Core customer deposit growth (customer deposits excluding CDs) was \$380.5 million during 2018, a 9% increase over 2017.

⁽¹⁾ For this calculation, “loans” includes *Loans, held for sale* as shown on our Consolidated Statements of Financial Condition.

Deposits

WSFS Bank is also the largest locally-managed bank and trust company headquartered in Delaware and the Delaware Valley. The Bank primarily attracts deposits through its retail branch offices and loan production offices, in Delaware and nearby southeastern Pennsylvania.

The Bank offers various deposit products to our customers, including savings accounts, demand deposits, interest-bearing demand deposits, money market deposit accounts and certificates of deposit. In addition, the Bank accepts “jumbo” certificates of deposit with balances in excess of \$100,000 from individuals, businesses and municipalities.

The following table shows the maturities of certificates of deposit of \$100,000 or more as of December 31, 2018:

(Dollars in Thousands)

Maturity Period	December 31, 2018
Less than 3 months	\$ 65,757
Over 3 months to 6 months	17,305
Over 6 months to 12 months	140,736
Over 12 months	102,195
Total	\$ 325,993

Federal Home Loan Bank Advances

As a member of the FHLB, we are able to obtain FHLB advances. At December 31, 2018, we had \$328.5 million in FHLB advances with a weighted average rate of 2.52%, compared with \$710.0 million with a weighted average rate of 1.51% at December 31, 2017. Outstanding advances from the FHLB had rates ranging from 1.50% to 2.79% at December 31, 2018. Pursuant to collateral agreements with the FHLB, the advances are secured by qualifying first mortgage loans, qualifying fixed-income securities, FHLB stock and an interest-bearing demand deposit account with the FHLB. As a member of the FHLB, we are required to purchase and hold shares of capital stock in the FHLB in an amount at least equal to 0.10% of our member asset value plus 4.00% of advances outstanding. As of December 31, 2018, our FHLB stock investment totaled \$19.3 million, compared with \$31.3 million at December 31, 2017.

We received \$1.5 million in dividends from the FHLB during 2018, compared to \$1.6 million in 2017. For additional information regarding FHLB stock, see Note 12 to the Consolidated Financial Statements.

Trust Preferred Borrowings

In 2005, the Trust issued \$67.0 million aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. These securities are callable and have a maturity date of June 1, 2035.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

During 2018 and 2017, we purchased federal funds as a short-term funding source. At December 31, 2018, we had purchased \$158.0 million in federal funds at an average rate of 2.52%, compared to \$28.0 million at an average rate of 1.54% at December 31, 2017. As December 31, 2018 and 2017, we had no securities under agreements to repurchase as a funding source.

Senior Debt

On September 1, 2017, we redeemed \$55.0 million in aggregate principal amount of our 6.25% senior notes due 2019 which were issued in 2012 (the 2012 senior notes). The 2012 senior notes were redeemed using a portion of the proceeds from our 2016 issuance of senior unsecured fixed-to-floating rate notes (the 2016 senior notes) described below. We recorded noninterest expense of \$0.7 million due to the write-off of unamortized debt issuance costs in connection with this redemption.

On June 13, 2016, we issued \$100.0 million of the 2016 senior notes. The 2016 senior notes mature on June 15, 2026 and have a fixed coupon rate of 4.50% from issuance to but excluding June 15, 2021 and a variable coupon rate of three month LIBOR plus 3.30% from June 15, 2021 until maturity. The 2016 senior notes may be redeemed beginning on June 15, 2021 at 100% of principal plus accrued and unpaid interest. The proceeds remaining after the redemption of the 2012 notes are being used for general corporate purposes.

PERSONNEL

At December 31, 2018, we had 1,177 full-time equivalent Associates (employees). Our Associates are not represented by a collective bargaining unit. We believe our relationship with our Associates is very good, as evidenced by the results of our 2018 Associate engagement survey conducted by the Gallup organization which placed us among the top 5% of Gallup clients worldwide for the second year in a row. In addition, we were named a top workplace in Delaware for the 13th consecutive year in *The News Journal's* 'Top Workplaces' survey of our Associates and a 'Top Workplace' in the greater Philadelphia market by *philly.com* for the fourth consecutive year. We were also honored to receive the Gallup 'Great Workplace' award for the third year in a row.

REGULATION

Overview

The Company and the Bank are subject to extensive federal and state banking laws, regulations, and policies that are intended primarily for the protection of depositors. The Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, are not for the protection of our other creditors and stockholders. The Office of the Comptroller of the Currency (OCC) is the Bank's primary regulator and the Federal Reserve is the Company's primary regulator.

The statutes enforced by, and regulations and policies of, these agencies affect most aspects of our business, including prescribing permissible types of activities and investments, the amount of required capital and reserves, requirements for branch offices, the permissible scope of our activities and various other requirements.

The Bank's deposits are insured by the FDIC to the fullest extent allowed by law. As an insurer of bank deposits, the FDIC promulgates regulations, conducts examinations, requires the filing of reports and generally supervises the operations of all institutions to which it provides deposit insurance.

Financial Reform Legislation

The Dodd-Frank Act, which was enacted in 2010, imposed new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies, including insured depository institutions. The law also established the Consumer Financial Protection Bureau (CFPB) as an independent agency within the Federal Reserve. Some of the provisions of the Dodd-Frank Act have increased our expenses, decreased our revenues, and changed the activities in which we engage.

In May 2018, the Economic Growth Act was signed into law. The Economic Growth Act amends portions of the Dodd-Frank in order to provide regulatory relief to banking organizations such as ourselves. However, several but not all of the reforms are limited to banking organizations with fewer than \$10 billion in total consolidated assets. At December 31, 2018, we were below this ceiling. After our pending merger with Beneficial, which we expect to close on March 1, 2019, our total consolidated assets at both the Company and Bank levels will exceed \$10 billion, and we will cease to be eligible for many of these changes. Specific reforms that may affect us include:

- Capital requirements - Bank holding companies, such as the Company, with less than \$10 billion in total consolidated assets may be exempt from the Basel III Capital Rules if they maintain a community bank leverage ratio of between eight and ten percent. The specific number is to be set by the federal banking agencies. In November 2018, the agencies proposed a CBLR of nine percent. The agencies have not finalized the rule, and we cannot predict when they may do so. For further information, see "Supervision and Regulation - Capital" below.
- Volcker Rule - The Volcker Rule, enacted as part of the Economic Growth Act, largely prohibited any banking entity of any size from sponsoring or investing (or retaining an interest in) private equity and hedge funds and from engaging in proprietary trading. Banking entities also were required to establish compliance programs. The Economic Growth Act exempts banks with total consolidated assets of \$10 billion or less from the Volcker Rule. This exemption took effect upon enactment. The statute did not formally exempt bank holding companies under the \$10 billion threshold from the Volcker Rule, but the federal banking agencies have pledged not to enforce it against these companies. Although we do not believe we engaged in any activities covered by the Volcker Rule, the exemption eliminates any need for a compliance program.
- Commercial real estate loans - The Basel III Capital Rules as finalized in 2013 required a banking organization to risk weight certain commercial real estate loans that were determined to have high volatility at 150% rather than at 100% for other commercial real estate (CRE) loans. In order to avoid high volatility commercial real estate ("HVCRE") status and the higher risk weight, a CRE loan had to meet several requirements, including an equity contribution from the borrower in the form of cash, unencumbered readily marketable assets, or paid development expenses out of pocket. A lender could not return the contribution to the borrower until the loan was paid off or replaced with permanent financing. The Economic Growth Act replaced the HVCRE category with a narrower category for HVCRE acquisition, development, and construction (HVCRE ADC) loans. Among other things, a borrower may now make its equity contribution in the form of real property or improvements, and the lender may reclassify an HVCRE ADC loan more easily, enabling the lender to return the equity contribution to the borrower more easily. The federal banking agencies issued an interim final rule in September 2018 to implement these changes. We have not yet determined the impact of these changes on our CRE loan portfolio.
- Exemption to certain mortgage lending rules - The Economic Growth Act creates a new compliance option for mortgages originated and held by banks and credit unions with less than \$10 billion in total consolidated assets to be considered qualified mortgages for the purposes of the Ability-to-Repay Rule. In addition, the Economic Growth Act exempts certain insured depositories and credit unions that originate few mortgages from certain Home Mortgage Disclosure Act reporting requirements.

Basel III

In 2013, the Federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision (BCBS) capital guidelines for U.S. banking organizations. Under the final rules as of January 2015, minimum requirements increased for both the quantity and quality of capital maintained by the Company and the Bank. The rules included a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, required a minimum ratio of total capital to risk-weighted assets of 8.0%, and required a minimum Tier 1 leverage ratio of 4.0%.

In addition, the capital rules subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer: a ratio of CET1 to total risk-based assets of at least 2.5% on top of the minimum risk-based capital requirements. The implementation of the capital conservation buffer began on January 1, 2016, at 0.625%; in 2018 the buffer was 1.875%; and full 2.5% requirement took effect on January 1, 2019. As a result, as of January 1, 2019, the Company and the Bank must adhere to the following minimum capital ratios to satisfy the Basel III Capital Rule requirements and to avoid the limitations on capital distributions and discretionary bonus payments to executive officers: (i) 4.0% tier 1 leverage ratio; (ii) minimum CET 1 risk-based capital ratio of 7.0%; (iii) minimum tier 1 risk-based capital ratio of 8.5%; and (iv) minimum total risk-based capital ratio of 10.5%.

The final rules also revised the standards for an insured depository institution to be “well-capitalized” under the banking agencies’ prompt corrective action framework, requiring a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0% and total capital ratio of 10.0%, while leaving unchanged the existing 5.0% leverage ratio requirement. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. Newly issued trust preferred securities and cumulative perpetual preferred stock may no longer be included in Tier 1 capital. However, for depository institution holding companies of less than \$15 billion in total consolidated assets, such as the Company, most outstanding trust preferred securities and other non-qualifying securities issued prior to May 19, 2010 are permanently grandfathered to be included in Tier 1 capital (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments). At December 31, 2018, we had approximately \$67.0 million of trust preferred securities outstanding, all of which are counted as Tier 1 capital.

As of December 31, 2018, the Company and the Bank met the applicable standards on a fully phased-in basis, and the Bank was “well-capitalized” under the prompt corrective action rules.

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

Debit Card Interchange Fees

The Federal Reserve has issued rules under the Electronic Funds Transfer Act, as amended by a section of the Dodd-Frank Act, known as the Durbin Amendment, to limit interchange fees that an issuer may receive or charge for an electronic debit card transaction. Under the rules, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and five basis points multiplied by the value of the transaction. In addition, the rules allow for an upward adjustment of no more than one cent to an issuer’s debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the rule.

In accordance with the statute, the interchange fee standards do not apply to fees charged by issuers that, together with their affiliates, have assets of less than \$10.0 billion on the annual measurement date (December 31), such as the Bank, against debit accounts that they hold. After our pending merger with Beneficial, which we expect to close on March 1, 2019, our total consolidated assets at both the Company and Bank levels will exceed \$10 billion on December 31, 2019, and we will become subject to the Durbin Amendment rules in 2020.

London Inter-Bank Offered Rate (LIBOR)

In 2017, a committee of private-market derivative participants and their regulators convened by the Federal Reserve, the Alternative Reference Rate Committee (ARRC), was created to identify an alternative reference interest rate to replace LIBOR. The ARRC announced the Secured Overnight Funding Rate (SOFR), a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as its preferred alternative to LIBOR. The Chief Executive of the United Kingdom Financial Conduct Authority (FCA), which regulates LIBOR, announced its intention to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. Subsequently, the Federal Reserve announced final plans for the production of SOFR, which resulted in the commencement of its published rates by the Federal Reserve Bank of New York in April 2018. The Company has contracts, including loan and derivative contracts, that are currently indexed to LIBOR, and we are currently evaluating risks and potential process changes arising from these developments.

Regulation of the Company

General

The Company is a registered savings and loan holding company and is subject to the regulation, examination, supervision and reporting requirements of the Federal Reserve. The Federal Reserve conducts regular safety and soundness examinations or inspections of the Company, which result in ratings for risk management, financial condition, and potential impact on subsidiary depository institution(s), a composite rating, and a rating for subsidiary depository institution(s) (referred to collectively as the “RFI/C(D)” rating). The Federal Reserve treats the ratings and the examination reports as highly confidential, and they are not available to the public.

The Company is also a public company subject to the reporting requirements of the SEC. We file electronically with the SEC our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We make available on the investor relations page of our website at www.wfsbank.com, free of charge, copies of these reports as soon as reasonably practicable after filing or furnishing them to the SEC. The information on our website is not incorporated by reference in this Annual Report on Form 10-K.

Restrictions on Acquisitions

Federal law generally prohibits a savings and loan holding company, without prior regulatory approval, from acquiring direct or indirect control of all, or substantially all, of the assets of any other savings association or savings and loan holding company, or more than 5% of the voting shares of a savings association or savings and loan holding company. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings association that is not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the Federal Reserve.

The Company is a grandfathered unitary thrift holding company, a status that allows us to acquire companies or business lines that engage in a wide range of non-banking activities. Should we lose that status, we will be constrained in our ability to acquire many non-banking companies or business lines. We do not currently own any companies that a non-grandfathered unitary thrift holding company would not be allowed to hold.

Safe and Sound Banking Practices

Savings and loan holding companies and their non-bank subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices or constitute violations of laws or regulations. For example, the Federal Reserve opposes any repurchase of common stock or any other regulatory capital instrument if the repurchase would be inconsistent with the savings and loan holding company’s prospective capital needs and continued safe and sound operation. As another example, a savings and loan holding company may not impair its subsidiary savings association’s soundness by causing it to make funds available to non-depository subsidiaries or their customers if the Federal Reserve believes it not prudent for the Company to do so. The Federal Reserve can assess civil money penalties on a party for unsafe and unsound activities conducted on a knowing or reckless basis, if those activities caused more than a minimal loss to an institution or pecuniary gain to the party. The penalties can range up to \$25,000 for certain reckless violations and up to \$1.0 million for certain knowing violations for each day such a violation continues.

Source of Strength

Confirming a longstanding policy of the Federal Reserve, the Dodd-Frank Act requires the Company to act as a source of financial strength to the Bank in the event of financial distress at the Bank. Under this standard, the Company is expected to commit resources to support the Bank, including at times when the holding company would not otherwise be inclined to do so. The Federal Reserve also expects the Company to provide managerial support to the Bank as needed. The Federal Reserve may require a savings and loan holding company to terminate an otherwise lawful activity or divest control of a subsidiary if the activity or subsidiary poses a serious risk to the financial safety, soundness, or stability of a subsidiary savings association and is inconsistent with sound banking principles.

In addition, pursuant to the Dodd-Frank Act, the capital rules for savings and loan holding companies are no less stringent than those that apply to their subsidiary savings associations.

Dividends

The principal sources of the Company's cash are debt issuances and dividends from the Bank, supplemented by dividends from its operating subsidiaries (Cypress, Powdermill, West Capital and Christiana Trust DE). Our earnings and activities are affected by federal, state and local laws and regulations. For example, these include limitations on the ability of the Bank to pay dividends to the holding company and our ability to pay dividends to our stockholders. It is the policy of the Federal Reserve that holding companies should pay cash dividends on common stock only out of earnings available for the period for which the dividend is being paid and only if prospective earnings retention is consistent with the organization's expected future capital needs and current and prospective financial condition. The policy provides that holding companies should not maintain a level of cash dividends that undermines the holding company's ability to serve as a source of strength to its banking subsidiary. Consistent with this policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the Federal Reserve's policy statement.

In 2009, the Federal Reserve issued a supervisory letter providing greater clarity to its policy statement on the payment of dividends by holding companies. In this letter, the Federal Reserve stated that when a holding company's board of directors is considering the payment of dividends, it should consider, among other things, the following factors: (i) overall asset quality, potential need to increase reserves and write down assets, and concentrations of credit; (ii) potential for unanticipated losses and declines in asset values; (iii) implicit and explicit liquidity and credit commitments, including off-balance sheet and contingent liabilities; (iv) quality and level of current and prospective earnings, including earnings capacity under a number of plausible economic scenarios; (v) current and prospective cash flow and liquidity; (vi) ability to serve as an ongoing source of financial and managerial strength to depository institution subsidiaries insured by the FDIC, including the extent of double leverage and the condition of subsidiary depository institutions; (vii) other risks that affect the holding company's financial condition and are not fully captured in regulatory capital calculations; (viii) level, composition, and quality of capital; and (ix) ability to raise additional equity capital in prevailing market and economic conditions (the Dividend Factors). It is particularly important for a holding company's board of directors to ensure that the dividend level is prudent relative to the organization's financial position and is not based on overly optimistic earnings scenarios. In addition, a holding company's board of directors should strongly consider, after careful analysis of the Dividend Factors, reducing, deferring, or eliminating dividends when the quantity and quality of the holding company's earnings have declined or the holding company is experiencing other financial problems, or when the macroeconomic outlook for the holding company's primary profit centers has deteriorated. The Federal Reserve further stated that, as a general matter, a holding company should eliminate, defer or significantly reduce its distributions if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition, or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the holding company is operating in an unsafe and unsound manner.

Additionally, as discussed above, the Federal Reserve possesses enforcement powers over savings and loan holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices, or violations of applicable statutes and regulations. Among these powers is the authority to proscribe the payment of dividends by bank and savings and loan holding companies.

Cypress and West Capital

Cypress and West Capital are registered investment advisers under the Investment Advisers Act of 1940 (the Investment Advisers Act) and as such are supervised by the SEC. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including record-keeping, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Noncompliance with the Investment Advisers Act or other federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputation damage.

Regulation of WSFS Bank

General

As a federally chartered savings association the Bank is subject to regulation, examination and supervision by the OCC. The OCC conducts regular safety and soundness examinations of the Bank, which result in ratings for capital, asset quality, management, earnings, liquidity, and sensitivity to market risk and a composite rating (referred to collectively as the “CAMELS” rating). The OCC treats the CAMELS ratings and the examination reports as highly confidential, and they are not available to the public. The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OCC periodically examines the Bank from the standpoints of information technology, asset management/trust, and compliance with regulatory requirements. The Bank must file reports with the OCC describing its activities and financial condition, including a quarterly “call report” that is publicly available. The FDIC also has the authority to conduct special examinations of the Bank, and the CFPB has back-up enforcement authority over the Bank. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve.

Transactions with Affiliates; Tying Arrangements

The Bank is subject to certain restrictions in its dealings with us and our affiliates. Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act, with additional limitations found in Section 11 of the Home Owners’ Loan Act. An affiliate of a savings association, generally, is any company or entity which controls or is under common control with the savings association or any subsidiary of the savings association that is commonly controlled by an affiliate or a bank or savings association. In a holding company context, the parent holding company of a savings association (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings association. Generally, Sections 23A and 23B (i) limit the extent to which the savings association or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such institution’s capital stock and surplus, and limit the aggregate of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those that would be provided to a non-affiliate. The term “covered transaction” includes the making of loans to the affiliate, purchase of assets from the affiliate, issuance of a guarantee on behalf of the affiliate and several other types of transactions. Extensions of credit to an affiliate usually must be over-collateralized. In addition to the restrictions imposed by Sections 23A and 23B, the Home Owners’ Loan Act also prohibits a savings association from (i) lending or otherwise extending credit to an affiliate that engages in any activity impermissible for bank holding companies, or (ii) purchasing or investing in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for the purchase of shares of a subsidiary.

Restrictions also apply to extensions of credit by the Bank to its executive officers, directors, principal shareholders, and their related interests and to similar individuals at the Company and the Bank’s affiliates. In general, such extensions of credit (i) may not exceed certain dollar limitations, (ii) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (iii) must not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit also require the approval of the Bank’s Board of Directors.

The Bank may not extend credit, lease, sell property, or furnish any service or fix or vary the consideration for them on the condition that (i) the customer obtain or provide some additional credit, property, or service from or to the Bank or the Company or their subsidiaries (other than a loan, discount, deposit, or trust service or that are related to and usually provided in connection with any such product or service) or (ii) the customer not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. The Federal banking agencies have, however, allowed banks and savings associations to offer combined-balance products and otherwise to offer more favorable terms if a customer obtains two or more traditional bank products. The law authorizes the Federal Reserve to grant additional exceptions by regulation or order.

Regulatory Capital Requirements

Under the revised capital regulations based on the BCBS capital guidelines and that took effect on January 1, 2015 for the Bank, savings associations must maintain “tangible” capital equal to 1.5% of average total assets, common equity Tier 1 equal to 4.5% of risk-weighted assets, Tier 1 capital equal to 6% of risk-weighted assets, total capital (a combination of Tier 1 and Tier 2 capital) equal to 8% of risk-weighted assets, and a leverage ratio of Tier 1 capital to average total consolidated assets equal to 4%. The regulations also modified the thresholds necessary for a savings association to be deemed well or adequately capitalized; these adjustments are discussed below under “Prompt Corrective Action.”

Under the revised capital rules, the components of common equity Tier 1 capital include common stock instruments (including related surplus), retained earnings, and certain minority interests in the equity accounts of fully consolidated subsidiaries (subject to certain limitations). A savings association must make certain deductions from and adjustments to the sum of these components to determine common equity Tier 1 capital. The required deductions for federal savings associations include, among other items, goodwill (net of associated deferred tax liabilities), certain other intangible assets (net of deferred tax liabilities), certain deferred tax assets, gains on sale in connection with securitization exposures and investments in and extensions of credit to certain subsidiaries engaged in activities not permissible for national banks. The adjustments require several complex calculations and include adjustments to the amounts of deferred tax assets, mortgage servicing assets, and certain investments in the capital of unconsolidated financial institutions that are includable in common equity Tier 1 capital. Additional Tier 1 capital includes noncumulative perpetual preferred stock and related surplus, and certain minority interests in the equity accounts of fully consolidated subsidiaries not included in common equity Tier 1 capital (subject to certain limitations). Tier 2 capital includes subordinated debt with a minimum original maturity of five years, related surplus, certain minority interests in the equity accounts of fully consolidated subsidiaries not included in Tier 1 capital (subject to certain limitations), and limited amounts of a bank's allowance for loan and lease losses (ALLL). Certain deductions and adjustments are necessary for both additional Tier 1 capital and Tier 2 capital. Tangible capital has the same definition as Tier 1 capital.

The revised capital rules also modified the risk weights for several types of assets. The risk weights range from 0% for cash, U.S. government securities, and certain other assets, 50% for qualifying residential mortgage exposures, 100% for corporate exposures and non-qualifying mortgage loans and certain other assets, to 600% for certain equity exposures. Loans that are past due by 90 days or more must be risk-weighted at 150%. Mortgage servicing assets and deferred tax assets that are not deducted from common equity Tier 1 capital in accordance with the adjustment stated above are risk-weighted at 250%.

The capital rules finalized in 2013 applied a risk weight of 150% to "high volatility commercial real estate loans," commercial real estate CRE loans that failed to meet certain prerequisites. Among them was an equity contribution by a borrower of 15% of a project's value, in the form of cash or unencumbered readily marketable assets. Additionally, a lender could not reclassify an HVCRE loan and return to the 100% risk weight until the loan was paid off or replaced by permanent financing. The Economic Growth Act revised this risk weight in several ways, limiting the 150% risk weight to "high volatility acquisition, development, and construction" loans. Under the Economic Growth Act requirements, a borrower may make the necessary 15% contribution in the form of equity in the project and may reclassify the loan and risk weight it at 100% before maturity.

At December 31, 2018, the Bank was in compliance with the minimum common equity Tier 1 capital, Tier 1 capital, total capital, tangible capital and leverage capital requirements.

The Company is subject to similar minimum capital requirements as the Bank, except that the Company is not subject to a tangible capital ratio. As of December 31, 2018, the Company was in compliance with the minimum common equity Tier 1 capital, Tier 1 capital, total capital, and leverage capital requirements. For the Company to be "well capitalized," the Bank must be well-capitalized and the Company must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve to meet and maintain a specific capital level for any capital measure. As of December 31, 2018, the Company met all the requirements to be deemed well-capitalized.

Prompt Corrective Action

All banks and savings associations are subject to a "prompt corrective action" regime. This regime is designed primarily to impose increasingly stringent limits on insured depository institutions as their capital deteriorates below certain levels. There are five different capital levels: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A well-capitalized institution usually is entitled to various regulatory advantages, such as expedited treatment of applications, favorable deposit insurance assessments, and no express restrictions on brokered deposits. The revised capital rules summarized above raised the thresholds for well-capitalized status. In order to be "well capitalized", an OCC-regulated savings association must have a common equity Tier 1 capital ratio of 6.5%, a Tier 1 capital ratio of 8.0%, a total capital ratio of 10.0%, and a 5.0% leverage ratio, and not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by the OCC. An adequately capitalized savings association must maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total risk-based capital ratio of 8.0%, and a leverage ratio of 4.0%. If a savings association falls below any one of these floors, it becomes undercapitalized and subject to a variety of restrictions on its operations.

Although savings and loan holding companies are not subject to prompt corrective action, the Federal Reserve uses the same capital ratios to identify well capitalized holding companies for various purposes.

As of December 31, 2018, the Bank met all of the prerequisites for well-capitalized status.

Dividend Restrictions

Both OCC and Federal Reserve regulations govern capital distributions by Federal savings associations to their holding companies. Covered distributions include cash dividends, stock repurchases and other transactions charged to the capital account of a savings association to make capital distributions. A savings association must file a notice with the Federal Reserve at least 30 days before making any capital distribution. The association also must file an application with the OCC for approval of a capital distribution if either (1) the total capital distributions for the current calendar year (including the proposed capital distribution) exceed the sum of the institution's net income for that year to date plus the institution's retained net income for the preceding two years, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. In certain situations, a Federal savings association may be able to file a notice with the OCC rather than an application; in other situations, no application or notice is required for the OCC, although notice to the Federal Reserve still is necessary. During 2018, the Bank paid dividends to the Company after receiving approval from the OCC.

The OCC may prohibit a proposed capital distribution, which would otherwise be permitted by OCC regulations, if the OCC determines that such distribution would constitute an unsafe or unsound practice.

Under federal law, an insured depository institution may not make any capital distribution if the capital distribution would cause the institution to become undercapitalized or if it is already undercapitalized. The FDIC also prohibits an insured depository institution from paying dividends on its capital stock or interest on its capital notes or debentures (if such interest is required to be paid only out of net profits) or distributing any of its capital assets while it remains in default in the payment of any assessment due the FDIC. The Bank is currently not in default in any assessment payment to the FDIC.

Insurance of Deposit Accounts

The Bank's deposits are insured to the maximum extent permitted by the Deposit Insurance Fund. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the OCC an opportunity to take such action.

The maximum deposit insurance amount per depositor per insured depository institution per certain types of accounts is \$250,000.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC has revised its methodology for determining assessments from time to time. The current methodology, which has been in place since the third quarter of 2016, has a range of assessment rates from 3 basis points to 30 basis points on insured deposits. All insured depository institutions with the exception of large and complex banking organizations are assigned to one of three risk categories based on their composite CAMELS ratings. Each of the three risk categories has a range of rates, and the rate for a particular institution is determined based on seven financial ratios and the weighted average of its component CAMELS ratings. The FDIC may adjust assessment rates downward as the reserve ratio of the Deposit Insurance Fund exceeds 2.0% and higher thresholds. As of September 30, 2018, the reserve ratio was 1.36%. Future changes in insurance premiums could have an adverse effect on the operating expenses and results of operations and we cannot predict what insurance assessment rates will be in the future.

The FDIC may terminate the deposit insurance of any insured depository institution, including us, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. Management is not aware of any existing circumstances that would result in termination of our deposit insurance.

Reserves

Pursuant to regulations of the Federal Reserve, a savings association must maintain reserves against its transaction accounts. During 2018, no reserves were required to be maintained on the first \$16.0 million of transaction accounts, reserves of 3% were required to be maintained against the next \$106.3 million of transaction accounts and a reserve of 10% was required to be maintained against all remaining transaction accounts. These percentages are subject to adjustment by the Federal Reserve. Because required reserves must be maintained in the form of vault cash or in a noninterest bearing account at a Federal Reserve Bank, the effect of the reserve requirement may reduce the amount of an institution's interest-earning assets.

Consumer Protection Regulations

The Bank's offerings of retail products and services to consumers are subject to a large number of statutes and regulations designed to protect the finances of consumers and to promote lending to various sectors of the economy and population. These laws include, but are not limited to the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Truth in Savings Act, the Electronic Funds Transfer Act, and their implementing regulations. States may adopt more stringent consumer financial protection statutes that could apply to us as well. The CFPB is responsible for writing and revising the Federal regulations, but the OCC is responsible for ensuring compliance by Federal savings associations with less than \$10 billion in consolidated assets. As of December 31, 2018, the Bank was subject to OCC oversight, but the CFPB will assume jurisdiction over the Bank as a result of the pending merger with Beneficial, which we expect to close on March 1, 2019. State attorneys general also may file suit to enforce federal and state laws.

The change in leadership at the CFPB in 2017, the release of a new strategic plan and the publication of formal requests for information on possible changes to its general supervisory program and its enforcement program suggest that the CFPB may be taking a different approach to its implementation of consumer financial protection laws than the agency did when it first began operations, but we are unable to predict what effect, if any, these changes may have on the Bank.

Since its creation in 2011, the CFPB has finalized a number of significant rules, including rules that affect nearly every aspect of the residential mortgage lending and servicing process, from origination through maturity or foreclosure. Among other things, the rules require home mortgage lenders to: (i) develop and implement procedures to ensure compliance with a "reasonable ability to repay" test and identify whether a loan meets a new definition for a "qualified mortgage," in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the reasonable ability to repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time.

Privacy and Cybersecurity

Several Federal statutes and regulations require savings associations (as well as banks and other financial institutions) to take several steps to protect nonpublic consumer financial information. The Bank has prepared a privacy policy, which it must disclose to consumers annually. In some cases, the Bank must obtain a consumer's consent before sharing information with an unaffiliated third party, and the Bank must allow a consumer to opt out of the Bank's sharing of information with its affiliates for marketing and certain other purposes. Additional conditions come into play in the Bank's information exchanges with credit reporting agencies. The Bank's privacy practices and the effectiveness of its systems to protect consumer privacy are one of the subjects covered in the OCC's periodic compliance examinations.

The Federal banking agencies pay close attention to the cybersecurity practices of savings associations, banks, and their holding companies and affiliates. The interagency council of the agencies, the Federal Financial Institutions Examination Council, has issued several policy statements and other guidance for banks as new cybersecurity threats arise. FFIEC has recently focused on such matters as compromised customer credentials and business continuity planning. Examinations by the banking agencies now include review of an institution's information technology and its ability to thwart cyber attacks.

Bank Secrecy Act and Anti-Money Laundering

The Bank Secrecy Act requires federal savings associations and other financial institutions to establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. The principal requirements for an insured depository institution include (i) establishment of an anti-money laundering program that includes training and audit components; (ii) establishment of a "know your customer" program involving due diligence to confirm the identity of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities; (iii) the filing of currency transaction reports for deposits and withdrawals of large amounts of cash; (iv) additional precautions for accounts sought and managed for non-U.S. persons; and (v) verification and certification of money laundering risk with respect to private banking and foreign correspondent banking relationships. For many of these tasks a bank must keep records to be made available to its primary federal regulator. Anti-money laundering rules and policies are developed by a bureau within the U.S. Department of the Treasury, the Financial Crimes Enforcement Network, but compliance by individual institutions is overseen by its primary federal regulator, in the Bank's case, the OCC.

Bank Secrecy Act and anti-money laundering compliance has been a special focus of the OCC and the other Federal banking agencies in recent years. Any non-compliance is likely to result in an enforcement action, often with substantial monetary penalties and reputation damage. A savings association or bank that is required to strengthen its compliance program often must put on hold any initiatives that require banking agency approval.

Community Reinvestment Act

All savings associations and banks are subject to the Community Reinvestment Act (CRA), which requires each such institution to help meet the credit needs of low- to moderate-income communities and individuals within the institution's assessment area. CRA does not impose specific lending requirements, and it does not contemplate that a savings association or bank would take any action inconsistent with safety and soundness. The Federal banking agencies evaluate the performance of each of their regulated institutions periodically. Evaluations that result in a conclusion of "Needs to Improve" or "Unsatisfactory" may block or impede regulatory approvals for other actions by an institution.

The Bank's assessment areas include the entire state of Delaware as well as Montgomery, Chester and Delaware counties in Pennsylvania. The Bank received a rating of "Satisfactory" in its most recent performance evaluation, dated August 7, 2017.

Reconciliation of non-GAAP financial measures included in Item 1

We prepare our financial statements in accordance with U.S. GAAP. To supplement our financial information presented in accordance with U.S. GAAP, we provide the following non-GAAP financial measures: core ROA and the tangible common equity to tangible assets ratio. We believe these measures provide investors with a better understanding of the company's performance when analyzing changes in our underlying business between reporting periods and provide for greater transparency with respect to supplemental information used by management in its financial and operational decision making. We believe the presentation of these non-GAAP financial measures, when used in conjunction with GAAP financial measures, is a useful financial analysis tool that can assist investors in assessing the company's operating performance and underlying prospects. This analysis should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

Core ROA is calculated as follows:

	For the year ended December 31, 2018
<i>(Dollars in thousands)</i>	
Net income (GAAP)	\$ 134,743
Plus: Corporate development expenses (after tax)	5,632
Less: Securities gains (after tax)	(16)
Unrealized gains on equity investment (after tax)	(15,818)
Realized gain on sale of equity investment (after tax)	(2,878)
Recovery of legal settlement (after tax)	(6,081)
Recovery of fraud loss (after tax)	(1,275)
Adjusted net income (non-GAAP)	114,307
Average assets	\$ 7,014,447
ROA (GAAP)	1.92%
Core ROA (non-GAAP)	1.63%

The tangible common equity to tangible assets ratio is calculated as follows:

	December 31, 2018
<i>(Dollars in thousands)</i>	
Period End Tangible Assets	
Period end assets	\$ 7,248,870
Goodwill and intangible assets	(186,023)
Tangible assets	\$ 7,062,847
Period End Tangible Common Equity	
Period end Stockholder's equity	\$ 820,920
Goodwill and intangible assets	(186,023)
Tangible common equity	\$ 634,897
Tangible common equity to assets	8.99%

ITEM 1A. RISK FACTORS

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the primary risks and uncertainties that if realized could have a material and adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. The risks and uncertainties described below are not the only risks we face.

We have identified our major risk categories as: market risk, credit risk, capital and liquidity risk, compliance risk, operational risk, strategic risk, reputation risk and model risk. Market risk is the risk of loss due to changes in external market factors such as interest rates. Credit risk is the risk of loss that arises when an obligor fails to meet the terms of an obligation. We are exposed to both customer credit risk, from our loans, and institutional credit risk, principally from our various business partners and counterparties. Capital and liquidity risk is the risk that financial condition or overall safety and soundness are adversely affected by an inability, or perceived inability, to meet obligations and support business growth. Compliance risk is the risk that we fail to adequately comply with applicable laws, rules and regulations. Operational risk is the risk of loss arising from inadequate or failed processes, people or systems, external events (i.e., natural disasters) or compliance, reputation or legal matters and includes those risks as they relate directly to the Company as well as to third parties with whom we contract or otherwise do business. Strategic risk is the risk from changes in the business environment, improper implementation of decisions or inadequate responsiveness to changes in the business environment. Reputation risk is the risk of loss that arises from negative publicity or perceptions regarding our business practices. Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models.

1. Market Risk

Difficult market conditions and unfavorable economic trends could adversely affect our industry and our business.

We are exposed to downturns in the Delaware, mid-Atlantic and overall U.S. economy and housing markets. Unfavorable economic trends, sustained high unemployment, and declines in real estate values can cause a reduction in the availability of commercial credit and can negatively impact the credit performance of commercial and consumer loans, resulting in increased write-downs. These negative trends can cause economic pressure on consumers and businesses and diminish confidence in the financial markets, which may adversely affect our business, financial condition, results of operations and ability to access capital. A worsening of these conditions, such as a recession or economic slowdown, would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry. In particular, we may face the following risks in connection with these events:

- An increase in the number of customers unable to repay their loans in accordance with the original terms, which could result in a higher level of loan losses and provision for loan losses;
- Impaired ability to assess the creditworthiness of customers as the models and approaches we use to select, manage and underwrite our customers become less predictive of future performance;
- Impaired ability to estimate the losses inherent in our credit exposure as the process we use to make such estimates requires difficult, subjective and complex judgments based on forecasts of economic or market conditions that might impair the ability of our customers to repay their loans, and this estimating process becomes less accurate and thus less reliable as economic conditions worsen;
- Increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to commercial credit;
- Impaired ability to access the capital markets or otherwise obtain needed funding on attractive terms or at all;
- Changes in the regulatory environment, including regulations promulgated or to be promulgated under the Dodd-Frank Act, and changes in accounting standards, could influence recognition of loan losses and our allowance for loan losses, and could result in earlier recognition of loan losses and decreases in capital;
- Downward pressure on our stock price; and
- Increased competition due to intensified consolidation of the financial services industry.

Changes in interest rates and other factors beyond our control could have an adverse impact on our earnings.

Our operating income and net income depend to a significant extent on our net interest margin, which is the difference between the interest yields we receive on loans, securities and other interest-earning assets and the interest rates we pay on interest-bearing deposits and other liabilities. Net interest margin is affected by changes in market interest rates, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental regulatory agencies, including the Federal Reserve.

We seek to manage our risk from changes in market interest rates by adjusting the rates, maturity, repricing, and balances of our different types of interest-earning assets and interest-bearing liabilities, but these interest rate risk management techniques are not capable of eliminating such risks and they may not be as effective as we intend. A rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operations. The results of our interest rate sensitivity simulation models depend upon a number of assumptions which may prove to be inaccurate. There can be no assurance that we will be able to successfully manage our interest rate risk. In addition, increases in market interest rates and/or adverse changes in the local residential real estate market, the general economy or consumer confidence would likely have a significant adverse impact on our noninterest income, as a result of reduced demand for residential mortgage loans that we pre-sell.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

The market value of our investment securities portfolio may be impacted by the level of interest rates and the credit quality and strength of the underlying collateral.

Our net interest income varies as a result of changes in interest rates as well as changes in interest rates across the yield curve. When interest rates are low, borrowers have an incentive to refinance into mortgages with longer initial fixed rate periods and fixed rate mortgages, causing our securities to experience faster prepayments. Increases in prepayments on our portfolio will cause our premium amortization to accelerate, lowering the yield on such assets. If this happens, we could experience a decrease in interest income, which may negatively impact our results of operations and financial position.

Future changes in interest rates may reduce the market value of our investment securities. In addition, our securities portfolio is subject to risk as a result of our exposure to the credit quality and strength of the issuers of the securities or the collateral backing such securities. Any decrease in the value of the underlying collateral will likely decrease the overall value of our securities, affecting equity and possibly impacting earnings.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Such events could materially and adversely affect our results of operations.

2. Credit Risk

Significant increases of nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on our earnings.

Our nonperforming assets, which consist of non-accrual loans, assets acquired through foreclosure and troubled debt restructurings (TDRs) adversely affect our net income in various ways. We do not record interest income on nonaccrual loans and assets acquired through foreclosure. We must establish an allowance for loan losses which reserves for losses inherent in the loan portfolio that are both probable and reasonably estimable. From time to time, we also write down the value of properties in our portfolio of assets acquired through foreclosure to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to assets acquired through foreclosure. The resolution of nonperforming assets requires the active involvement of management, which can distract management from daily operations and other income producing activities. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance for loan losses accordingly, which will have an adverse effect on our earnings. Significant increases in the level of our nonperforming assets from the current level, or greater than anticipated costs to resolve these credits, will have an adverse effect on our earnings.

Our loan portfolio includes a substantial amount of commercial real estate, construction and land development and commercial and industrial loans. The credit risk related to these types of loans is greater than the risk related to residential loans.

Our commercial loan portfolio includes commercial and industrial loans, commercial real estate loans and construction and land development loans. Commercial real estate loans generally carry larger loan balances and involve a greater degree of risk of nonpayment or late payment than home equity loans or residential mortgage loans. Any significant failure to pay or late payments by our customers would adversely affect our earnings. The increased credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the larger size of loan balances, and the potential that adverse changes in general economic conditions can adversely affect income-producing properties. A portion of our commercial real estate, construction and land development and commercial and industrial loan portfolios includes a balloon payment feature. A number of factors may affect a borrower's ability to make or refinance a balloon payment, including the financial condition of the borrower, the prevailing local economic conditions and the prevailing interest rate environment.

Furthermore, commercial and industrial loans secured by owner-occupied properties are dependent upon the successful operation of the borrower's business. If the operating company suffers difficulties, including reduction in sales volume and/or profitability, the borrower's ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Concentration of loans in our primary markets may increase our risk.

Our success depends primarily on the general economic conditions and housing markets in the state of Delaware, southeastern Pennsylvania and northern Virginia, as a large portion of our loans are made to customers in these markets. This makes us vulnerable to a downturn in the local economy and real estate markets in these areas. Declines in real estate valuations in these markets would lower the value of the collateral securing those loans, which could cause us to realize losses in the event of increased foreclosures. Local economic conditions have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. In addition, weakening in general economic conditions such as inflation, recession, unemployment, natural disasters or other factors beyond our control could negatively affect demand for loans, the performance of our borrowers and our financial results.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

We make various assumptions and judgments about the collectability of the loans in our portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable or incurred losses in our loan portfolio, resulting in unanticipated losses and additions to our allowance for loan losses. While we believe that our allowance for loan losses was adequate at December 31, 2018, there is no assurance that it will be sufficient to cover future loan losses, especially if there is a significant deterioration in economic conditions. Material additions to our allowance could materially decrease our net income.

3. Capital and Liquidity Risk

Our inability to grow deposits in the future could materially adversely affect our liquidity and ability to grow our business.

A key part of our future growth strategy is to grow deposits. The market for deposits is highly competitive, with intense competition in attracting and retaining deposits. We compete on the basis of the rates we pay on deposits, features and benefits of our products, the quality of our customer service and the competitiveness of our digital banking capabilities. Our ability to originate and maintain deposits is also highly dependent on the strength of the Bank and the perceptions of customers and others of our business practices and our financial health. Adverse perceptions regarding our reputation could lead to difficulties in attracting and retaining deposits accounts. Negative public opinion could result from actual or alleged conduct in a number of areas, including lending practices, regulatory compliance, inadequate protection of customer information or sales and marketing activities, and from actions taken by regulators or others in response to such conduct.

The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. Competition from other financial services firms and others that use deposit funding products may affect deposit renewal rates, costs or availability. Changes we make to the rates offered on our deposit products may affect our profitability and liquidity.

The FDIA prohibits an insured bank from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is "well capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is "well capitalized" and at December 31, 2018, the Bank met or exceeded all applicable requirements to be deemed "well capitalized" for purposes of the FDIA. However, there can be no assurance that the Bank will continue to meet those requirements. Limitations on the Bank's ability to accept brokered deposits for any reason (including regulatory limitations on the amount of brokered deposits in total or as a percentage of total assets) in the future could materially adversely impact our funding costs and liquidity. Any limitation on the interest rates the Bank can pay on deposits could competitively disadvantage us in attracting and retaining deposits and have a material adverse effect on our business.

We could experience an unexpected inability to obtain needed liquidity.

Liquidity is essential to our business, as we use cash to fund loans and investments, other interest-earning assets and deposit withdrawals that occur in the ordinary course of our business. We also are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Our principal sources of liquidity include customer deposits, FHLB borrowings, brokered certificates of deposit, sales of loans, repayments to the Bank from borrowers and paydowns and sales of investment securities. Our ability to obtain funds from these sources could become limited, or our costs to obtain such funds could increase, due to a variety of factors, including changes in our financial performance or, the imposition of regulatory restrictions on us, adverse developments in the capital markets, including weakening economic conditions or negative views and expectations about the prospects for the financial services industry as a whole. If our ability to obtain necessary funding is limited or the costs of such funding increase, our ability to meet our obligations or grow our banking business would be adversely affected and our financial condition and results of operations could be harmed.

Restrictions on our subsidiaries' ability to pay dividends to us could negatively affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock, and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that our Bank and certain of our nonbank subsidiaries may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. Limitations on our subsidiaries to pay dividends to us could have a material adverse effect on our liquidity and on our ability to pay dividends on our common stock. Additionally, if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels; we may not be able to make dividend payments to our common stockholders.

4. Compliance Risk

We are subject to extensive regulation which could have an adverse effect on our operations.

We are subject to extensive federal and state regulation, supervision and examination governing almost all aspects of our operations. The laws and regulations governing our business are intended primarily to protect depositors, our customers, the public, the FDIC's Deposit Insurance Fund, and the banking system as a whole, and not our stockholders or holders of our debt. Since July 21, 2011, the Federal Reserve has been the primary federal regulator for the Company and the OCC has been the Bank's primary regulator. The banking laws, regulations and policies applicable to us govern a variety of matters, including certain debt obligations, changes in control, maintenance of adequate capital, and general business operations, including permissible types, amounts and terms of loans and investments, the amount of reserves held against deposits, restrictions on dividends, establishment of new offices and the maximum interest rate that may be charged by law. In addition, federal and state banking regulators have broad authority to supervise our banking business, including the authority to prohibit activities that represent unsafe or unsound banking practices or constitute violations of statute, rule, regulation or administrative order. Failure to appropriately comply with any such laws, regulations or regulatory policies could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could adversely affect our business, results of operations, financial condition or prospects.

We are subject to changes in federal and state banking statutes, regulations and governmental policies, and their interpretation or implementation. Regulations affecting banks and other financial institutions in particular are undergoing continuous review and frequently change and the ultimate effect of such changes cannot be predicted. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us. Any changes in any federal and state law, as well as regulations and governmental policies could affect us in substantial and unpredictable ways, including ways that may adversely affect our business, results of operations, financial condition or prospects.

Some of the regulatory changes mandated by the Dodd-Frank Act have increased our expenses, decreased our revenues and changed the activities in which we choose to engage. Some of these and other provisions of the Dodd-Frank Act remain subject to regulatory rulemaking and implementation, the effects of which are not yet known. We may be forced to invest significant management attention and resources to make any necessary changes related to the Dodd-Frank Act and any regulations promulgated thereunder, which may adversely affect our business, results of operations, financial condition or prospects. We cannot predict the specific impact and long-term effects the Dodd-Frank Act and the regulations promulgated thereunder will have on our financial performance, the markets in which we operate and the financial industry generally. The Dodd-Frank Act and the Economic Growth Act impose various requirements on banking organizations with more than \$10 billion in total consolidated assets but exempt those with fewer assets. As of December 31, 2018, we were below the \$10 billion threshold, but after the pending acquisition of Beneficial, which we expect to close on March 1, 2019, we will exceed the threshold. We will lose certain exemptions and become subject to new requirements. Among other things, we will become subject to limits on interchange fees that we may charge on debit card transactions, and we will remain subject to the Volcker Rule. Additional compliance costs may adversely affect our business, results of operations, financial condition or prospects.

In addition to changes resulting from the Dodd-Frank Act, in July 2013, the Federal Reserve, FDIC and the OCC approved final rules (Final Capital Rules) implementing revised capital rules to reflect the requirements of the Dodd-Frank Act and the Basel III international capital standards. Under the Final Capital Rules, minimum requirements have increased both the quantity and quality of capital held by the Company. 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 Capital Rules also establish a new capital conservation buffer, comprised of common equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer was 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. Strict eligibility criteria for regulatory capital instruments were also implemented under the Final Capital Rules. The Final Capital Rules became applicable to us beginning on January 1, 2015 with conservation buffers phasing in over the subsequent five years.

Certain of our subsidiaries are registered with the SEC as investment advisers and, as such, are subject to regulation, supervision and enforcement by the SEC under the Investment Advisers Act.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. They also mandate that we are ultimately responsible to ensure our third party vendors adhere to the same laws and regulations. In addition to other bank regulatory agencies, the Federal Financial Crimes Enforcement Network of the Department of the Treasury is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the state and federal banking regulators, as well as the U.S. Department of Justice, CFPB, Drug Enforcement Administration, and Internal Revenue Service.

We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control of the Department of the Treasury regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy or economy of the U.S. If our policies, procedures and systems or those of our third party vendors are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any acquisition plans. Any of these results could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

The fiscal, monetary and regulatory policies of the federal government and its agencies could have a material adverse effect on our results of operations.

The Federal Reserve regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect our net interest margin. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve policies and our regulatory environment generally are beyond our control, and we are unable to predict what changes may occur or the manner in which any future changes may affect our business, financial condition and results of operations.

The intention of the United Kingdom's FCA to cease sustaining LIBOR after 2021 could negatively affect the fair value of our financial assets and liabilities, results of operations and net worth. A transition to an alternative reference interest rate could present operational problems and result in market disruption, including inconsistent approaches for different financial products, as well as disagreements with counterparties.

We are not able to predict whether LIBOR will actually cease to be available after 2021, whether SOFR will become the market benchmark in its place or what impact such a transition may have on our business, results of operations and financial condition.

The selection of SOFR as the alternative reference rate for these products currently presents certain market concerns, because a term structure for SOFR has not yet developed, and there is not yet a generally accepted methodology for adjusting SOFR, which represents an overnight, risk-free rate, so that it will be comparable to LIBOR, which has various tenors and reflects a risk component. In addition, SOFR may not be a suitable alternative to LIBOR for all of our financial products, and it is uncertain what other rates might be appropriate for that purpose. It is uncertain whether these other indices will remain acceptable alternatives for such products, or how long it will take us to develop the systems and processes necessary to purchase adjustable rate mortgages tied to SOFR or other new indices.

We have various financial products, including mortgage loans, mortgage-related securities, other debt securities and derivatives, that are tied to LIBOR, and we continue to enter into transactions involving such products that will mature after 2021. Inconsistent approaches to a transition from LIBOR to an alternative rate among different market participants and for different financial products may cause market disruption and operational problems, which could adversely affect us, including by exposing us to increased basis risk and resulting costs in connection, and by creating the possibility of disagreements with counterparties.

If we fail to comply with legal standards, we could incur liability to our clients or lose clients, which could negatively affect our earnings.

Managing or servicing assets with reasonable prudence in accordance with the terms of governing documents and applicable laws is important to client satisfaction, which in turn is important to the earnings and growth of our investment businesses. Failure to comply with these standards, adequately manage these risks or manage the differing interests often involved in the exercise of fiduciary responsibilities could also result in liability.

5. Operational Risk

Impairment of goodwill and/or intangible assets could require charges to earnings, which could negatively impact our results of operations.

Goodwill and other intangible assets arise when a business is purchased for an amount greater than the net fair value of its identifiable assets. We have recognized goodwill as an asset on the balance sheet in connection with several recent acquisitions. We evaluate goodwill and intangibles for impairment at least annually. Although we have determined that goodwill and other intangible assets were not impaired during 2018, a significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill or other intangible assets. Any future write-down of the goodwill or intangible assets could result in a material charge to earnings.

Our results of operations and financial condition could be materially adversely affected if our Cash Connect[®] segment's established policies, procedures and controls are inadequate to prevent a misappropriation of funds, or if a misappropriation of funds is not insured or not fully covered through insurance.

The profitability of our Cash Connect[®] segment depends to a large degree on its ability to accurately and efficiently distribute, track, and settle large amounts of cash to its customers' ATMs which, in turn, depends on the successful implementation and monitoring of a comprehensive series of financial and operational controls that are designed to help prevent, detect, and recover any potential loss of funds. These controls require the implementation and maintenance of complex proprietary software, the ability to track and monitor an extensive network of armored car companies, and the ability to settle large amounts of electronic funds transfers (EFT) from various ATM networks. There is a risk that those associated with armored car companies, ATM networks and processors, ATM operators, or other parties may misappropriate funds belonging to Cash Connect[®]. Cash Connect[®] has experienced such occurrences in the past. If our Cash Connect[®] division's established policies, procedures and controls are inadequate, or not properly executed to prevent or detect a misappropriation of funds, or if a misappropriation of funds is not insured or not fully covered through any insurance maintained by us, our results of operations or financial condition could be materially affected.

Our risk management processes and procedures may not be effective in mitigating our risks

We have established processes and procedures intended to identify, measure, monitor and control material risks to which we are subject, including, for example, credit risk, market risk, liquidity risk, strategic risk and operational risk.

We seek to monitor and control our risk exposure through a framework that includes our risk appetite statement, enterprise risk assessment process, risk policies, procedures and controls, reporting requirements, credit risk culture and governance structure. Management of our risks in some cases depends upon the use of analytical and/or forecasting models. If the models that we use to manage these risks are ineffective at predicting future losses or are otherwise inadequate, we may incur unexpected losses or otherwise be adversely affected. In addition, the information we use in managing our credit and other risk may be inaccurate or incomplete as a result of error or fraud, both of which may be difficult to detect and avoid. There may also be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated, including when processes are changed or new products and services are introduced. If our risk management framework does not effectively identify and control our risks, we could suffer unexpected losses or be adversely affected, and that could have a material adverse effect on our business, results of operations and financial condition.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

Failures in, or breaches of, our computer systems and network infrastructure, or those of our third party vendors or other service providers, including as a result of cyber-attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or other users. Cybersecurity breaches and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and damage to our reputation, and may discourage current and potential customers from using our Internet banking services. As customer, public and regulatory expectations regarding operational and information security have increased, we have added additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches, including firewalls and penetration testing. We continue to investigate cost effective measures as well as insurance protection; however, any mitigation activities may not prevent or detect future potential losses from system failures or cybersecurity breaches.

In the normal course of business, we collect, process, and retain sensitive and confidential information regarding our customers. Although we devote significant resources and management focus to ensuring the integrity of our systems through information security and business continuity programs, our facilities and systems, and those of our third-party service providers, are vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. We and our third-party service providers have experienced all of these events in the past and expect to continue to experience them in the future. These events could interrupt our business or operations, result in significant legal and financial exposure, supervisory liability, damage to our reputation, loss of customers and business or a loss of confidence in the security of our systems, products and services. Although the impact to date from these events has not had a material adverse effect on us, we cannot be sure this will be the case in the future. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions that are designed to disrupt key business services, such as consumer-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. We employ detection and response mechanisms designed to contain and mitigate security incidents, but early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

Changes in accounting standards or changes in how the accounting standards are interpreted or applied could materially impact the Company's financial statements.

From time to time, the Financial Accounting Standards Board (FASB) or the SEC may change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, banking regulators and the Company's independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report the Company's financial statements. In some cases, the Company could be required to apply a new or revised standard retroactively, potentially resulting in the Company restating prior period's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. The new guidance is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The Company does not plan to early adopt this amendment and will adopt this amendment on January 1, 2020. This new accounting standard could, at the time of adoption but also during any period of loan growth: result in a significant increase in the allowance for credit losses; through the increased provision, result in negative adjustment to retained earnings and, correspondingly, our regulatory capital levels; and enhance volatility in loan loss provision and allowance levels from quarter to quarter and year to year, especially during times when the economy is in transition.

Our evaluation of acceptable methodologies, accounting policies, and reporting requirements under the amendment are ongoing, and we are consulting with third-party experts and specialists, where necessary, to assist with implementation. Our implementation efforts to date suggest that adoption may materially increase the allowance for loan losses and decrease capital levels. However, the extent of these impacts will depend on the asset quality of the portfolio, macroeconomic conditions, and significant estimates and judgments made by management at the time of adoption. For more information related to the impacts of ASU 2016-13, see Note 2 to the Consolidated Financial Statements.

Our business may be adversely impacted by litigation and regulatory enforcement, which could expose us to significant liabilities and/or damage our reputation.

From time to time, we have and may become party to various litigation claims and legal proceedings. Our businesses involve the risk that clients or others may sue us, claiming that we have failed to perform under a contract or otherwise failed to carry out a duty perceived to be owed to them. Our trust, custody and investment management businesses are particularly subject to this risk. This risk may be heightened during periods when credit, equity or other financial markets are deteriorating in value or are particularly volatile, or when clients or investors are experiencing losses. In addition, as a publicly-held company, we are subject to the risk of claims under the federal securities laws, and volatility in our stock price and those of other financial institutions increases this risk. Actions brought against us may result in injunctions, settlements, damages, fines or penalties, which could have a material adverse effect on our financial condition or results of operations or require changes to our business. Even if we defend ourselves successfully, the cost of litigation may be substantial, and public reports regarding claims made against us may cause damage to our reputation among existing and prospective clients or negatively impact the confidence of counterparties, rating agencies and stockholders, consequently negatively affecting our earnings.

In the ordinary course of our business, we also are subject to various regulatory, governmental and enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In enforcement matters, claims for disgorgement, the imposition of civil and criminal penalties and the imposition of other remedial sanctions are possible.

WSFS Bank provides indenture trustee and loan agency services, including administrative and collateral agent fee-based services for first lien, second lien, debtor-in-possession and exit facilities, and WSFS Bank professionals work with ad hoc committees, unsecured creditors' committees, borrowers and other professionals involved in restructuring and bankruptcy. In this capacity, in the normal course of business, WSFS Bank may be named as a party in litigation. Although WSFS Bank has no credit or direct exposure in conjunction with this administrative role, the fact that the Bank's name appears in the case caption may create the erroneous impression that WSFS Bank may have financial exposure in such a lawsuit.

Management evaluates these claims and proceedings to assess the likelihood of unfavorable outcomes and estimates, if possible, the amount of potential losses. We may establish a reserve, as appropriate, based upon our assessments and estimates in accordance with accounting policies. We base our assessments, estimates and disclosures on the information available to us at the time and rely on the judgment of our management with respect to those assessments, estimates and disclosures. Actual outcomes, losses and related expenses may differ materially from assessments and estimates, and may exceed the amount of any reserves, which could adversely affect our reputation, financial condition and results of operations.

Errors, breakdowns in controls or other mistakes in the provision of services to clients or in carrying out transactions for our own account can subject us to liability, result in losses or negatively affect our earnings in other ways.

In our asset servicing, investment management, fiduciary administration and other business activities, we effect or process transactions for clients and for us that involve very large amounts of money. Failure to properly manage or mitigate operational risks can have adverse consequences, and increased volatility in the financial markets may increase the magnitude of resulting losses. Given the high volume of transactions we process, errors that affect earnings may be repeated or compounded before they are discovered and corrected.

Changes in the value of our deferred tax assets could adversely affect our operating results and regulatory capital ratios.

Our deferred tax assets are subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, we consider all positive and negative evidence available, including the impact of recent operating results, as well as potential carryback of tax to prior years' taxable income, changes in statutory tax rates, reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. If we conclude in the future that a significant portion of our deferred tax assets are not more likely than not to be realized, we will record a valuation allowance, which could adversely affect our financial position, results of operations and regulatory capital ratios.

6. Strategic Risk

Our business strategy includes significant investment in growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth and investment in infrastructure effectively.

We are pursuing a significant growth strategy for our business. Our growth initiatives have required us to recruit experienced personnel to assist in such initiatives. The failure to retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, as we expand our lending beyond our current market areas, we could incur additional risk related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets.

A weak economy, low demand and competition for credit may impact our ability to successfully execute our growth plan and adversely affect our business, financial condition, results of operations, reputation and growth prospects. While we believe we have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth.

We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions or other business growth initiatives or undertakings. We may not successfully identify appropriate opportunities, may not be able to negotiate or finance such activities and such activities, if undertaken, may not be successful.

We have in the past and may in the future pursue acquisitions, which may disrupt our business and adversely affect our operating results, and we may fail to realize all of the anticipated benefits of any such acquisition.

We have historically pursued acquisitions, and may seek acquisitions in the future. We may not be able to successfully identify suitable candidates, negotiate appropriate acquisition terms, complete proposed acquisitions, successfully integrate acquired businesses into the existing operations, or expand into new markets. Once integrated, acquired operations may not achieve levels of revenues, profitability, or productivity comparable with those achieved by our existing operations, or otherwise perform as expected.

Acquisitions involve numerous risks, including difficulties in the integration of the operations, technologies, services and products of the acquired companies, and the diversion of management's attention from other business concerns. We may not properly ascertain all such risks prior to an acquisition or prior to such a risk impacting us while integrating an acquired company. As a result, difficulties encountered with acquisitions could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, we must generally receive federal regulatory approval before we can acquire a bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, future prospects, including current and projected capital levels, the competence, experience, and integrity of management, compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution's record of compliance under the Community Reinvestment Act, and the effectiveness of the acquiring institution in combating money laundering activities. In addition, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

Failure of the Beneficial Merger to be completed, the termination of the Merger Agreement or a significant delay in the consummation of the Merger could negatively impact the Company and Beneficial.

Although we expect to close the Merger on March 1, 2019, the Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the Merger. These conditions to the consummation of the Merger may not be fulfilled and, accordingly, the Merger may not be completed. In addition, if the Merger is not completed by August 7, 2019, either the Company or Beneficial may choose to terminate the Merger Agreement at any time after that date if the failure to consummate the transactions contemplated by the Merger Agreement is not caused by any breach of the Merger Agreement by the party electing to terminate the Merger Agreement.

If the Merger is not consummated, the ongoing business, financial condition and results of operations of the Company may be materially adversely affected and the market price of our common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Merger will be consummated. If the consummation of the Merger is delayed, including by the receipt of a competing acquisition proposal, our business, financial condition and results of operations may be materially adversely affected.

In addition, we have incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement. If the Merger is not completed, we would have to recognize these expenses without realizing the expected benefits of the Merger. Any of the foregoing, or other risks arising in connection with the failure of or delay in consummating the Merger, including the diversion of management attention from pursuing other opportunities and the constraints in the Merger Agreement on the ability to make significant changes to our ongoing business during the pendency of the Merger, could have a material adverse effect on our business, financial condition and results of operations.

Additionally, our business may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger, and the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the Merger will be completed. If the Merger Agreement is terminated and we seek another Merger or business combination, you cannot be certain that we will be able to find a party willing to engage in a transaction on more attractive terms than the Merger.

WSFS and WSFS Bank will grow to over \$10 billion in total consolidated assets as a result of the Mergers, which will lead to increased regulation.

Upon consummation of the Mergers, which are expected to close on March 1, 2019, and as of June 30, 2018 on a pro forma basis giving effect to the Mergers, WSFS and WSFS Bank will each have approximately \$12.8 billion in total consolidated assets. WSFS will accordingly become subject to certain regulations that apply only to depository institution holding companies or depository institutions with \$10 billion or more in total consolidated assets.

Debit card interchange fee restrictions set forth in section 1075 of the Dodd-Frank Act, known as the Durbin Amendment, as implemented by regulations of the Federal Reserve, cap the maximum debit interchange fee that an issuer may receive per transaction at the sum of 21 cents plus five basis points. An issuer that adopts certain fraud prevention procedures may charge an additional one cent per transaction. Debit card issuers with less than \$10 billion in total consolidated assets, currently including WSFS Bank and Beneficial Bank, are exempt from these interchange fee restrictions. The exemption for small issuers ceases to apply as of July 1st of the year following the calendar year in which the issuer has total consolidated assets of \$10 billion or more at year-end. As a result, if the Bank Merger of WSFS Bank and Beneficial Bank is consummated in 2019, WSFS Bank will become subject to the interchange restrictions of the Durbin Amendment beginning July 1, 2020. WSFS is evaluating and monitoring the financial impact of becoming subject to the Durbin Amendment.

Additionally, an insured depository institution with \$10 billion or more in total assets is subject to supervision, examination, and enforcement with respect to consumer protection laws by the Consumer Financial Protection Bureau or CFPB. Under its current policies, the CFPB will assert jurisdiction in the first quarter after the call reports of merging insured depository institutions, on a combined basis, show total consolidated assets of \$10 billion or more for four consecutive quarters, including quarters ended prior to the Mergers. As a result, we expect that WSFS Bank to become subject to CFPB supervision, examination, and enforcement at the beginning of the quarter following consummation of the Mergers.

Other regulatory requirements apply, and have previously applied, to insured depository institution holding companies and insured depository institutions with \$10 billion or more in total consolidated assets. In addition, Congress and/or regulatory agencies may impose new requirements or surcharges on such institutions in the future. The Economic Growth Act, includes provisions that, as they are implemented, relieve banking organizations with less than \$10 billion in total consolidated assets (and that satisfy certain other conditions) from risk-based capital requirements, restrictions on proprietary trading and investment and sponsorship in hedge funds and private equity funds known as the Volcker Rule, and certain other regulatory requirements. By exceeding \$10 billion in total consolidated assets, WSFS and WSFS Bank will not qualify for any of this relief, subjecting us to additional restrictions on our business activities.

There is no assurance that the benefits of the Mergers will outweigh the regulatory costs resulting from WSFS and WSFS Bank growing to more than \$10.0 billion in total consolidated assets.

Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the Merger may not be fully realized.

The success of the Merger will depend on, among other things, the combined company's ability to combine the businesses of the Company and Beneficial. If the combined company is not able to successfully achieve this objective, the anticipated benefits of the Merger may not be realized fully, or at all, or may take longer to realize than expected.

The Company and Beneficial have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on the successful combination of the businesses of the Company and Beneficial. To realize these anticipated benefits and cost savings, after the completion of the Merger, the Company expects to integrate Beneficial's business into its own. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the Merger. The loss of key employees could have an adverse effect on the companies' financial results and the value of their common stock. If the Company experiences difficulties with the integration process, the anticipated benefits of the Merger may not be realized fully, or at all, or may take longer to realize than expected. As with any Merger of financial institutions, there also may be business disruptions that cause Beneficial or the Company to lose current customers or cause current customers to remove their accounts from Beneficial or the Company and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Beneficial and the Company during this transition period and for an undetermined period after consummation of the Merger.

The combined company expects to incur substantial expenses related to the Merger.

The combined company expects to incur substantial expenses in connection with consummation of the Merger and combining the business, operations, networks, systems, technologies, policies and procedures of the two companies. Although the Company and Beneficial have assumed that a certain level of transaction and combination expenses would be incurred, there are a number of factors beyond their control that could affect the total amount or the timing of their combination expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and combination expenses associated with the Merger could, particularly in the near term, exceed the savings that the combined company expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the consummation of the Merger. As a result of these expenses, both the Company and Beneficial expect to take charges against their earnings before and after the completion of the Merger. The charges taken in connection with the Merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

We originate, sell, service and invest in reverse mortgages, which subjects us to additional risks that could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

We originate, sell, service and invest in reverse mortgages. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputation and legal risks. Generally, a reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. No repayment of the mortgage is required until the borrower dies, moves out of the home or the home is sold. A decline in the demand for reverse mortgages may reduce the number of reverse mortgages we originate, and adversely affect our ability to sell reverse mortgages in the secondary market. Although foreclosures involving reverse mortgages generally occur less frequently than forward mortgages, loan defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to maintain their property or fail to pay taxes or home insurance premiums. A general increase in foreclosure rates may adversely impact how reverse mortgages are perceived by potential customers and thus reduce demand for reverse mortgages. Finally, we could become subject to negative headline risk in the event that loan defaults on reverse mortgages lead to foreclosures or evictions of elderly homeowners. All of the above factors could have a material adverse effect on our business, reputation, liquidity, financial condition and results of operations.

Key employees may be difficult to attract and retain.

Our Associates are our most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. We invest significantly in recruitment, training, development and talent management as our Associates are the cornerstone of our model. If we were unable to continue to attract and retain qualified key employees to support the various functions of our businesses, our performance, including our competitive position, could be materially adversely affected. As economic conditions improve, we may face increased difficulty in retaining top performers and critical skilled employees. If key personnel were to leave us and equally knowledgeable or skilled personnel are unavailable within the Company or could not be sourced in the market, our ability to manage our business may be hindered or impaired.

7. Reputation Risk

Damage to our reputation could significantly harm our businesses.

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined as a result of the recent economic downturn and related government response. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of our information systems, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on our reputation. We could also suffer significant harm to our reputation if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

Our Wealth Management segment is subject to a number of risks, including reputation risk.

Our Wealth Management segment derives the majority of its revenue from noninterest income which consists of trust, investment and other servicing fees. Success in this business segment is highly dependent on reputation. Our ability to attract trust and wealth management clients is highly dependent upon external perceptions of this segment's level of service, trustworthiness, business practices and financial condition. Negative perceptions or publicity regarding these matters could damage the division's and our reputation among existing customers and corporate clients, which could make it difficult for the Wealth Management segment to attract new clients and maintain existing ones. Adverse developments with respect to the financial services industry may also, by association, negatively impact the segment's or our reputation, or result in greater regulatory or legislative scrutiny or litigation against us. Although we monitor developments for areas of potential risk to the division's and our reputation and brand, negative perceptions or publicity could materially and adversely impact both revenue and net income.

8. Model Risk

The quantitative models we use to manage certain accounting and risk management functions may not be effective, which may cause material adverse effects on our results of operations and financial condition.

We use quantitative models to help manage certain aspects of our business and to assist with certain business decisions, including estimating probable loan losses, measuring the fair value of financial instruments when reliable market prices are unavailable and estimating the effects of changing interest rates and other market measures on our financial condition and results of operations. Our modeling methodologies rely on many assumptions, historical analyses and correlations. These assumptions may be incorrect, particularly in times of market distress, and the historical correlations on which we rely may no longer be relevant. Additionally, as businesses and markets evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, bad data, misuse of data, or the use of a model for a purpose outside the scope of the model's design.

As a result, our models may not capture or fully express the risks we face, may suggest that we have sufficient capitalization when we do not, or may lead us to misjudge the business and economic environment in which we will operate. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management or other business or financial decisions. Furthermore, strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable, and as a result, we may realize losses or other lapses.

Banking regulators continue to focus on the models used by banks and bank holding companies in their businesses. The failure or inadequacy of a model may result in increased regulatory scrutiny on us or may result in an enforcement action or proceeding against us by one of our regulators.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located at 500 Delaware Ave., Wilmington, Delaware where we lease 78,432 square feet of space. At December 31, 2018, we conducted our business through 58 full-service branches located in Delaware and southeastern Pennsylvania. Seven of our branches were owned while all other facilities were leased.

In addition to our branch network, we lease office space for four loan production offices located in Delaware, southeastern Pennsylvania and Virginia and we lease fourteen other facilities in Delaware, southeastern Pennsylvania and Nevada to house operational activities, Cash Connect[®] and our Wealth Management businesses. At December 31, 2018, our premises and equipment had a net book value of \$45.0 million. All of these properties are generally in good condition and are appropriate for their intended use.

While these facilities are adequate to meet our current needs, available space is limited and additional facilities may be required to support future expansion.

For additional detail regarding our properties and equipment, see Note 9 to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 24 to the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Registrant's Common Equity and Related Stockholder Matters

Our common Stock is traded on the Nasdaq Global Select Market under the symbol "WSFS." At February 21, 2019, we had 921 registered common stockholders of record.

The closing market price of our common stock at February 21, 2019 was \$43.80.

Dividends

For a discussion of dividend restrictions on our common Stock, or of dividends from the Company's subsidiaries to the Company, see "Item 1. Business - Regulation - Regulation of the Company - Dividends" and "Item 1. Business - Regulation - Regulation of WSFS Bank - Dividends Restrictions."

Securities Authorized for Issuance Under Equity Compensation Plans

Shown below is information as of December 31, 2018 with respect to compensation plans under which equity securities of the Registrant are authorized for issuance.

Equity Compensation Plan Information

	(a)	(b)	(c)
	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders ⁽¹⁾	790,744	\$ 22.48	1,483,392
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
TOTAL	790,744	\$ 22.48	1,483,392

⁽¹⁾ Plans approved by stockholders include the 2005 Incentive Plan, as amended, the 2013 Incentive Plan and the 2018 Incentive Plan.

Share Repurchases:

During the fourth quarter of 2015, the Board of Directors approved a stock repurchase program of up to 5% (1,492,661 shares) 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.

As shown in the table on the following page, we repurchased 524,742 shares of common stock at an average price of \$43.19 per share during the fourth quarter of 2018, substantially completing our previous 5% repurchase program approved by the Board of Directors.

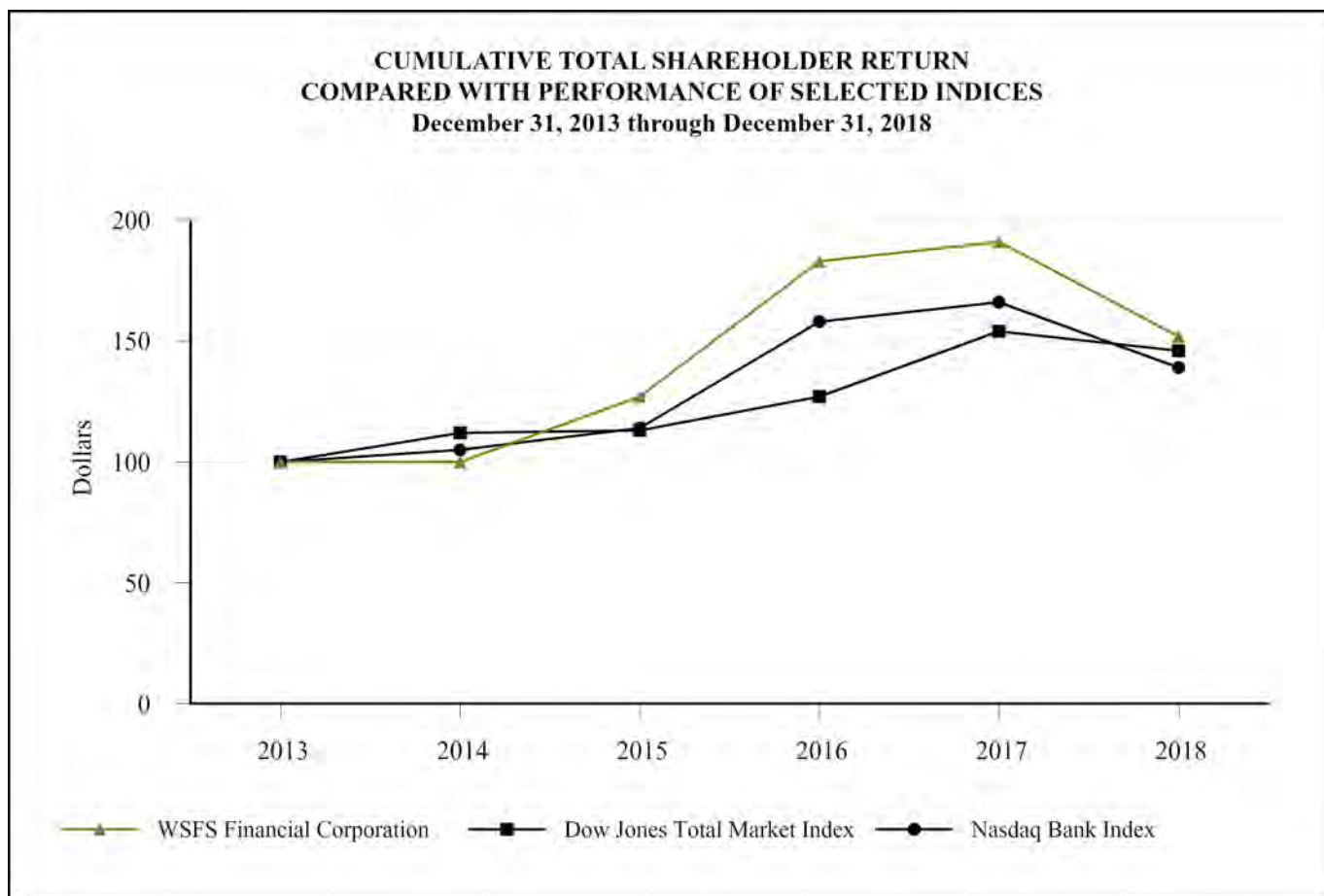
The Board of Directors approved a new stock repurchase program in the fourth quarter of 2018 that will enable us to repurchase shares worth up to \$15.4 million in 2019 after the completion of our pending Merger with Beneficial, which we expect to close on March 1, 2019. The program is consistent with our intent to return a minimum of 25% of annual net income to stockholders through dividends and share repurchases while maintaining capital ratios in excess of "well-capitalized" regulatory benchmarks.

The following table provides information regarding our purchases of common stock during the fourth quarter of 2018.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs
2018				
October	499,742	\$ 43.20	499,742	32,452
November	25,000	42.95	25,000	7,452
December	—	—	—	7,452
Total	524,742	43.19	524,742	

COMPARATIVE STOCK PERFORMANCE GRAPH

The graph and table which follow show the yearly percentage change in the cumulative total return on our common Stock over the last five years compared with the cumulative total return of the Dow Jones Total Market Index and the Nasdaq Bank Index over the same period as obtained from Bloomberg L.P. Cumulative total return on our common Stock or the indices equals the total increase in value since December 31, 2013, assuming reinvestment of all dividends paid into the common Stock or the index, respectively. The graph and table were prepared assuming \$100 was invested on December 31, 2013 in our common Stock and in each of the indices. There can be no assurance that our future stock performance will be the same or similar to the historical stock performance shown in the graph below. We neither make nor endorse any predictions as to stock performance.



	December 31, 2013 through December 31, 2018 Cumulative Total Return					
	2013	2014	2015	2016	2017	2018
WSFS Financial Corporation	\$ 100	\$ 100	\$ 127	\$ 183	\$ 191	\$ 152
Dow Jones Total Market Index	100	112	113	127	154	146
Nasdaq Bank Index	100	105	114	158	166	139

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth certain of our financial and statistical information for the years ended December 31, 2018, 2017, 2016, 2015 and 2014. This data should be read in conjunction with, and is qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto contained elsewhere in this Annual Report on Form 10-K.

<i>(Dollars in thousands, except per share and branch data)</i>	2018	2017	2016	2015	2014
At December 31,					
Total assets	\$ 7,248,870	\$ 6,999,540	\$ 6,765,270	\$ 5,584,719	\$ 4,851,749
Net loans ^{(1) (6)}	4,889,237	4,807,373	4,499,157	3,795,141	3,214,457
Investment securities ⁽²⁾	1,355,029	998,685	958,266	886,891	866,292
Other investments ⁽³⁾	57,662	52,863	48,887	34,798	23,412
Total deposits	5,640,431	5,247,604	4,738,438	4,016,566	3,649,235
Borrowings ⁽⁴⁾	534,389	772,624	1,048,386	812,200	545,764
Trust preferred borrowings	67,011	67,011	67,011	67,011	67,011
Senior debt	98,388	98,171	152,050	53,757	53,429
Stockholders’ equity	820,920	724,345	687,336	580,471	489,051
Number of full-service branches	58	58	60	51	43
For the Year Ended December 31,					
Interest income	\$ 292,973	\$ 254,726	\$ 216,578	\$ 182,576	\$ 160,337
Interest expense	46,499	33,455	22,833	15,776	15,830
Net interest income	246,474	221,271	193,745	166,800	144,507
Noninterest income	162,541	124,644	105,061	90,256	80,168
Noninterest expenses	225,047	226,461	188,666	165,460	148,535
Provision for loan losses	13,170	10,964	12,986	7,790	3,580
Provision for income taxes	36,055	58,246	33,074	30,273	18,803
Net Income	\$ 134,743	\$ 50,244	\$ 64,080	\$ 53,533	\$ 53,757
Earnings per share allocable to common stockholders:					
Basic	\$ 4.27	\$ 1.60	\$ 2.12	\$ 1.88	\$ 1.98
Diluted	\$ 4.19	\$ 1.56	\$ 2.06	\$ 1.85	\$ 1.93
Interest rate spread	3.87%	3.81%	3.79%	3.79%	3.62%
Net interest margin	4.09	3.95	3.88	3.87	3.68
Efficiency ratio	54.84	64.91	62.52	57.79	66.11
Noninterest income as a percentage of total revenue ⁽⁵⁾	39.61	35.72	34.81	31.53	35.68
Return on average assets	1.92	0.74	1.06	1.05	1.17
Return on average equity	17.63	6.92	10.03	10.24	12.21
Return on tangible common equity ⁽⁷⁾	23.72	9.74	12.85	11.92	13.80
Average equity to average assets	10.90	10.64	10.57	10.31	10.33
Tangible equity to tangible assets ⁽⁷⁾	8.99	7.87	7.55	8.84	9.00
Tangible common equity to tangible assets ⁽⁷⁾	8.99	7.87	7.55	8.84	9.00
Ratio of nonperforming assets to total assets	0.66	0.84	0.60	0.71	1.08
Ratio of allowance for loan losses to total gross loans	0.81	0.84	0.89	0.98	1.23
Ratio of allowances for loan losses to nonaccruing loans	132	111	174	175	164
Ratio of charge-offs to average gross loans	0.29	0.22	0.25	0.29	0.18

(1) Includes loans held for sale and reverse mortgages.

(2) Includes securities available for sale and held to maturity.

(3) Includes equity investments as well as interest bearing deposits in other banks and FHLB stock.

(4) Borrowings consist of FHLB advances, federal funds purchased and other borrowed funds.

(5) Computed on a fully tax-equivalent basis.

(6) Net of unearned income.

(7) Ratio is a non-GAAP financial measure. See “Reconciliation of non-GAAP financial measures included in Item 6.”

Reconciliation of non-GAAP financial measures included in Item 6

We prepare our financial statements in accordance with U.S. GAAP. To supplement our financial information presented in accordance with U.S. GAAP, we provide the following non-GAAP financial measures: return on tangible common equity, the tangible equity to tangible assets ratio and the tangible common equity to tangible assets ratio. We believe these measures provide investors with a better understanding of the Company's performance when analyzing changes in our underlying business between reporting periods and provide for greater transparency with respect to supplemental information used by management in its financial and operational decision making. We believe the presentation of these non-GAAP financial measures, when used in conjunction with GAAP financial measures, is a useful financial analysis tool that can assist investors in assessing the Company's operating performance and underlying prospects. This analysis should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

<i>(Dollars in thousands, except ratio data)</i>	2018	2017	2016	2015	2014
At December 31,					
Period End Tangible Assets					
Period end assets	\$ 7,248,870	\$ 6,999,540	\$ 6,765,270	\$ 5,584,719	\$ 4,851,749
Goodwill and intangible assets	(186,023)	(188,444)	(191,247)	(95,295)	(57,594)
Tangible assets	<u>\$ 7,062,847</u>	<u>\$ 6,811,096</u>	<u>\$ 6,574,023</u>	<u>\$ 5,489,424</u>	<u>\$ 4,794,155</u>
Period End Tangible Common Equity					
Period end Stockholder's equity	\$ 820,920	\$ 724,345	\$ 687,336	\$ 580,471	\$ 489,051
Goodwill and intangible assets	(186,023)	(188,444)	(191,247)	(95,295)	(57,594)
Tangible common equity	<u>\$ 634,897</u>	<u>\$ 535,901</u>	<u>\$ 496,089</u>	<u>\$ 485,176</u>	<u>\$ 431,457</u>
Tangible common equity to tangible assets	8.99%	7.87%	7.55%	8.84%	9.00%
Period End Tangible Equity					
Period end Stockholder's equity	\$ 820,920	\$ 724,345	\$ 687,336	\$ 580,471	\$ 489,051
Goodwill and intangible assets	(186,023)	(188,444)	(191,247)	(95,295)	(57,594)
Tangible equity	<u>\$ 634,897</u>	<u>\$ 535,901</u>	<u>\$ 496,089</u>	<u>\$ 485,176</u>	<u>\$ 431,457</u>
Tangible equity to tangible assets	8.99%	7.87%	7.55%	8.84%	9.00%
Period End Tangible Income					
GAAP net income	\$ 134,743	\$ 50,244	\$ 64,080	\$ 53,533	\$ 53,757
Tax effected amortization of intangible assets	2,164	1,954	1,621	1,201	820
Net tangible income	<u>\$ 136,907</u>	<u>\$ 52,198</u>	<u>\$ 65,701</u>	<u>\$ 54,734</u>	<u>\$ 54,577</u>
Average Tangible Common Equity					
Average stockholder's equity	\$ 764,489	\$ 725,763	\$ 638,624	\$ 522,925	\$ 440,273
Average goodwill and intangible assets	(187,297)	(189,784)	(127,168)	(63,887)	(44,828)
Average tangible common equity	<u>\$ 577,192</u>	<u>\$ 535,979</u>	<u>\$ 511,456</u>	<u>\$ 459,038</u>	<u>\$ 395,445</u>
Return on tangible common equity	23.72%	9.74%	12.85%	11.92%	13.80%

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

OVERVIEW

WSFS Financial Corporation (the Company or WSFS) 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 (WSFS Bank of the Bank), one of the ten oldest bank and trust companies continuously operating under the same name in the U.S. At \$7.2 billion in assets and \$19.0 billion in assets under management (AUM) and administration as of December 31, 2018, WSFS Bank is also the largest locally-managed 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 financial institutions. A fixture in the community, the Bank has been in operation for more than 185 years. In addition to its focus on stellar customer experiences, WSFS Bank has continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed banking institution. We state our mission simply: "We Stand for Service." Our strategy of "Engaged Associates, living our culture, making a better life for all we serve" focuses on exceeding customer expectations, delivering stellar experiences and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

Our core banking business is commercial lending primarily funded by customer-generated deposits, which primarily generates net interest income. We have built a \$4.0 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 December 31, 2018, we service our customers primarily from our 76 offices located in Delaware (45), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com. We also offer a broad variety of consumer loan products, retail securities and insurance brokerage services 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 and abstract and title company specializing in a variety of residential mortgage and refinancing solutions.

On August 7, 2018, WSFS and Beneficial Bancorp, Inc. (Beneficial) entered into an Agreement and Plan of Reorganization, (as amended from time to time, the Merger Agreement) pursuant to which, and subject to the terms and conditions of the Merger Agreement, among other things, (i) Beneficial will merge with and into WSFS, with WSFS continuing as the surviving corporation (the Merger) and (ii) simultaneously, Beneficial Bank will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving bank (the Bank Merger and, together with the Merger, the Mergers). Subject to the terms and conditions of the Merger Agreement, stockholders of Beneficial will receive 0.3013 shares of WSFS common stock and \$2.93 in cash for each share of Beneficial common stock. Our stockholders approved the Mergers at a special meeting held on December 12, 2018, and Beneficial's stockholders approved the Mergers at a special meeting held on December 6, 2018. The Mergers, which are subject to customary closing conditions, are expected to close on March 1, 2019.

Our Cash Connect[®] segment is a premier provider of ATM vault cash, smart safe and other cash logistics services in the U.S. Cash Connect[®] manages over \$1.0 billion in total cash and services 24,300 non-bank ATMs and approximately 2,300 smart safes nationwide. Cash Connect[®] provides related services such as online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing equipment sales and deposit safe cash logistics. Cash Connect[®] also operates 441 ATMs for the Bank, which has the largest branded ATM network in our market.

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 18-year history, Cash Connect[®] periodically has been exposed to theft from armored courier companies and consistently has been able to recover losses through its risk management strategies, although there can be no guarantees that we will be able to recover future losses.

Our Wealth Management segment provides a broad array of planning and advisory services, investment management, trust services, and credit and deposit products to individual, corporate, and institutional clients through multiple integrated businesses. Combined, these businesses had \$19.0 billion of assets under management (AUM) and assets under administration (AUA) at December 31, 2018. WSFS Wealth Investments provides financial advisory services along with insurance and brokerage products. Cypress, a registered investment adviser, is a fee-only wealth management firm managing a “balanced” investment style portfolio focused on preservation of capital and generating current income. West Capital, a registered investment adviser, is a fee-only wealth management firm operating under a multi-family office philosophy to provide customized solutions to institutions and high-net-worth individuals. The trust division of WSFS Bank (doing business as WSFS Institutional Services) provides personal trust and fiduciary services, as well as, trustee, agency, bankruptcy administration, custodial and commercial domicile services to corporate and institutional clients. Powdermill is a multi-family office specializing in providing independent solutions to high-net-worth individuals, families and corporate executives through a coordinated, centralized approach. WSFS Wealth Client Management serves high-net-worth clients by delivering credit and deposit products and partnering with other wealth management units to provide comprehensive solutions to clients.

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

RESULTS OF OPERATIONS

2018 compared with 2017

We recorded net income of \$134.7 million, or \$4.19 per diluted common share, for the year ended December 31, 2018, an increase of \$84.5 million compared to \$50.2 million, or \$1.56 per diluted common share, for the year ended December 31, 2017. Results in 2018 included a partial recovery related to a legal settlement of \$7.9 million and corporate development costs of \$6.5 million related to our pending acquisition of Beneficial, compared to \$0.9 million of similar costs in 2017. Results for 2017 were impacted by the enactment of the Tax Cuts and Jobs Act (Tax Reform Act) in December 2017, which required us to re-measure our deferred tax asset, resulting in a tax charge of \$14.5 million in the quarter ended December 31, 2017. Additionally, and related to this tax change, we decided to surrender all of our bank-owned life insurance (BOLI) policies in 2018, resulting in an additional tax charge of \$8.0 million for the quarter ended December 31, 2017, and we also contributed \$1.5 million (pre-tax) to the WSFS Foundation in the same quarter. Further, during the first quarter of 2018, we agreed to the settlement of a legal claim, which resulted in legal expense of \$12.0 million recorded in the fourth quarter of 2017.

Net interest income for the year ended December 31, 2018 was \$246.5 million, an increase of \$25.2 million compared to 2017. Our provision for loan losses increased \$2.2 million in 2018, primarily due to loan portfolio growth and the deterioration of three large relationships, which more than offset the generally favorable portfolio migration in 2018. Noninterest, or fee income, increased \$37.9 million primarily due to unrealized and realized gains on our investment in Visa Class B shares, as well as growth in credit/debit card and ATM income and higher investment management and fiduciary revenue. Finally, operating expenses decreased \$1.4 million in 2018, primarily reflecting insurance recoveries related to a settlement of a legal claim and fraud loss in 2017, partially offset by higher employee-related and ongoing operating costs to support our growth. See the *Net Interest Income*, *Provision for Loan Losses*, *Noninterest (Fee) Income*, and *Noninterest Expense* sections below for further information.

2017 compared with 2016

We recorded net income of \$50.2 million, or \$1.56 per diluted common share, for the year ended December 31, 2017, a decrease of \$13.8 million compared to \$64.1 million, or \$2.06 per diluted common share, for the year ended December 31, 2016. As described above, results for 2017 were impacted by the enactment of the Tax Reform Act in December 2017 and the related surrender of all of our BOLI policies in 2018, our contribution to the WSFS Foundation, and the settlement of a legal claim. In 2017, we had corporate development costs of \$0.9 million compared to \$8.5 million of similar costs in 2016.

Net interest income for the year ended December 31, 2017 was \$221.3 million, an increase of \$27.5 million compared to 2016. Our provision for loan losses decreased \$2.0 million in 2017, primarily due to improving economic conditions resulting in lower required reserves and net charge-offs compared to 2016. Noninterest, or fee income, increased \$19.6 million primarily due to increased investment management and fiduciary revenue and growth in credit/debit card and ATM income. Finally, operating expenses increased \$37.8 million in 2017, primarily reflecting higher employee-related and ongoing operating costs to support our organic and late 2016 acquisition growth, as well as the settlement of a legal claim. See the *Net Interest Income*, *Provision for Loan Losses*, *Noninterest (Fee) Income*, and *Noninterest Expense* sections below for further information.

Net Interest Income

2018 compared with 2017: Net interest income increased \$25.2 million, or 11%, to \$246.5 million in 2018, and net interest margin increased to 4.09% in 2018 compared to 3.95% in 2017. The increases in net interest income and margin were primarily due to good positioning in the higher short-term interest rate environment, disciplined pricing, and effective balance sheet management.

2017 compared with 2016: Net interest income increased \$27.5 million, or 14%, to \$221.3 million in 2017 while net interest margin increased slightly to 3.95% in 2017 compared to 3.88% in 2016. The increase in net interest income was due to both organic and acquisition-related loan growth, mostly in our commercial real estate loan portfolios.

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

Year Ended December 31, (Dollars in thousands)	2018 vs. 2017			2017 vs. 2016		
	Volume	Yield/Rate	Net	Volume	Yield/Rate	Net
Interest Income:						
Commercial real estate loans	\$ 1,015	\$ 5,456	\$ 6,471	\$ 8,796	\$ 1,147	\$ 9,943
Residential real estate loans	(2,246)	477	(1,769)	(898)	(157)	(1,055)
Commercial loans ⁽¹⁾	6,007	11,836	17,843	15,326	4,520	19,846
Consumer loans	6,420	2,390	8,810	5,067	1,318	6,385
Loans held for sale	(290)	294	4	(746)	430	(316)
Mortgage-backed securities	4,196	2,561	6,757	1,346	2,207	3,553
Investment securities ⁽²⁾	(154)	(116)	(270)	(820)	596	(224)
FHLB Stock and deposits in other banks	419	(18)	401	156	(140)	16
Favorable (unfavorable)	15,367	22,880	38,247	28,227	9,921	38,148
Interest expense:						
Deposits:						
Interest-bearing demand	127	2,182	2,309	174	916	1,090
Money market	616	4,548	5,164	505	841	1,346
Savings	(36)	52	16	134	229	363
Customer time deposits	902	2,871	3,773	41	1,463	1,504
Brokered certificates of deposits	1,006	1,896	2,902	231	949	1,180
FHLB advances	(4,210)	4,342	132	(124)	3,680	3,556
Trust preferred borrowings	—	633	633	—	506	506
Senior debt	(1,782)	(729)	(2,511)	1,407	(536)	871
Other borrowed funds	(20)	646	626	(324)	530	206
(Favorable) unfavorable	(3,397)	16,441	13,044	2,044	8,578	10,622
Net change, as reported	\$ 18,764	\$ 6,439	\$ 25,203	\$ 26,183	\$ 1,343	\$ 27,526

⁽¹⁾ Includes a tax-equivalent income adjustment related to commercial loans.

⁽²⁾ Includes a tax-equivalent income adjustment related to municipal bonds.

2018 compared with 2017: Interest income attributable to volume from commercial loans, commercial real estate loans, and consumer loans increased in 2018 when compared to 2017, reflecting organic portfolio growth. Interest income attributable to volume from residential real estate loans decreased due to our continued strategy of selling these loans in the secondary market. Interest income on mortgage-backed securities attributable to volume increased due to growth in the portfolio in 2018 as we redeployed the cash received on our BOLI surrender. Interest income attributable to yield from commercial loans, commercial real estate loans, residential real estate loans, consumer loans, mortgage-backed securities, increased due to the rising rate environment in 2018.

Interest expense attributable to volume for FHLB advances decreased due to lower borrowing levels, while interest expense related to yield increased due to higher borrowing rates in 2018. Interest expense related to senior debt attributable to volume and rate decreased in 2018 compared with 2017, due to the redemption of \$55 million of the 2012 senior notes during the third quarter of 2017, which paid a higher rate of interest than the 2016 senior notes. The increase in interest expense attributable to yield on interest bearing demand deposits, money market and customer time deposits reflect the higher interest rate environment. Interest income attributable to yield from commercial loans, commercial real estate loans, residential real estate loans, consumer loans, mortgage-backed securities, increased due to the rising rate environment in 2018.

2017 compared with 2016: Interest income attributable to volume for commercial loans, commercial real estate loans, and consumer loans increased in 2017 when compared to 2016, reflecting continued portfolio growth. Interest income on these portfolios increased due to the Federal Reserve's rate increases during the year. Interest income on mortgage-backed securities attributable to volume and yield increased due to portfolio growth and the higher interest rate environment in 2017. Interest expense related to FHLB advances was attributable to Federal Reserve of Philadelphia (FRB) rate increases. Interest expense related to senior debt was attributable to the redemption of \$55 million of the 2012 senior notes during the third quarter of 2017, which paid a higher rate of interest than the 2016 senior notes. The increase in interest expense attributable to yield on interest bearing demand deposits, money market and customer time deposits reflects the higher interest rate environment.

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

Year Ended December 31,	2018			2017			2016		
(Dollars in thousands)	Average Balance	Interest & Dividends	Yield/Rate ⁽¹⁾	Average Balance	Interest & Dividends	Yield/Rate ⁽¹⁾	Average Balance	Interest & Dividends	Yield/Rate ⁽¹⁾
Assets:									
Interest-earning assets:									
Loans: ⁽²⁾									
Commercial real estate loans	\$ 1,446,161	\$ 78,117	5.40%	\$ 1,426,075	\$ 71,646	5.02%	\$ 1,255,119	\$ 61,705	4.92%
Residential real estate loans	234,628	14,595	6.22	270,957	16,364	6.04%	281,624	17,474	4.79
Commercial loans	2,569,319	133,784	5.22	2,449,194	115,941	4.76%	2,125,810	96,098	4.55
Consumer loans	622,062	32,835	5.28	497,523	24,025	4.83%	398,226	17,640	4.43
Loans held for sale	22,699	1,175	5.18	28,679	1,171	3.52%	40,597	1,428	3.52
Total loans	4,894,869	260,506	5.32	4,672,428	229,147	4.92%	4,076,900	189,198	4.66
Mortgage-backed securities ⁽³⁾	955,086	26,065	2.73	794,387	19,308	2.43%	734,631	15,754	2.14
Investment securities ⁽³⁾	156,083	4,378	3.40	181,322	4,648	3.80%	202,722	4,872	3.51
Other interest-earning assets	46,107	2,024	4.39	36,587	1,623	4.44%	33,744	1,607	4.76
Total interest-earning assets	6,052,145	292,973	4.86	5,684,724	254,726	4.53%	5,072,473	216,578	4.33
Allowance for loan losses	(41,874)			(40,600)			(38,422)		
Cash and due from banks	109,324			131,956			110,318		
Cash in non-owned ATMs	521,785			597,483			554,698		
Bank owned life insurance	26,192			102,161			95,228		
Other noninterest-earning assets	346,875			344,747			248,529		
Total assets	\$ 7,014,447			\$ 6,820,471			\$ 6,042,824		
Liabilities and Stockholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest-bearing demand	\$ 1,000,341	\$ 4,523	0.45%	\$ 947,914	\$ 2,214	0.23%	\$ 834,703	\$ 1,136	0.14%
Money market	1,474,339	9,854	0.67	1,320,470	4,690	0.36	1,159,299	3,343	0.29
Savings	551,975	1,030	0.19	570,219	1,015	0.18	481,197	653	0.14
Customer time deposits	667,203	8,591	1.29	571,176	4,818	0.84	567,657	3,301	0.58
Total interest-bearing customer deposits	3,693,858	23,998	0.65	3,409,779	12,737	0.37	3,042,856	8,433	0.28
Brokered deposits	284,023	5,070	1.79	206,668	2,167	1.05	172,038	988	0.57
Total interest-bearing deposits	3,977,881	29,068	0.73	3,616,447	14,904	0.41	3,214,894	9,421	0.29
FHLB advances	426,755	8,395	1.97	716,962	8,263	1.15	735,975	4,707	0.64
Trust preferred borrowings	67,011	2,573	3.84	67,011	1,940	2.90	67,011	1,622	2.42
Senior debt	98,275	4,717	4.80	134,136	7,228	5.39	108,577	6,356	5.85
Other borrowed funds ⁽⁴⁾	128,639	1,746	1.36	130,951	1,120	0.86	133,486	727	0.54
Total interest-bearing liabilities	4,698,561	46,499	0.99	4,665,507	33,455	0.72	4,259,943	22,833	0.54
Noninterest-bearing demand deposits	1,466,044			1,352,322			1,087,502		
Other noninterest-bearing liabilities	85,353			76,879			56,755		
Stockholders' equity	764,489			725,763			638,624		
Total liabilities and stockholders' equity	\$ 7,014,447			\$ 6,820,471			\$ 6,042,824		
Excess of interest-earning assets over interest-bearing liabilities	\$ 1,353,584			\$ 1,019,217			\$ 812,530		
Net interest income		\$ 246,474			\$ 221,271			\$ 193,745	
Interest rate spread			3.87%			3.81%			3.79%
Net interest margin			4.09%			3.95%			3.88%

See "Notes"

- (1) Weighted average yields for tax-exempt securities and loans have been computed on a tax-equivalent basis.
- (2) Average balances are net of unearned income and include nonperforming loans.
- (3) Includes securities available for sale at fair value.
- (4) Includes federal funds purchased and securities sold under agreement to repurchase.

Provision 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, which we evaluate in accordance with applicable accounting principles, as discussed further in “Nonperforming Assets.” Our evaluation is based on a review of the portfolio and requires significant, complex and difficult judgments. For the year ended December 31, 2018, we recorded a provision for loan losses of \$13.2 million compared to \$11.0 million in 2017 and \$13.0 million in 2016. The 2018 increase in the provision for loan losses in comparison with 2017 was primarily due to loan portfolio growth and the deterioration of three large relationships more than offsetting the generally favorable portfolio migration in 2018. The 2017 decrease in the provision for loan losses in comparison with 2016 was due to improving economic conditions which resulted in lower required reserves and net charge-offs.

Noninterest (Fee) Income

Fee income increased \$37.9 million to \$162.5 million in 2018 from \$124.6 million in 2017. Excluding securities gains, net, and gains on our equity investment in Visa Class B shares, as shown in the table below, fee income increased \$15.4 million, or 12.5%, to \$138.0 million in 2018 from \$122.7 million in 2017, primarily due to increased investment management and fiduciary revenue and growth in credit/debit card and ATM income.

	Twelve months ended		
	December 31, 2018	December 31, 2017	December 31, 2016
<i>(Dollars in thousands)</i>			
Noninterest income (GAAP)	\$ 162,541	\$ 124,644	\$ 105,061
Less: Securities gains, net	21	1,984	2,369
Less: Unrealized gains on equity investment	20,745	—	—
Less: Gain on sale of Visa Class B shares	3,757	—	—
Adjusted noninterest income (non-GAAP) ⁽¹⁾	\$ 138,018	\$ 122,660	\$ 102,692

(1) Adjusted noninterest income is a non-GAAP financial measure. The Company’s management believes that non-GAAP measures provide a useful understanding of ongoing operations, enhance comparability of results of operations with prior periods and show the effects of significant gains and changes in the periods presented. The Company’s management believes that investors may use these non-GAAP measures to analyze the Company’s performance without the impact of unusual items or events that may obscure trends in the Company’s underlying performance. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results.

2018 compared with 2017: Credit/debit card and ATM fees increased \$7.7 million, or 21%, in 2018 compared to 2017 reflecting the impact of new products and expanded revenue sources. Investment management and fiduciary income increased \$4.5 million, or 13%, in 2018 compared to 2017, primarily reflecting growth in our trust business. Fees for cash management and other services in our Cash Connect[®] segment increased \$1.8 million, mainly due to an increase in courier income and smart safe revenue. Partially offsetting these increases was a \$1.4 million decrease resulting from the planned surrender of our BOLI policies early in 2018.

2017 compared with 2016: Credit/debit card and ATM fees increased \$6.2 million, or 21%, in 2017 compared to 2016 reflecting the impact of new products and expanded revenue sources. Investment management and fiduciary income increased \$9.4 million, or 37%, in 2017 compared to 2016 reflecting growth in several business lines. Fees from mortgage banking activities decreased \$1.1 million or 15% when compared to 2016, primarily due to our ongoing strategy of selling most newly-originated residential mortgages in the secondary market. Fees for cash management and other services in our Cash Connect[®] segment increased \$1.8 million, due to several new services and product enhancements.

Noninterest Expenses

Noninterest expense in 2018 decreased \$1.4 million to \$225.0 million from \$226.5 million in 2017. Excluding the non-routine and other one-time items listed in the table below, noninterest expense increased \$19.7 million, or 9%, to \$228.2 million in 2018 from \$208.5 million in 2017.

Noninterest expense in 2017 increased \$37.8 million to \$226.5 million from \$188.7 million in 2016. Excluding the non-routine and other one-time items listed in the table below, noninterest expense increased \$28.4 million, or 16%, to \$208.5 million in 2017 from \$180.1 million in 2016.

(Dollars in thousands)	Twelve months ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Noninterest expenses (GAAP)	\$ 225,047	\$ 226,461	\$ 188,666
Less: (Recovery of) provision for legal settlement	(7,938)	12,000	—
(Recovery of) provision for fraud loss	(1,675)	2,844	—
WSFS Foundation contribution	—	1,500	—
Debt extinguishment costs	—	695	—
Corporate development costs ⁽¹⁾	6,456	878	8,529
Adjusted noninterest expenses (non-GAAP) ⁽²⁾	\$ 228,204	\$ 208,544	\$ 180,137

(1) Corporate development costs in 2018 were primarily attributable to our anticipated Merger with Beneficial. In 2016, these costs were primarily attributable to our acquisitions of Penn Liberty, Powdermill and West Capital.

(2) Adjusted noninterest expense is non-GAAP financial measure. The Company's management believes that non-GAAP measures provide a useful understanding of ongoing operations, enhance comparability of results of operations with prior periods and show the effects of significant gains and changes in the periods presented. The Company's management believes that investors may use these non-GAAP measures to analyze the Company's performance without the impact of unusual items or events that may obscure trends in the Company's underlying performance. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results.

Adjusted non-interest expense in 2018 excludes (i) a \$7.9 million insurance recovery related to our settlement of a legal claim, (ii) an insurance recovery related to a significant and unusual fraud loss, and (iii) corporate development costs relating to our anticipated Merger with Beneficial.

2018 compared with 2017: The increase of \$19.7 million in adjusted noninterest expense in 2018 was mainly due to higher compensation to support franchise growth and superior performance against peer groups and high Strategic Plan targets for full-year 2018, and higher variable funding and operating costs to support Cash Connect[®] revenue growth, which included a non-recurring timing adjustment of \$0.9 million resulting from shifting to the accrual basis of accounting from cash basis for one of Cash Connect[®]'s funding sources.

2017 compared with 2016: Contributing to the \$28.4 million increase in adjusted noninterest expense in 2017 when compared to 2016 was ongoing operating costs from the full-year impact of the additions of Penn Liberty, Powdermill, and West Capital in the second half of 2016. Also contributing to the increase was higher compensation and related costs due to added staff to support the company's overall growth.

Income Taxes

We recorded \$36.1 million of income tax expense for the year ended December 31, 2018 compared to income tax expense of \$58.2 million and \$33.1 million for the years ended December 31, 2017 and 2016, respectively. The effective tax rates for the years ended December 31, 2018, 2017 and 2016 were 21.1%, 53.7%, and 34.0%, respectively. The higher tax expense and effective tax rates in 2017 were due to a re-measurement of our deferred tax asset resulting from the Tax Reform Act and the tax impact of our decision to surrender our BOLI policies in 2018. Volatility in effective tax rates is also impacted by the level of pretax income or loss, combined with the amount of tax-free income as well as the effects of stock compensation tax benefits, consistent with our adoption during 2016 of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, Compensation - Stock Compensation, Compensation - Stock Compensation (Topic 718). The provision for income taxes includes federal, state and local income taxes that are currently payable or deferred because of temporary differences between the financial reporting basis and the tax reporting basis of the assets and liabilities. For additional information, including the impact of the Tax Reform Act on the 2017 effective tax rate, see Note 15 to the Consolidated Financial Statements.

SEGMENT INFORMATION

For financial reporting purposes, our business has three reporting segments: WSFS Bank, Cash Connect[®], and Wealth Management. The WSFS Bank segment provides loans and other financial products to commercial and retail customers. Cash Connect[®] provides ATM vault cash, smart safe and other cash logistics services in the U.S through strategic partnerships with several of the largest networks, manufacturers and service providers in the ATM industry. The Wealth Management segment provides a broad array of planning and advisory services, investment management, trust services, and credit and deposit products to individual, corporate and institutional clients.

WSFS Bank Segment

The WSFS Bank segment income before taxes increased \$38.4 million or 40%, in 2018 compared to 2017 due primarily to an increase in external net interest income of \$25.5 million or 12%, reflecting strong organic portfolio growth, continued optimization of our balance sheet mix, and continued strong performance in our purchased loan portfolio. External noninterest income increased \$25.1 million, or 55%, which was primarily due to the unrealized and realized gains on equity investments. These increases were partially offset by an increase in external operating expenses of \$13.3 million or 8%, primarily driven by higher costs for compensation expense to support the growth of the business and superior performance against peer groups and high Strategic Plan goals, higher infrastructure costs also associated with business growth, and a \$2.4 million increase in the provision for loan losses, primarily driven by overall portfolio growth and deterioration in several large credits in 2018.

In 2017, The WSFS Bank segment income before taxes increased \$19.0 million or 24% compared to 2016, due primarily to an increase in external net interest income of \$27.2 million or 15%, reflecting strong organic and acquisition-related growth, continued optimization of our balance sheet mix, and continued strong performance in our purchased loan portfolio. The increase in net interest income was partially offset by an increase in external operating expenses of \$12.4 million or 8%, primarily driven by higher costs for compensation expense to support the growth of the business, higher infrastructure costs also associated with business growth, and a \$1.2 million, or 12%, increase in the provision for loan losses, primarily driven by overall portfolio growth.

Cash Connect[®] Segment

The Cash Connect[®] segment income before taxes decreased \$1.3 million, or 18%, in 2018 compared to 2017 primarily due to a \$5.7 million, or 21%, increase in expenses associated with increased investments for several new services and product enhancements to our fee-based managed services and smart safe offerings, which continue to both diversify and expand revenue sources. The decrease was also driven by an increase of \$3.6 million, or 38%, in funding costs and a one-time true up adjustment of \$0.9 million. Offsetting these expense increases, external fee income increased \$8.0 million or 19%. Cash Connect[®] had over \$1.0 billion and \$970.1 million in total cash managed at December 31, 2018 and 2017, respectively. At year-end 2018, Cash Connect[®] serviced over 24,300 non-bank ATMs and approximately 2,300 retail smart safes nationwide compared to over 20,000 non-bank ATMs and 800 smart safes at year-end 2017.

The Cash Connect[®] segment income before taxes decreased \$1.1 million, or 13%, in 2017 compared to 2016 primarily due to a \$6.9 million, or 35%, increase in expenses associated with increased investments for several new services and product enhancements to our fee-based managed services and smart safe offerings, which continue to both diversify and expand revenue sources, as well as an increase of \$3.7 million, or 65% in funding costs. Offsetting these expense increases, external fee income increased \$10 million or 29%. At December 31, 2017, Cash Connect[®] had over \$970.1 million in total cash managed compared to over \$1.0 billion at December 31, 2016. At year-end 2017, Cash Connect[®] serviced over 20,000 non-bank ATMs and over 800 retail smart safes nationwide compared to 16,000 ATMS and only 100 smart safes at year-end 2016.

Wealth Management Segment

The Wealth Management segment income before taxes increased \$25.2 million in 2018 in comparison with 2017. External operating expense decreased \$20.5 million compared to 2017, which was primarily due to the recovery of a portion of the previously discussed settlement of a legal claim in 2018, and a charge of \$12.0 million relating to the settlement in 2017. For further information related to the legal settlement and subsequent recovery, see Note 24 to the Consolidated Financial Statements. External fee income increased \$4.7 million, or 13%, reflecting growth in several business lines.

The Wealth Management segment income before taxes decreased \$6.6 million in 2017 in comparison with 2016. External operating expense increased \$21.2 million compared to 2016, which was primarily due to a settlement of a legal claim in 2017, higher ongoing operating expenses to support the Powdermill and West Capital acquisitions and overall business growth. Excluding the legal settlement, segment income before taxes increased \$5.4 million or 51%. External fee income increased \$9.5 million, or 36%, primarily reflecting growth in our trust business as well as the full-year positive impact of our combinations with Powdermill and West Capital and a decrease of \$3.2 million in the provision for loan losses in 2017, due to private banking exposure granted under a business development initiative, which impacted the 2016 provision only, partially offset by higher operating expense to support Powdermill and West Capital as well as overall business growth.

Segment financial information for the years ended December 31, 2018, 2017 and 2016 is provided in Note 21 to the Consolidated Financial Statements.

FINANCIAL CONDITION

Total assets increased \$249.3 million, or 4%, to \$7.2 billion as of December 31, 2018, compared to \$7.0 billion as of December 31, 2017, primarily comprised of the following (in descending order of magnitude):

- **Investment securities, available for sale:** Investment securities available for sale increased \$367.6 million, or 44%, primarily as a result of purchases of mortgage-backed securities with the proceeds from the surrender of our BOLI policies during the first quarter of 2018.
- **Cash and cash equivalents:** Cash and cash equivalents decreased \$103.1 million, or 14%, primarily due to *Cash in non-owned ATMs*, which decreased \$113.5 million, or 19%, to \$484.6 million due to improved cash optimization by Cash Connect[®].
- **BOLI:** BOLI decreased \$96.3 million, or 94% due to the planned surrender of our BOLI policies during the first quarter of 2018.
- **Loans, net of allowance:** *Loans, net of allowance*, increased \$87.6 million, or 2%, primarily due to an increase of \$122.4 million in consumer loans, primarily related to second-lien home equity installment loans originated through our partnership with Spring EQ and student loans through our partnership with LendKey, partially offset by a decline of \$35.2 million in residential mortgages, reflecting our ongoing strategy of selling most newly-originated residential mortgages in the secondary market.
- **Other investments:** *Other investments*, increased \$19.3 million, or 107%, primarily due to unrealized gains on our investment in Visa Class B shares.
- **Stock in FHLB:** *Stock in FHLB* decreased \$12.0 million, or 38%, due to lower FHLB advances.
- **Investment Securities, held to maturity:** *Investment securities, held to maturity* decreased \$11.2 million to \$150.0 million, primarily due to calls and maturities of bonds in the portfolio.
- **Loans held for sale:** *Loans, held for sale* are recorded at fair value and decreased \$5.7 million to \$25.3 million, reflecting our ongoing strategy of selling most newly-originated residential mortgages in the secondary market.

Total liabilities increased \$152.8 million, or 2%, during the year to \$6.4 billion at December 31, 2018, primarily comprised of the following (in descending order of magnitude).

- **Customer Deposits:** Customer deposits increased \$424.4 million, or 8%, during 2018 to \$5.4 billion. Core deposit relationships increased \$380.5 million, or 9%, and customer time deposits increased \$43.9 million, or 7%, primarily due to organic growth.

The table below depicts the changes in customer deposits during the last three years:

(Dollars in millions)	Year Ended December 31,		
	2018	2017	2016
Beginning balance	\$ 5,015	\$ 4,599	\$ 3,860
Interest credited	24	13	8
Deposit inflows (outflows), net	404	403	731
Ending balance	\$ 5,443	\$ 5,015	\$ 4,599

- **Borrowings and Brokered Deposits:** Borrowings and brokered deposits decreased by \$269.6 million. Included in the decrease was a \$381.5 million decrease in *FHLB advances*, which was primarily due an increase in deposits, partially offset by higher *Fed funds purchased*, which increased \$130.0 million, due to a change in our funding mix between the *Fed funds* and *FHLB advances* and an increase of \$13.3 million, in *Other borrowed funds*, which was primarily due to higher sweep repurchase balances. We did not have any securities sold under repurchase agreements at December 31, 2018.

Stockholders' Equity

Stockholders' equity increased \$96.6 million, or 13%, to \$820.9 million at December 31, 2018 compared to \$724.3 million at December 31, 2017. Capital in excess of par value increased \$13.5 million, primarily due to stock-based compensation expense and the issuance of stock related to the exercise of stock options. Retained earnings increased \$121.5 million, or 18%, to \$791.0 million during 2018, primarily as a result of earnings from the year less dividends paid. These increases in stockholders' equity were partially offset by \$31.2 million related to share repurchases during 2018, and \$7.2 million from a decline in the fair value of our available-for-sale securities portfolio.

ASSET/LIABILITY MANAGEMENT

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

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

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

For additional information related to interest rate sensitivity, see Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*.

The repricing and maturities of our interest-rate sensitive assets and interest-rate sensitive liabilities at December 31, 2018 are shown in the following table:

<i>(Dollars in thousands)</i>	Less than One Year	One to Five Years	Over Five Years	Total
Interest-rate sensitive assets:				
Commercial loans ⁽²⁾⁽³⁾	\$ 1,558	\$ 612	\$ 326	\$ 2,496
Real estate loans ⁽¹⁾⁽²⁾	1,034	411	254	1,699
Mortgage-backed securities	124	433	667	1,224
Consumer loans ⁽²⁾	347	117	200	664
Investment securities	63	98	32	193
Loans held for sale ⁽²⁾	25	—	—	25
Reverse mortgage loans	3	8	6	17
Total interest-rate sensitive assets:	3,154	1,679	1,485	6,318
Interest-rate sensitive liabilities:				
Money market and interest-bearing demand deposits	1,735	—	913	2,648
FHLB advances	266	63	—	329
Savings accounts	269	—	269	538
Retail certificates of deposit	347	192	2	541
Brokered certificates of deposit	185	6	—	191
Other borrowed funds	206	—	—	206
Jumbo certificates of deposit	45	1	—	46
Trust preferred securities	67	—	—	67
Senior notes	—	98	—	98
Total Interest-rate sensitive liabilities:	3,120	360	1,184	4,664
Off Balance Sheet:	(75)	75	—	—
Excess (deficiency) of interest-rate sensitive assets over interest-rate liabilities (interest-rate sensitive gap)	\$ (41)	\$ 1,394	\$ 301	\$ 1,654
One-year interest-rate sensitive assets/interest-rate sensitive liabilities	98.67 %			
One-year interest-rate sensitive gap as a percent of total assets	(0.57)%			

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

(2) Loan balances exclude nonaccruing loans, deferred fees and costs

(3) Assumes two-thirds of loans in process are variable and will reprice within one-year

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

To provide a more accurate position of our one-year gap, certain deposit classifications are based on the interest-rate sensitive attributes and not on the contractual repricing characteristics of these deposits. For the purpose of this analysis, we estimate, based on historical trends of our deposit accounts, that 75% of our money market deposits, 50% of our interest-bearing demand deposits and 50% of our savings deposits are sensitive to interest rate changes. Accordingly, these interest-sensitive portions are classified in the “Less than One Year” category with the remainder in the “Over Five Years” category.

Deposit rates other than time deposit rates are variable. Changes in deposit rates are generally subject to local market conditions and our discretion and are not indexed to any particular rate.

NONPERFORMING ASSETS

Nonperforming assets (NPAs) include nonaccruing loans, other real estate owned (OREO) and restructured loans. 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:

<i>(Dollars in thousands)</i>	At December 31,				
	2018	2017	2016	2015	2014
Nonaccruing loans:					
Commercial	\$ 14,056	\$ 19,057	\$ 2,015	\$ 5,328	\$ 2,706
Owner-occupied commercial	4,406	3,654	2,078	1,091	2,475
Commercial mortgages	3,951	5,870	9,821	3,326	8,245
Construction	2,781	1,804	—	—	—
Residential mortgages	2,854	4,124	4,967	7,287	7,068
Consumer	2,006	1,927	3,995	4,133	3,557
Total nonaccruing loans	30,054	36,436	22,876	21,165	24,051
Other real estate owned (OREO)	2,668	2,503	3,591	5,080	5,734
Restructured loans ⁽¹⁾	14,953	20,061	14,336	13,647	22,600
Total nonperforming assets (NPAs)	\$ 47,675	\$ 59,000	\$ 40,803	\$ 39,892	\$ 52,385
Past due loans:					
Residential mortgages	\$ 660	\$ 356	\$ 153	\$ 251	\$ —
Commercial and commercial mortgages ⁽³⁾	71	—	—	17,529	—
Consumer	104	105	285	252	—
Total past due loans	\$ 835	\$ 461	\$ 438	\$ 18,032	\$ —
Ratio of nonaccruing loans to total loans ⁽²⁾	0.62%	0.76%	0.51%	0.56%	0.75%
Ratio of allowance for loan losses to gross loans ⁽²⁾	0.81	0.84	0.89	0.98	1.23
Ratio of NPA to total assets	0.66	0.84	0.60	0.71	1.08
Ratio of NPA (excluding accruing TDR) to total assets	0.45	0.56	0.39	0.47	0.61
Ratio of loan loss allowance to nonaccruing loans	131.56	111.43	173.77	175.27	163.93

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

(2) Total loans exclude loans held for sale.

(3) Includes owner-occupied commercial

Nonperforming assets decreased \$11.3 million between December 31, 2017 and December 31, 2018. Restructured loans decreased \$5.1 million, primarily due to a previously accruing restructured loan that moved to nonaccrual during the period. This addition in nonaccruing loans was offset by \$8.9 million in partial charge-offs related to two large commercial and industrial (C&I) relationships and a \$1.5 million charge-off on a residential construction loan. The ratio of nonperforming assets to total assets decreased from 0.84% at December 31, 2017 to 0.66% at December 31, 2018.

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

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Beginning balance	\$ 59,000	\$ 40,803	\$ 39,892
Additions	36,476	57,942	42,101
Collections	(25,389)	(19,884)	(28,191)
Transfers to accrual	(6,309)	(3,478)	(681)
Charge-offs/write-downs	(16,103)	(16,383)	(12,318)
Ending balance	<u>\$ 47,675</u>	<u>\$ 59,000</u>	<u>\$ 40,803</u>

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

CAPITAL RESOURCES

Under guidelines issued by banking regulators to reflect the requirements of the Dodd-Frank Act and the Basel III international capital standards, beginning January 1, 2015, savings associations 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. Under the Prompt Corrective Action framework of the Federal Deposit Insurance Corporation Act, 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 December 31, 2018, WSFS Bank was in compliance with regulatory capital requirements and all of its regulatory ratios exceeded "well-capitalized" regulatory benchmarks. WSFS Bank's December 31, 2018 common equity Tier 1 capital ratio of 12.69%, Tier 1 capital ratio of 12.69%, total risk based capital ratio of 13.37% and Tier 1 leverage capital ratio of 10.82%, all remain substantially in excess of "well-capitalized" regulatory benchmarks, the highest regulatory capital rating. In addition, and not included in Bank capital, the holding company held \$30.6 million in cash to support potential dividends, acquisitions and strategic growth plans.

The revised capital rules also established a capital conservation buffer, comprised of common equity Tier 1 capital, above the regulatory minimum capital requirements. This capital conservation buffer began being phased in on January 1, 2016 at 0.625% of risk-weighted assets and increased each subsequent year by an additional 0.625% until it reached its final level of 2.5% on January 1, 2019. The revised capital rules also increased the risk-based measures for a savings association to be considered "well-capitalized" under the Prompt Corrective Action framework.

Since 1996, the Board of Directors has approved several stock repurchase programs to acquire our common stock outstanding. We repurchased 691,742 and 255,000 shares of our common stock in 2018 and 2017 respectively. We held 25,552,887 shares and 24,861,145 shares of our common stock as treasury shares at December 31, 2018 and 2017, respectively. At December 31, 2018, we had essentially completed the share repurchase authorization approved by the Board of Directors in the fourth quarter of 2015. In the fourth quarter of 2018, our Board of Directors approved a new share repurchase authorization that will enable us to repurchase shares worth up to \$15.4 million in 2019 after the completion of our pending Merger with Beneficial. The program is consistent with our intent to return a minimum of 25% of annual net income to stockholders through dividends and share repurchases while maintaining capital ratios in excess of "well-capitalized" regulatory benchmarks.

OFF BALANCE SHEET ARRANGEMENTS

We have no off balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. For a description of certain financial instruments to which we are party and which expose us to certain credit risk not recognized in our financial statements, see Note 17 to the Consolidated Financial Statements.

IMPACT OF INFLATION AND CHANGING PRICES

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

CONTRACTUAL OBLIGATIONS

At December 31, 2018, we had contractual obligations relating to operating leases, long-term debt, data processing and credit obligations. These obligations are summarized below. See Notes 9, 12 and 17 to the Consolidated Financial Statements for further information.

<i>(Dollars in thousands)</i>	Total	2019	2020-2021	2022-2023	2024 and Beyond
Commitments to extend credit ⁽¹⁾	\$ 1,303,458	\$ 1,303,458	\$ —	\$ —	\$ —
FHLB advances	328,465	265,790	62,675	—	—
Principal payments on long term debt ⁽²⁾	100,000	—	—	—	100,000
Interest payments on long term debt ⁽³⁾	33,750	4,500	9,000	9,000	11,250
Operating lease obligations	226,253	11,562	22,543	22,219	169,929
Data processing obligations	13,823	6,660	5,703	1,460	—
Total	\$ 2,005,749	\$ 1,591,970	\$ 99,921	\$ 32,679	\$ 281,179

(1) Includes loan commitments and commercial standby letters of credit. Does not reflect commitments to sell residential mortgages.

(2) The 2016 senior notes are redeemable on June 15, 2021 or on any interest payment date thereafter.

(3) To calculate payments due for interest, we assumed that interest rates were unchanged from December 31, 2018 through maturity.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with GAAP. The significant accounting policies of the Company are described in Note 2 to the Consolidated Financial Statements. The preparation of these Consolidated Financial Statements 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 related to the allowance for loan losses, business combinations, deferred taxes, fair value measurements and 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. Actual results may differ from these estimates.

The following are critical accounting policies that involve more significant judgments and estimates. The Company has reviewed these critical accounting policies and estimates with the Audit Committee.

Allowance for Loan Losses

We maintain an allowance which represents our best estimate of probable losses within our loan portfolio. As losses are realized, they are charged to this allowance. We established our allowance in accordance with guidance provided in ASC 450, ASC 310 and SAB 102. The allowance includes two primary components: (i) an allowance established on loans collectively evaluated for impairment (general allowance), and (ii) an allowance established on loans individually evaluated for impairment (specific allowance). In addition, we also maintained an allowance for acquired loans.

The general allowance is calculated on a pooled loan basis using both quantitative and qualitative factors in accordance with ASC 450. The specific allowance is calculated on an individual loan basis when collectability of all contractually due principal and interest is no longer believed to be probable. This calculation is in accordance with ASC 310-10. Lastly, the allowance related to acquired loans is calculated when (i) there was deterioration in credit quality subsequent to acquisition for loans accounted for under ASC 310-30, and (ii) the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition for loans accounted for under ASC 310-20.

We consider the determination of the allowance to be critical because it requires significant judgment reflecting our best estimate of impairment related to specifically evaluated impaired loans as well as the inherent risk of loss for those in the remaining loan portfolio. Our evaluation is based upon a continuing review of our loan portfolio, with consideration given to evaluations resulting from examinations performed by regulatory authorities. See Note 8 to the Consolidated Financial Statements, for further discussion of the allowance.

Fair Value Measurements

ASC 820-10 *Fair Value Measurements and Disclosures* (ASC 820) defines fair value and establishes a framework for measuring fair value under GAAP. We consider our accounting policies related to fair value measurements to be critical because they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. See Note 18 to the Consolidated Financial Statements.

Recent Accounting Pronouncements

For information on Recent Accounting Pronouncements see Note 2 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 our acceptable tolerance ranges. At December 31, 2018 interest-bearing liabilities exceeded interest-earning assets that mature or reprice within one year (interest-sensitive gap) by approximately \$41.6 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within one-year increased from 98.24% at December 31, 2017 to 98.67% at December 31, 2018. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to (0.57%) at December 31, 2018 from (0.81%) at December 31, 2017. The change in sensitivity since December 31, 2017 was the result of the current interest rate environment and our continuing effort 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. The following table shows the estimated impact of immediate changes in interest rates on our net interest margin and economic value of equity at the specified levels at December 31, 2018 and December 31, 2017.

Change in Interest Rate (Basis Points)	December 31, 2018		December 31, 2017	
	% Change in Net Interest Margin ⁽¹⁾	Economic Value of Equity ⁽²⁾	% Change in Net Interest Margin ⁽¹⁾	Economic Value of Equity ⁽²⁾
300	8%	16.93%	7%	16.16%
200	5%	17.19%	4%	16.16%
100	3%	17.26%	2%	15.96%
—	— %	17.21%	— %	15.63%
(100)	(4)%	16.82%	(4)%	14.69%
(200) ⁽³⁾	(9)%	15.87%	NMF	NMF
(300) ⁽³⁾	NMF	NMF	NMF	NMF

(1) The percentage difference between net interest income 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 in a stable interest rate environment and the economic value of equity projected under the various rate change environments.

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

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on net interest income and capital, while maximizing the yield/cost spread on our asset/liability structure. We rely primarily on our asset/liability structure to control interest rate risk.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
WSFS Financial Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of WSFS Financial Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1994.

February 28, 2019

CONSOLIDATED STATEMENTS OF INCOME

<i>(Dollars in thousands, except per share data)</i>	Year Ended December 31,		
	2018	2017	2016
Interest Income:			
Interest and fees on loans	\$ 260,506	\$ 229,147	\$ 194,345
Interest on mortgage-backed securities	26,065	19,308	15,754
Interest and dividends on investment securities			
Taxable	61	137	321
Tax-exempt	4,317	4,511	4,551
Other interest income	2,024	1,623	1,607
	<u>292,973</u>	<u>254,726</u>	<u>216,578</u>
Interest Expense:			
Interest on deposits	29,068	14,904	9,421
Interest on Federal Home Loan Bank advances	8,395	8,263	4,707
Interest on senior debt	4,717	7,228	6,356
Interest on trust preferred borrowings	2,573	1,940	1,622
Interest on federal funds purchased	1,695	972	606
Interest on other borrowings	51	148	121
	<u>46,499</u>	<u>33,455</u>	<u>22,833</u>
Net interest income	246,474	221,271	193,745
Provision for loan losses	13,170	10,964	12,986
Net interest income after provision for loan losses	<u>233,304</u>	<u>210,307</u>	<u>180,759</u>
Noninterest Income:			
Credit/debit card and ATM income	43,837	36,116	29,899
Investment management and fiduciary income	39,602	35,103	25,691
Deposit service charges	18,771	18,318	17,734
Mortgage banking activities, net	6,286	6,293	7,434
Loan fee income	2,492	2,218	2,066
Security gains, net	21	1,984	2,369
Unrealized gains on equity investments	20,745	—	—
Realized gain on sale of equity investment	3,757	—	—
Bank owned life insurance income	175	1,545	919
Other income	26,855	23,067	18,949
	<u>162,541</u>	<u>124,644</u>	<u>105,061</u>
Noninterest Expense:			
Salaries, benefits and other compensation	122,983	114,376	95,983
Occupancy expense	19,783	19,409	16,646
Equipment expense	12,609	12,564	10,368
Professional fees	8,733	8,597	9,142
Data processing and operations expenses	7,757	6,779	6,275
Marketing expense	4,586	3,083	3,020
FDIC expenses	2,117	2,216	2,606
Loan workout and OREO expenses	1,548	1,820	1,681
Corporate development expense	6,456	878	8,529
(Recovery of) provision for legal settlement	(7,938)	12,000	—
(Recovery of) provision for fraud loss	(1,675)	2,844	—
Early extinguishment of debt costs	—	695	—
Other operating expense	48,088	41,200	34,416
	<u>225,047</u>	<u>226,461</u>	<u>188,666</u>
Income before taxes	170,798	108,490	97,154
Income tax provision	36,055	58,246	33,074
Net income	\$ 134,743	\$ 50,244	\$ 64,080
Basic	\$ 4.27	\$ 1.60	\$ 2.12
Diluted	\$ 4.19	\$ 1.56	\$ 2.06

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Net Income	\$ 134,743	\$ 50,244	\$ 64,080
Other comprehensive income:			
Net change in unrealized gains (losses) on investment securities available for sale			
Net unrealized gains (losses) arising during the period, net of tax expense (benefit) of (\$2,223), \$1,813, and (\$2,968), respectively	(6,695)	3,073	(4,838)
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$5, \$704, and \$900, respectively	(16)	(1,280)	(1,469)
	(6,711)	1,793	(6,307)
Net change in securities held to maturity			
Amortization of unrealized gain on securities reclassified to held-to-maturity, net of tax expense of \$136, \$241, and \$248, respectively	(444)	(394)	(403)
	(444)	(394)	(403)
Net change in unfunded pension liability			
Change in unfunded pension liability related to unrealized (loss) gain, prior service cost and transition obligation, net of tax (benefit) expense of (\$10), (\$56), and \$103, respectively	(31)	(90)	169
	(31)	(90)	169
Net change in cash flow hedge			
Net unrealized (loss) arising during the period, net of tax (benefit) of (\$29), (\$113), and (\$1,086), respectively	(56)	(184)	(1,772)
	(56)	(184)	(1,772)
Total other comprehensive (loss) income	(7,242)	1,125	(8,313)
Total comprehensive income	\$ 127,501	\$ 51,369	\$ 55,767

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

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<i>(Dollars in thousands, except per share and share data)</i>	December 31,	
	2018	2017
Assets:		
Cash and due from banks	\$ 134,939	\$ 122,141
Cash in non-owned ATMs	484,648	598,117
Interest-bearing deposits in other banks including collateral of \$1,000 at December 31, 2018 and \$3,380 at December 31, 2017	1,170	3,608
Total cash and cash equivalents	620,757	723,866
Investment securities, available for sale (amortized cost of \$1,224,227 at December 31, 2018 and \$847,791 at December 31, 2017)	1,205,079	837,499
Investment securities, held to maturity, at cost (fair value \$149,431 at December 31, 2018 and \$162,853 at December 31, 2017)	149,950	161,186
Other investments	37,233	17,971
Loans held for sale at fair value	25,318	31,055
Loans, net of allowance for loan losses of \$39,539 at December 31, 2018 and \$40,599 at December 31, 2017	4,863,919	4,776,318
Bank-owned life insurance	6,687	102,958
Stock in Federal Home Loan Bank of Pittsburgh, at cost	19,259	31,284
Other real estate owned	2,668	2,503
Accrued interest receivable	22,001	19,405
Premises and equipment	44,956	47,983
Goodwill	166,007	166,007
Intangible assets	20,016	22,437
Other assets	65,020	59,068
Total assets	\$ 7,248,870	\$ 6,999,540
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,626,252	\$ 1,420,760
Interest-bearing demand	4,014,179	3,826,844
Total deposits	5,640,431	5,247,604
Federal funds purchased	157,975	28,000
Federal Home Loan Bank advances	328,465	710,001
Trust preferred borrowings	67,011	67,011
Senior debt	98,388	98,171
Other borrowed funds	47,949	34,623
Accrued interest payable	1,900	1,037
Other liabilities	85,831	88,748
Total liabilities	6,427,950	6,275,195
Stockholders' Equity:		
Common stock \$0.01 par value, 65,000,000 shares authorized; issued 56,926,978 at December 31, 2018 and 56,279,527 at December 31, 2017	569	563
Capital in excess of par value	349,810	336,271
Accumulated other comprehensive loss	(15,394)	(8,152)
Retained earnings	791,031	669,557
Treasury stock at cost, 25,552,887 shares at December 31, 2018 and 24,861,145 shares at December 31, 2017	(305,096)	(273,894)
Total stockholders' equity	820,920	724,345
Total liabilities and stockholders' equity	\$ 7,248,870	\$ 6,999,540

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<i>(Dollars in thousands, except per share and share amounts)</i>	Shares	Common Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2015	55,945,245	\$ 560	\$256,435	\$ 696	\$ 570,630	\$ (247,850)	\$ 580,471
Net income	—	—	—	—	64,080	—	64,080
Other comprehensive income	—	—	—	(8,313)	—	—	(8,313)
Cash dividend, \$0.25 per share	—	—	—	—	(7,632)	—	(7,632)
Issuance of common stock including proceeds from exercise of common stock options	265,853	2	1,898	—	—	—	1,900
Stock-based compensation expense	—	—	2,790	—	—	—	2,790
Acquisition of Penn Liberty	1,806,748	18	68,334	—	—	—	68,352
Repurchase of common stock, 449,371 shares	—	—	—	—	—	(14,312)	(14,312)
Treasury share adjustment ⁽¹⁾	(2,022,627)	—	—	—	—	—	—
Balance, December 31, 2016	<u>55,995,219</u>	<u>\$ 580</u>	<u>\$329,457</u>	<u>\$ (7,617)</u>	<u>\$ 627,078</u>	<u>\$ (262,162)</u>	<u>\$ 687,336</u>
Net income	—	—	—	—	50,244	—	50,244
Other comprehensive loss	—	—	—	1,125	—	—	1,125
Cash dividend, \$0.30 per share	—	—	—	—	(9,425)	—	(9,425)
Reclassification due to the adoption of ASU No. 2018-02	—	—	—	(1,660)	1,660	—	—
Issuance of common stock including proceeds from exercise of common stock options	284,308	3	3,418	—	—	—	3,421
Stock-based compensation expense	—	—	3,396	—	—	—	3,396
Repurchase of common stock, 255,000 shares	—	(20)	—	—	—	(11,732)	(11,752)
Balance, December 31, 2017	<u>56,279,527</u>	<u>\$ 563</u>	<u>\$336,271</u>	<u>\$ (8,152)</u>	<u>\$ 669,557</u>	<u>\$ (273,894)</u>	<u>\$ 724,345</u>
Net income	—	—	—	—	134,743	—	134,743
Other comprehensive income	—	—	—	(7,262)	—	—	(7,262)
Cash dividend, \$0.42 per share	—	—	—	—	(13,249)	—	(13,249)
Reclassification due to the adoption of ASU No. 2016-01	—	—	—	20	(20)	—	—
Issuance of common stock including proceeds from exercise of common stock options	647,451	6	11,247	—	—	—	11,253
Stock-based compensation expense	—	—	2,292	—	—	—	2,292
Repurchase of common stock, 691,742 shares	—	—	—	—	—	(31,202)	(31,202)
Balance, December 31, 2018	<u>56,926,978</u>	<u>\$ 569</u>	<u>\$349,810</u>	<u>\$ (15,394)</u>	<u>\$ 791,031</u>	<u>\$ (305,096)</u>	<u>\$ 820,920</u>

⁽¹⁾ The 2016 Consolidated Statement of Changes in Stockholder's Equity reflects an adjustment between shares issued and treasury stock. This reclassification had no impact on shares outstanding, earnings per share or retained earnings.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	\$ 134,743	\$ 50,244	\$ 64,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	13,170	10,964	12,986
Depreciation of premises and equipment, net	8,329	8,557	7,477
Amortization of fees and discounts, net	15,255	19,082	19,626
Amortization of intangible assets	2,942	3,078	2,438
Income from mortgage banking activities, net	(6,286)	(6,293)	(7,434)
Gain on sale of debt securities, net	(21)	(1,984)	(2,369)
Gain on sale of equity investments, net	(3,757)	—	—
Loss on sale of other real estate owned and valuation adjustments, net	100	217	313
Stock-based compensation expense	2,292	3,396	3,046
Unrealized gain on equity investments	(20,745)	—	—
Debt extinguishment costs	—	695	—
Deferred income tax expense	3,378	17,899	5,370
Increase in accrued interest receivable	(2,596)	(2,378)	(2,009)
(Increase) decrease in other assets	(6,297)	(2,517)	443
Origination of loans held for sale	(351,108)	(354,659)	(366,859)
Proceeds from sales of loans held for sale	352,002	369,986	346,895
Increase (decrease) in accrued interest payable	863	(114)	350
(Decrease) increase in other liabilities	(2,931)	7,353	3,709
Provision for legal settlement	—	12,000	—
Increase in value of bank-owned life insurance	(158)	(1,130)	(2,551)
Increase in capitalized interest, net	(3,601)	(4,228)	(5,331)
Net cash provided by operating activities	\$ 135,574	\$ 130,168	\$ 80,180
Investing activities:			
Purchases of investment securities held to maturity	\$ —	\$ —	\$ (3,329)
Repayments, maturities and calls of investment securities held to maturity	9,245	1,230	2,890
Sales of investment securities available for sale	7,012	457,046	201,580
Purchases of investment securities available for sale	(498,465)	(696,581)	(371,590)
Repayments of investment securities available for sale	112,665	197,765	85,200
Proceeds of bank-owned life insurance death benefits	—	371	—
Proceeds from bank-owned life insurance surrender	96,429	—	—
Net cash for business combinations	—	—	39,794
Net increase in loans	(101,174)	(343,858)	(217,572)
Purchases of Visa Class B shares	(1,568)	(10,072)	(387)
Sale of Visa Class B shares	6,186	—	—
Purchases of stock of Federal Home Loan Bank of Pittsburgh	(169,613)	(160,089)	(88,176)
Redemptions of stock of Federal Home Loan Bank of Pittsburgh	181,638	167,053	80,447
Sales of other real estate owned	3,037	6,077	4,423
Investment in premises and equipment	(5,500)	(7,728)	(9,873)
Sales of premises and equipment	198	—	—
Net cash used for investing activities	\$ (359,910)	\$ (388,786)	\$ (276,593)

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Financing activities:			
Net increase in demand and savings deposits	\$ 393,827	\$ 353,521	\$ 272,544
Net increase (decrease) in time deposits	43,871	35,887	(51,416)
Net (decrease) increase in brokered deposits	(31,712)	90,482	(17,928)
Decrease in loan payable	—	(338)	(370)
Receipts from FHLB advances	83,721,532	143,852,751	121,977,563
Repayments of FHLB advances	(84,103,068)	(143,996,986)	(121,792,841)
Receipts from federal funds purchased	21,239,675	23,008,000	27,702,620
Repayments of federal funds purchased	(21,109,700)	(23,110,000)	(27,700,820)
Repayment of long-term debt	—	—	(10,000)
Dividends paid	(13,249)	(9,425)	(7,632)
Issuance of common stock and exercise of common stock options	11,253	3,421	1,900
Redemption of senior debt	—	(55,000)	—
Issuance of senior debt	—	—	97,849
Purchase of treasury stock	(31,202)	(11,752)	(14,312)
Net cash provided by financing activities	\$ 121,227	\$ 160,561	\$ 457,157
(Decrease) increase in cash and cash equivalents	(103,109)	(98,057)	260,744
Cash and cash equivalents at beginning of year	723,866	821,923	561,179
Cash and cash equivalents at end of year	\$ 620,757	\$ 723,866	\$ 821,923
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 45,636	\$ 33,569	\$ 22,483
Income taxes	33,316	31,441	24,825
Non-cash information:			
Loans transferred to other real estate owned	3,302	5,206	2,251
Loans transferred to portfolio from held-for-sale at fair value	9,553	13,142	12,919
Fair value of assets acquired, net of cash received	—	—	534,375
Fair value of liabilities assumed	—	—	589,632
Goodwill adjustments, net	—	(1,532)	2,112

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION

Organization

WSFS Financial Corporation (the Company or as a consolidated institution, WSFS, we, our or us) is a savings and loan holding company organized under the laws of the State of Delaware. Substantially all of our assets are held by the Company's subsidiary, Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank), is a federal savings bank organized under the laws of the United States (U.S.). Founded in 1832, the Bank is one of the ten oldest bank and trust companies in the U.S. continuously operating under the same name. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. Our core banking business is commercial lending funded by customer-generated deposits. In addition, we offer a broad variety of wealth management and trust services to personal and corporate customers. The Federal Deposit Insurance Corporation (FDIC) insures our customers' deposits to their legal maximums. We serve our customers primarily from our 76 offices located in Delaware (45), Pennsylvania (29), Virginia (1), and Nevada (1) and through our website at www.wsfsbank.com. Information on our website is not incorporated by reference into this Annual Report on Form 10-K.

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the U.S. (GAAP). In preparing the Consolidated Financial Statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Although our estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions in 2019 could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. The accounting for the allowance for loan losses and reserves for lending related commitments, goodwill, intangible assets, post-retirement benefit obligations, the fair value of financial instruments, income taxes and other than temporary impairment (OTTI) is subject to significant estimates. Among other effects, changes to these estimates could result in future impairment of investment securities, goodwill and intangible assets and the establishment of the allowance and lending related commitments as well as increased post-retirement benefits expense.

Basis of Presentation

Our Consolidated Financial Statements include the accounts of the Company, WSFS Bank, Cypress Capital Management, LLC (Cypress), WSFS Wealth Management, LLC (Powdermill), WSFS Capital Management, LLC (West Capital), and Christiana Trust Company of Delaware (Christiana Trust DE). We also have one unconsolidated subsidiary, 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).

Cypress was formed to provide asset management services. As a registered investment advisor and Wilmington-based fee-only wealth management firm, Cypress has approximately \$948.8 million in assets under management (AUM) at December 31, 2018, compared to approximately \$901.5 million at December 31, 2017.

Powdermill was formed in 2016 as a result of our acquisition of Powdermill Financial Solutions, LLC to provide multi-family office services to affluent clientele in the local community and throughout the U.S.

West Capital was formed in 2016 as a result of our acquisition of West Capital Management, Inc. to provide fee-only wealth management services tailored to the needs of high net worth individuals operating under a multi-family office philosophy. West Capital has approximately \$695.5 million in AUM at December 31, 2018, compared to approximately \$861.2 million at December 31, 2017.

Christiana Trust DE was formed in 2017 to supplement our existing Wealth Management segment by offering Delaware Advantage trust services including directed trusts, asset protection trusts and dynasty trusts.

The Trust is our unconsolidated subsidiary, and was formed in 2005 to issue \$67.0 million aggregate principal amount of Pooled Floating Rate Capital Securities. These securities are callable and have a maturity date of June 1, 2035. The proceeds from this issue were used to fund the redemption of \$51.5 million Floating Rate WSFS Capital Trust I Preferred Securities (formerly, WSFS Capital Trust I). WSFS Capital Trust I invested all of the proceeds from the sale of the Pooled Floating Rate Capital Securities in our Junior Subordinated Debentures.

WSFS Wealth Investments markets various third-party investment and insurance products to Bank customers through the Bank's retail banking system. 1832 Holdings, Inc. was formed to hold certain debt and equity investment securities. Monarch provides commercial domicile services which include providing employees, directors, subleases of office facilities and registered agent services in Delaware and Nevada.

Certain reclassifications have been made to the prior year's Consolidated Financial Statements to conform to the current year's presentation. All significant intercompany accounts and transactions were eliminated in consolidation.

Business Combinations

On August 7, 2018, WSFS and Beneficial Bancorp, Inc. (Beneficial) entered into an Agreement and Plan of Reorganization (as amended from time to time, the Merger Agreement), pursuant to which, subject to the terms and conditions of the Merger Agreement, among other things, (i) Beneficial will merge with and into WSFS, with WSFS continuing as the surviving corporation (the "Merger") and (ii) simultaneously, Beneficial Bank will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving bank (the "Bank Merger" and, together with the Merger, the "Mergers"). Subject to the terms and conditions of the Merger Agreement, stockholders of Beneficial will receive 0.3013 shares of WSFS common stock and \$2.93 in cash for each share of Beneficial common stock. Approvals from both WSFS and Beneficial shareholders were received in December 2018. The Mergers, which are subject to customary closing conditions, are expected to close on March 1, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Debt Securities

Investments in debt securities are classified into one of the following three categories and accounted for as follows:

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

Debt securities include mortgage-backed securities (MBS), municipal bonds, and U.S. government and agency securities. Premiums and discounts on MBS collateralized by residential 1-4 family loans are recognized in interest income using a level yield method over the period to expected maturity. Premiums and discounts on all other securities are recognized on a straight line basis over the period to expected maturity. The fair value of debt securities is primarily obtained from third-party pricing services. Implicit in the valuation of MBS are estimated prepayments based on historical and current market conditions.

We follow Accounting Standards Codification (ASC) 320-10 “*Investments - Debt Securities*” which provides guidance related to the recognition of and expanded disclosure requirements for other-than-temporary impaired debt securities. When we conclude an investment security is other than temporarily impaired, a loss for the difference between the investment security’s carrying value and its fair value may be recognized as a reduction to noninterest income in the Consolidated Statements of Income. If we intend to sell an investment in debt security or it is more likely than not that we will be required to sell it before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security’s amortized cost basis and its fair value. If we do not intend to sell the investment security and conclude that it is not more likely than not we will be required to sell the security before recovering the carrying value, which may be maturity, the OTTI charge is separated into “credit” and “other” components. The “credit” component of the OTTI is included as a reduction to noninterest income in the Consolidated Statements of Income and the “other” component of the OTTI is included in other comprehensive income (loss), net of the tax effect. We are required to use our judgment in determining impairment in certain circumstances. The specific identification method is used to determine realized gains and losses on sales of investment and mortgage-backed securities. All sales are made without recourse.

For additional detail regarding debt securities, see Note 5.

Equity Securities

Following our adoption of ASU 2016-01 on January 1, 2018, as described in “Recent Accounting Pronouncements”, we account for our investments in equity securities in accordance with ASC 321-10, *Investments - Equity Securities*. Our equity securities are classified into one of the two categories and accounted for as follows:

- Equity securities with a readily determinable fair value are reported at fair value, with unrealized gains and losses included in earnings. Any dividends received are recorded in interest income.
- Equity securities without a readily determinable fair value are reported at cost minus impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer and their impact on fair value. Any dividends received are recorded in interest income.

Equity investments include our Visa Class B share holdings and certain other equity investments. The fair value of equity investments with readily determinable fair values is primarily obtained from third-party pricing services. For equity investments without readily determinable fair values, when an orderly transaction for the identical or similar investment of the same issuer is identified, we use valuation techniques permitted under ASC 820, *Fair Value Measurement*, to evaluate the observed transaction(s) and adjust the fair value of the equity investment.

ASC 321-10 also provides guidance related to accounting for impairment of equity securities without readily determinable fair values. The qualitative assessment to determine whether impairment exists requires the use of our judgment in certain circumstances. If, after completing the qualitative assessment, we conclude an equity investment without a readily determinable fair value is impaired, a loss for the difference between the equity investment's carrying value and its fair value may be recognized as a reduction to noninterest income in the Consolidated Statements of Income.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

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

For additional detail regarding the Federal funds purchased and securities sold under agreements to repurchase, see Note 12.

Loans

Loans are stated net of deferred fees and costs. Interest income on loans is recognized using the level yield method. Loan origination fees, commitment fees and direct loan origination costs are deferred and recognized over the life of the related loans using a level yield method over the period to maturity.

A loan is impaired when, based on current information and events, it is probable we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on either the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. All loans restructured in a troubled debt restructuring are considered to be impaired. Impaired loans include loans within our commercial and industrial, owner-occupied commercial, commercial mortgage, construction, residential and consumer portfolios. Our policy for recognition of interest income on impaired loans, excluding accruing loans, is the same as for nonaccrual loans discussed below.

In addition to originating loans, we occasionally acquire loans through acquisitions or loan purchase transactions. Certain acquired loans may exhibit deteriorated credit quality that has occurred since origination and we may not expect to collect all contractual payments. We account for these purchased credit-impaired loans in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The loans are initially recorded at fair value on the acquisition date, reflecting the present value of the cash flows expected to be collected. Income recognition on these loans is based on reasonable expectations on timing and amount of cash flows to be collected. Purchased credit impaired loans are evaluated for impairment on a quarterly basis with a complete updating of the estimated cash flows on a semi-annual basis. If a loan is determined to be impaired but considered collateral dependent, it will have no accretable yield.

For additional detail regarding impaired loans, see Note 8. For additional detail regarding purchased credit-impaired loans, see Note 7.

Past Due and Nonaccrual Loans

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.

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 loan is not well secured and in the process of collection. 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. Loans are returned to an accrual status when we assess that the borrower has the ability to make all principal and interest payments in accordance with the terms of the loan (i.e. including a consistent repayment record, generally six consecutive payments, has been demonstrated).

For additional detail regarding past due and nonaccrual loans, see Note 8.

Allowance for Loan Losses

We maintain an allowance for loan losses (allowance) which represents our best estimate of probable losses within our loan portfolio. As losses are realized, they are charged to the allowance. We establish our allowance in accordance with guidance provided in ASC 450, *Contingencies* (ASC 450), ASC 310, *Receivables* (ASC 310), and the SEC's Staff Accounting Bulletin 102, *Selected Loan Loss Allowance Methodology and Documentation Issues* (SAB 102). The allowance includes two primary components: (i) an allowance established on loans collectively evaluated for impairment (general allowance), and (ii) an allowance established on loans individually evaluated for impairment (specific allowance). In addition, we also maintain an allowance for acquired loans.

The general allowance is calculated on a pooled loan basis using both quantitative and qualitative factors in accordance with ASC 450. The specific allowance is calculated on an individual loan basis when collectability of all contractually due principal and interest is no longer believed to be probable in accordance with ASC 310-10. Lastly, the allowance related to acquired loans is calculated when (i) there is deterioration in credit quality subsequent to acquisition for loans accounted for under ASC 310-30, and (ii) the inherent losses in the loans exceed the remaining credit discount recorded at the time of acquisition for loans accounted for under ASC 310-20.

Impairment of troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception or the fair value of the underlying collateral if the loan is collateral dependent. Troubled debt restructurings consist of concessions granted to borrowers facing financial difficulty.

For additional detail regarding the allowance for loan losses and the provision for loan losses, see Note 8.

Fair Value Option

Mortgage loans held for sale are recorded at fair value on a loan level basis based upon pricing information obtained from secondary markets and brokers and applied to loans with similar interest rates and maturities.

Derivative financial instruments related to mortgage banking activities are recorded at fair value and are not designated as accounting hedges. This includes commitments to originate certain fixed-rate residential mortgage loans for customers, also referred to as interest rate lock commitments. We may also enter into forward sale commitments to sell loans to investors at a fixed price at a future date and trade asset-backed securities to mitigate the effect of interest rate risk.

Other Real Estate Owned

Upon initial receipt, other real estate owned (OREO) is recorded at the estimated fair value less disposal costs. Costs subsequently incurred to improve the assets are included in the carrying value provided that the resultant carrying value does not exceed estimated fair value less disposal costs. We periodically evaluate the OREO for impairment and write-down the value of the asset when declines in fair value below the carrying value are identified. Costs relating to holding or disposing of the assets are charged to expense in the current period. *Loan workout and OREO* expenses include costs of holding and operating the assets, net gains or losses on sales of the assets and provisions for losses to reduce such assets to the estimated fair values less disposal costs.

For additional detail regarding other real estate owned, see Note 8.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Costs of major replacements, improvements and additions are capitalized. Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, over the terms of the related lease or effective useful lives of the respective asset, whichever is less. In general, computer equipment, furniture and equipment and building renovations are depreciated over three, five and ten years, respectively. Premises and equipment acquired in business combinations are initially recorded at fair value and subsequently carried at cost less accumulated depreciation and amortization.

For additional detail regarding premises and equipment, see Note 9.

Goodwill and Intangible Assets

We account for intangible assets in accordance with ASC 805, *Business Combinations* (ASC 805) and ASC 350, *Intangibles-Goodwill and Other* (ASC 350). Intangible assets resulting from acquisitions under the acquisition method of accounting consist of goodwill and other intangible assets. Accounting for goodwill and other intangible assets requires the Company to make significant judgments, particularly with respect to estimating the fair value of each reporting unit and when required, estimating the fair value of net assets. The estimates utilize historical data, cash flows, and market and industry data specific to each reporting unit as well as projected data. Industry and market data are used to develop material assumptions such as transaction multiples, required rates of return, control premiums, transaction costs and synergies of a transaction, and capitalization.

Goodwill is not amortized and is subject to periodic impairment testing. We review goodwill for impairment annually and more frequently if events and circumstances indicate that the fair value of a reporting unit is less than its carrying value. During 2018, management moved our annual goodwill impairment test date from October 31 to October 1 in an effort to more closely align the impairment testing with our strategic business planning and forecasting process and provide the Company with additional time to complete our annual testing. The change will be applied prospectively and WSFS will conduct only one goodwill impairment test in 2018 as the new testing date is before our previous date. This change does not delay, accelerate or avoid an impairment charge.

Other intangible assets with finite lives are amortized over their estimated useful lives. We review other intangible assets with finite lives for impairment if events and circumstances indicate that the carrying value may not be recoverable.

For additional information regarding our goodwill and intangible assets, see Note 10.

Income Taxes

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

We account for income taxes in accordance with 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. It prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

On December 22, 2017 the Tax Cuts and Jobs Act (Tax Reform Act), was enacted. See Note 15 - *Taxes on Income* for further information. As a result, the Company elected to reclassify the income tax effects of the Tax Reform Act from accumulated other comprehensive income to retained earnings for approximately \$1.7 million in accordance with ASC 220, *Income Statement - Reporting Comprehensive Income* and ASC 740. See Note 23.

For additional detail regarding income taxes, see Note 15.

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with ASC 718, *Stock Compensation*. Compensation expense relating to all share-based payments is recognized on a straight-line basis, over the applicable vesting period.

For additional detail regarding stock-based compensation, see Note 16.

Senior Debt

On September 1, 2017, we redeemed \$55.0 million in aggregate principal amount of our 6.25% senior notes due 2019 which were issued in 2012 (the 2012 senior notes). The 2012 senior notes were repaid using a portion of the proceeds from our 2016 issuance of senior unsecured fixed-to-floating rate notes (the 2016 senior notes) described below. We recorded noninterest expense of \$0.7 million due to the write-off of unamortized debt issuance costs in connection with this redemption.

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

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Guidance Adopted in 2018

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU No. 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model in which entities should 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 deferred the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Gross versus Net)*, which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* and 2016-12, *Narrow-Scope Improvements and Practical Expedients*, both of which provide additional clarification on certain provisions in Topic 606. These ASC updates were effective for public business entities with annual and interim reporting periods in fiscal years beginning after December 15, 2017. The standard permits the use of either the retrospective or modified retrospective with the cumulative effect transition method. The Company adopted the standard on January 1, 2018. Consistent with the transition guidance in ASC 606, results for reporting periods beginning after January 1, 2018 are presented in accordance with ASC 606, while prior period amounts are reported in accordance with ASC 605. For revenue streams determined to be within the scope of the new standard, we concluded that the adoption of the standard did not have a material effect on our Consolidated Financial Statements at the time of adoption. See Note 3 for additional disclosures resulting from our adoption of this standard.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This amendment requires that equity investments be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, less 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. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard requires retrospective application for equity investments with readily determinable fair values and prospective application for equity investments without readily determinable fair values. The Company adopted the standard on January 1, 2018, on a prospective basis for its equity investments without readily determinable fair values, and the adoption of the standard did not have an effect on our Consolidated Financial Statements at the time of adoption. Subsequent to the filing of our Annual Report on Form 10-K for the year ended December 31, 2017, we identified observable transactions related to an equity investment without a readily determinable fair value. These identified, observable transactions required the revaluation of this equity investment. The result of the initial revaluation was recorded in the Consolidated Statements of Income in the first quarter of 2018. See Note 18 for further information.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 represents the Emerging Issues Task Force's final consensus on eight issues related to the classification of cash payments and receipts in the statement of cash flows for a number of common transactions. The consensus also clarifies when identifiable cash flows should be separated versus classified based on their predominant source or use. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted this standard on January 1, 2018, on a retrospective basis and the adoption did not have an effect on the Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a new, two-step framework for determining whether a transaction is accounted for as an acquisition (or disposal) of assets or a business. The first step is evaluating whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the transaction is not considered a business. Also, in order to be considered a business, the transaction would need to include an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance is effective for public entities in annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted for transactions that have not been reported in financial statements that have been issued or been made available for issuance. The Company adopted this standard on January 1, 2018, on a prospective basis with no impact to the Consolidated Financial Statements at the time of adoption.

In February 2017, the FASB issued ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. ASU 2017-05 provides clarification of the scope of ASC 610-20. Specifically, the new guidance clarifies that ASC 610-20 applies to nonfinancial assets which do not meet the definition of a business or not-for-profit activity. Further, a financial asset is within the scope of ASC 610-20 if it meets the definition of an in-substance nonfinancial asset which is defined as a financial asset promised to a counterparty in a contract where substantially all of the assets promised are nonfinancial. Finally, each distinct nonfinancial asset and in-substance nonfinancial asset should be derecognized when the counterparty obtains control. The guidance is effective 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 adopted this standard on January 1, 2018, on a modified retrospective basis and the adoption did not have an effect on the Consolidated Financial Statements at the time of adoption.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance requires that the service cost component of net periodic pension cost be disclosed with other compensation costs in the income statement. For all other cost components, an entity must either separately disclose the other cost components in separate line item(s) outside a subtotal of income from operations in the income statement or disclose the line item(s) used to present the other cost components in the income statement. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company adopted this standard on January 1, 2018, on a retrospective basis with no impact to the Consolidated Financial Statements at the time of adoption.

In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting*. The new guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. If the award's fair value, vesting conditions and classification remain the same immediately before and after the change, modification accounting is not applied. Additionally, the guidance does not require valuation before or after the change if the change does not affect any of the inputs to the model used to value the award. The guidance is effective in annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The new guidance will be applied on a prospective basis to awards modified on or after the adoption date. The Company adopted this standard on January 1, 2018, on a prospective basis with no impact to the Consolidated Financial Statements at the time of adoption.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the measurement of goodwill impairment by removing the hypothetical purchase price allocation. The new guidance requires an impairment of goodwill be measured as the amount by which a reporting unit's carrying value exceeds its fair value, up to the amount of goodwill recorded. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017, using the prospective method of adoption. The Company elected to early adopt this standard on December 31, 2018, on a prospective basis, with no impact to the Consolidated Financial Statements at the time of adoption.

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 (“ROU”) asset for substantially all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. Adoption using the comparative modified retrospective transition approach is required; however, in July 2018, the FASB issued ASU 2018-11, *Leases-Targeted Improvements*, which provides an optional transition method whereby comparative periods presented in the financial statements in the period of adoption do not need to be restated under Topic 842. The Company will adopt this guidance on January 1, 2019 using the comparative modified retrospective method and has elected to apply the package of practical expedients to ease transition. The Company completed our comprehensive lease analysis including implementation of a new software, review and update of our accounting policies, processes and related internal controls to reflect changes from the standard. The adoption of ASC 842 will result in the recognition of a ROU asset of \$121.0 million and a lease liability of \$132.1 million on our Consolidated Statements of Financial Condition. The adoption of ASC 842 did not have an impact on the Company’s other Consolidated Financial Statements. We will provide additional detail to our leases disclosures on a prospective basis, beginning in the first quarter of 2019.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326*, which clarifies that receivables arising from operating leases are not within the scope of Topic 326. In December 2018, regulators issued a final rule related to regulatory capital (*Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations*) which is intended to provide regulatory capital relief for entities transitioning to CECL. The Company does not plan to early adopt this guidance and will adopt this guidance on January 1, 2020. A cross-functional team from Finance, Credit, and IT is leading the implementation efforts to evaluate the impact of this guidance on the Company’s Consolidated Financial Statements, internal systems, accounting policies, processes and related internal controls. Presently, we are in the process of implementing a software solution to assist us with the initial and on-going requirements of the new guidance. We are also continuing to evaluate the acceptable methodologies, accounting policies, and reporting requirements under the guidance as well as implementation and transition rules issued by regulators. We continue to consult with third-party experts and specialists, where necessary, to assist with the implementation efforts. Our implementation efforts to date suggest that adoption may materially increase the allowance for loan losses and decrease capital levels; however, the extent of these impacts will depend on the asset quality of the portfolio, macroeconomic conditions, and significant estimates and judgments made by management at the time of adoption.

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. The new guidance requires the amortization period for certain non-contingent callable debt securities held at a premium to end at the earliest call date of the debt security. If the call option is not exercised at the earliest call date, the guidance requires the debt security’s effective yield to be reset based on the contractual payment terms of the debt security. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted. Use of the modified retrospective method, with a cumulative-effect adjustment to retained earnings is required. The Company will adopt this standard on January 1, 2019 with no expected impact to the Consolidated Financial Statements at the time of adoption.

In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities (Topic 815)*. The new guidance changes both the designation and measurement guidance for qualifying hedging relationships and simplifies the presentation of hedge results. Specifically, the guidance eliminates the requirement to separately measure and report hedge ineffectiveness and also aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Further, the new guidance provides entities the ability to apply hedge accounting to additional hedging strategies as well as permits a one-time reclassification of eligible to be hedged instruments from held to maturity to available for sale upon adoption. The guidance is effective in annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Adoption using the modified retrospective approach is required for hedging relationships that exist as of the date of adoption; presentation and disclosure requirements are applied prospectively. The Company will adopt this standard on January 1, 2019 with no expected impact to the Consolidated Financial Statements at the time of adoption. We will provide additional details to our hedging disclosures, beginning in the first quarter of 2019. In October 2018, the FASB issued ASU No. 2018-16, *Derivatives and Hedging - Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Topic 815)*. The new guidance applies to all entities that elect to apply hedge accounting to benchmark interest rate hedges under Topic 815. It permits the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes in addition to the existing applicable rates. The guidance is required to be adopted concurrently with ASU 2017-12, on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after adoption. The Company will adopt this standard on January 1, 2019 with no expected impact to the Consolidated Financial Statements at the time of adoption.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement Disclosure Framework*, which amends ASC 820 - *Fair Value Measurement*. The ASU modifies, adds and removes certain disclosures aimed to improve the overall usefulness of the disclosure requirements for fair value measurements. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption is required on both a prospective and retrospective basis depending on the amendment. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation-Retirement Benefits - Defined Benefit Plans-General (Topic 715)* which applies to all employers that provide defined benefit pension or other postretirement benefit plans for their employees. The ASU modifies, adds and removes certain disclosures aimed to improve the overall usefulness of the disclosure requirements to financial statement users. The guidance is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. Use of the retrospective method is required. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Topic 350)*. The new guidance provides clarity on capitalizing and expensing implementation costs for cloud computing arrangements in a service contract. If an implementation cost is capitalized, the cost should be recognized over the noncancellable term and periodically assessed for impairment. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption should be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. Our preliminary review of this guidance to date suggests that adoption may result in a material amount of implementation costs being deferred; however, the extent of the impact will depend on the cloud computing implementations occurring at the time of adoption.

3. NONINTEREST INCOME

On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent ASUs that modified Topic 606. The standard applies to certain revenue streams included in noninterest income on our audited Consolidated Statements of Income. See Note 2 for further information about our adoption of ASU 2014-09, and Note 21 for further information about the disaggregation of noninterest income by segment.

Credit/debit card and ATM income

The following table presents the components of credit/debit card and ATM income:

<i>(Dollars in thousands)</i>	Twelve Months Ended December 31,		
	2018	2017	2016
Bailment fees	\$ 27,767	\$ 21,360	\$ 16,823
Interchange fees	14,982	13,696	12,390
Other card and ATM fees	1,088	1,060	686
Total credit/debit card and ATM income	\$ 43,837	\$ 36,116	\$ 29,899

Credit/debit card and ATM income is primarily composed of bailment fees which are earned from bailment arrangements with our customers. Bailment arrangements are legal relationships in which property is delivered to another party's temporary custody and control without a transfer of ownership. The party receiving the property (the bailee) has possession and control of the property and is obligated to take reasonable care of the property. The party who transferred the property (the bailor) retains ownership interest of the property. In the event that the bailee files for bankruptcy protection, the property is not included in the bailee's assets. The bailee pays an agreed-upon fee for the use of the bailor's property in exchange for the bailor allowing use of the assets at the bailee's site. Bailment fees are earned from cash that is owned by WSFS but available for customers' use at an offsite location, such as cash located in an ATM at a customer's place of business. These fees are typically indexed to a market interest rate. This revenue stream generates fee income through monthly billing for bailment services.

Credit/debit card and ATM income also includes interchange fees. Interchange fees are paid by a merchant's bank to a bank that issued a debit or credit card used in a transaction to compensate the issuing bank for the value and benefit the merchant receives from accepting electronic payments. These revenue streams generate fee income at the time a transaction occurs and are recorded as revenue at the time of the transaction.

Investment management and fiduciary income

The following table presents the components of investment management and fiduciary income:

<i>(Dollars in thousands)</i>	Twelve Months Ended December 31,		
	2018	2017	2016
Trust fees	\$ 23,386	\$ 19,651	\$ 17,978
Wealth management and advisory fees	16,216	15,452	7,713
Total investment management and fiduciary income	\$ 39,602	\$ 35,103	\$ 25,691

Investment management and fiduciary income is primarily composed of trust fees and wealth management and advisory fees. Trust fees are based on revenue earned from investment and trustee services to families and individuals across the U.S.; custody, escrow and trustee services on structured finance transactions; indenture trustee, administrative agent and collateral agent services to institutions and corporations; and commercial domicile and independent director services. Most fees are flat fees, except for a portion of personal and corporate trustee fees where we earn a percentage on AUM. This revenue stream primarily generates fee income through monthly, quarterly and annual billings for services provided.

Wealth management and advisory fees consists of fees from Cypress, West Capital, Powdermill, WSFS Wealth Client Management, WSFS Wealth Investments and WSFS Institutional Services. Wealth management and advisory fees are based on revenue earned from services including asset management, financial planning, family office, and, to a lesser extent, brokerage. The fees are based on the market value of assets or are assessed as a flat fee. This revenue stream primarily generates fee income through quarterly and annual billing for the services.

Deposit service charges

The following table presents the components of deposit service charges:

<i>(Dollars in thousands)</i>	Twelve Months Ended December 31,		
	2018	2017	2016
Service fees	\$ 10,526	\$ 10,073	\$ 9,162
Return and overdraft fees	7,676	7,650	7,969
Other deposit service fees	569	595	603
Total deposit service charges	\$ 18,771	\$ 18,318	\$ 17,734

Deposit service charges includes revenue earned from our core deposit products, certificates of deposit, and brokered deposits. We generate revenues from deposit service charges primarily through service charges and overdraft fees. Service charges consist primarily of monthly account maintenance fees, cash management fees, foreign ATM fees and other maintenance fees. All of these revenue streams generate fee income through service charges for monthly account maintenance and similar items, transfer fees, late fees, overlimit fees, and stop payment fees. Revenue is recorded at the time of the transaction.

Other income

The following table presents the components of other income:

<i>(Dollars in thousands)</i>	Twelve Months Ended December 31,		
	2018	2017	2016
Managed service fees	\$ 12,113	\$ 10,984	\$ 11,244
Currency preparation	3,575	2,900	2,706
ATM insurance	2,394	2,795	3,040
Miscellaneous products and services	8,773	6,388	1,959
Total other income	\$ 26,855	\$ 23,067	\$ 18,949

Other income consists of managed service fees, which are primarily courier fees related to cash management, currency preparation, ATM insurance and other miscellaneous products and services offered by the Bank. These fees are primarily generated through monthly billings or at the time of the transaction.

Arrangements with multiple performance obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers.

Practical expedients and exemptions

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

4. EARNINGS PER SHARE

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

<i>(Dollars and shares in thousands, except per share data)</i>	2018	2017	2016
<u>Numerator:</u>			
Net income	\$ 134,743	\$ 50,244	\$ 64,080
<u>Denominator:</u>			
Weighted average shares	31,570	31,419	30,276
Dilutive potential common shares	597	884	810
Weighted average fully diluted shares	32,167	32,303	31,086
Earnings per share:			
Basic	\$ 4.27	\$ 1.60	\$ 2.12
Diluted	\$ 4.19	\$ 1.56	\$ 2.06
Outstanding common stock equivalents having no dilutive effect	18	2	18

5. INVESTMENT SECURITIES

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

(Dollars in thousands)	December 31, 2018			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<u>Available-for-Sale Debt Securities</u>				
CMO	\$ 376,867	\$ 1,721	\$ 6,838	\$ 371,750
FNMA MBS	655,485	1,526	12,938	644,073
FHLMC MBS	155,758	558	2,394	153,922
GNMA MBS	36,117	97	880	35,334
	\$ 1,224,227	\$ 3,902	\$ 23,050	\$ 1,205,079
<u>Held-to-Maturity Debt Securities</u> ⁽¹⁾				
State and political subdivisions	\$ 149,950	\$ 275	\$ 794	\$ 149,431
<u>Equity Investments</u> ⁽²⁾				
Visa Class B shares	\$ 13,918	\$ 20,015	\$ —	\$ 33,933
Other equity investments	3,300	—	—	3,300
	\$ 17,218	\$ 20,015	\$ —	\$ 37,233

(1) Held-to-maturity securities transferred from available-for-sale are included in held-to-maturity at fair value at the time of transfer. The amortized cost of held-to-maturity securities included net unrealized gains of \$1.0 million at December 31, 2018, related to securities transferred, which are offset in Accumulated other comprehensive loss, net of tax.

(2) Equity investments are included in *Other investments* in the audited Consolidated Statements of Financial Condition.

(Dollars in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
<u>Available-for-Sale Debt Securities</u>				
CMO	\$ 250,592	\$ 88	\$ 4,141	\$ 246,539
FNMA MBS	479,218	941	6,172	473,987
FHLMC MBS	88,681	118	924	87,875
GNMA MBS	29,300	209	411	29,098
	\$ 847,791	\$ 1,356	\$ 11,648	\$ 837,499
<u>Held-to-Maturity Debt Securities</u> ⁽¹⁾				
State and political subdivisions	\$ 161,186	\$ 1,758	\$ 91	\$ 162,853
<u>Equity Investments</u> ⁽²⁾⁽³⁾				
Other equity investments	\$ 643	\$ —	\$ 20	\$ 623
	\$ 643	\$ —	\$ 20	\$ 623

(1) Held-to-maturity securities transferred from available-for-sale are included in held-to-maturity at fair value at the time of transfer. The amortized cost of held-to-maturity securities included net unrealized gains of \$1.6 million at December 31, 2017, related to securities transferred, which are offset in Accumulated other comprehensive loss, net of tax.

(2) Equity investments are included in *Other investments* in the audited Consolidated Statements of Financial Condition.

(3) This mutual fund was sold in 2018.

The scheduled maturities of our available-for-sale and held-to-maturity at December 31, 2018 and December 31, 2017 are presented in the table below:

	Available-for-Sale	
	Amortized Cost	Fair Value
<i>(Dollars in thousands)</i>		
December 31, 2018 ⁽¹⁾		
Within one year	\$ —	\$ —
After one year but within five years	19,714	19,423
After five years but within ten years	170,118	163,731
After ten years	1,034,395	1,021,925
	<u>\$ 1,224,227</u>	<u>\$ 1,205,079</u>
December 31, 2017 ^{(1) (2)}		
Within one year	\$ —	\$ —
After one year but within five years	20,051	19,825
After five years but within ten years	179,812	175,583
After ten years	647,928	642,091
	<u>\$ 847,791</u>	<u>\$ 837,499</u>
<i>(Dollars in thousands)</i>		
	Held-to-Maturity	
	Amortized Cost	Fair Value
December 31, 2018 ⁽¹⁾		
Within one year	\$ 1,018	\$ 1,016
After one year but within five years	6,703	6,701
After five years but within ten years	29,613	29,547
After ten years	112,616	112,167
	<u>\$ 149,950</u>	<u>\$ 149,431</u>
December 31, 2017 ⁽¹⁾		
Within one year	\$ 322	\$ 320
After one year but within five years	5,895	5,894
After five years but within ten years	18,751	18,873
After ten years	136,218	137,766
	<u>\$ 161,186</u>	<u>\$ 162,853</u>

(1) Actual maturities could differ from contractual maturities.

(2) Included in the investment portfolio, but not in the table above, is a mutual fund with an amortized cost and fair value as of December 31, 2017 of \$0.6 million which had no stated maturity and which was sold in 2018.

Mortgage-backed securities (MBS) may have expected maturities that differ from their contractual maturities. These differences arise because issuers may have the right to call securities and borrowers may have the right to prepay obligations with or without prepayment penalty.

Investment securities with fair market values aggregating \$914.5 million and \$688.2 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of December 31, 2018 and 2017, respectively.

During 2018, we sold \$7.0 million of debt securities categorized as available for sale, resulting in realized gains of less than \$0.1 million and no realized losses. During 2017, we sold \$457.0 million of debt securities categorized as available for sale, resulting in realized gains of \$2.1 million and realized losses of less than \$0.1 million. The cost basis of all investment securities sales is based on the specific identification method. During 2016, we sold \$201.8 million of investment securities categorized as available for sale, resulting in realized gains of \$2.4 million and realized losses of less than \$0.1 million.

During 2018, we sold \$6.2 million of equity securities, specifically Visa Class B shares, resulting in realized gains of \$3.8 million and no realized losses. There were no such sales 2017 or 2016.

As of December 31, 2018, and December 31, 2017, our debt securities portfolio had remaining unamortized premiums of \$12.7 million and \$14.1 million, respectively, and unaccreted discounts of \$2.5 million and \$1.3 million, respectively.

For those debt securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual debt securities were in a continuous unrealized loss position at December 31, 2018.

	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(Dollars in thousands)</i>						
Available-for-sale debt securities:						
CMO	\$ 17,143	\$ 40	\$ 212,208	\$ 6,798	\$ 229,351	\$ 6,838
FNMA MBS	34,214	162	407,638	12,776	441,852	12,938
FHLMC MBS	16,025	21	76,469	2,373	92,494	2,394
GNMA MBS	5,837	79	21,805	801	27,642	880
Total temporarily impaired investments	\$ 73,219	\$ 302	\$ 718,120	\$ 22,748	\$ 791,339	\$ 23,050
Held-to-maturity debt securities:						
State and political subdivisions	\$ 91,228	\$ 155	\$ 58,203	\$ 639	\$ 149,431	\$ 794
Total temporarily impaired investments	\$ 91,228	\$ 155	\$ 58,203	\$ 639	\$ 149,431	\$ 794

For those debt securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual debt securities were in a continuous unrealized loss position at December 31, 2017.

	Duration of Unrealized Loss Position					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(Dollars in thousands)</i>						
Available-for-sale debt securities:						
CMO	\$ 146,726	\$ 1,820	\$ 77,149	\$ 2,321	\$ 223,875	\$ 4,141
FNMA MBS	204,921	1,479	126,342	4,693	331,263	6,172
FHLMC MBS	42,514	269	21,405	655	63,919	924
GNMA MBS	4,615	56	14,782	355	19,397	411
Total temporarily impaired investments	\$ 398,776	\$ 3,624	\$ 239,678	\$ 8,024	\$ 638,454	\$ 11,648
Held-to-maturity debt securities:						
State and political subdivisions	\$ 23,404	\$ 59	\$ 5,625	\$ 32	\$ 29,029	\$ 91
Total temporarily impaired investments	\$ 23,404	\$ 59	\$ 5,625	\$ 32	\$ 29,029	\$ 91
Other equity investments	\$ —	\$ —	\$ 624	\$ 20	\$ 624	\$ 20

At December 31, 2018, we owned debt securities totaling \$940.8 million for which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$23.8 million at December 31, 2018. The temporary impairment is the result of changes in market interest rates subsequent to purchase. 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 debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. We do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

All debt securities, with the exception of one having a fair value of \$0.6 million at December 31, 2018, were AA- rated or better at the time of purchase and remained investment grade at December 31, 2018. All securities were evaluated for OTTI at December 31, 2018 and 2017. The result of this evaluation showed no OTTI as of December 31, 2018 or 2017. The estimated weighted average duration of MBS was 4.7 years at December 31, 2018.

6. LOANS

The following table shows our loan portfolio by category:

(Dollars in thousands)	December 31,	
	2018	2017
Commercial and industrial	\$ 1,472,489	\$ 1,464,554
Owner-occupied commercial	1,059,974	1,079,247
Commercial mortgages	1,162,739	1,187,705
Construction	316,566	281,608
Residential real estate ⁽¹⁾	218,099	253,301
Consumer	680,939	558,493
	4,910,806	4,824,908
Less:		
Deferred fees, net	7,348	7,991
Allowance for loan losses	39,539	40,599
Net loans	\$ 4,863,919	\$ 4,776,318

(1) Includes reverse mortgages, at fair value of \$16.5 million and \$19.8 million at December 31, 2018 and 2017, respectively.

Nonaccruing loans totaled \$30.1 million and \$36.4 million at December 31, 2018 and 2017, respectively. If interest on all such loans had been recorded in accordance with contractual terms, net interest income would have increased by \$2.0 million and \$1.8 million in 2018 and 2017, respectively.

The total amounts of loans serviced for others were \$98.6 million and \$102.5 million at December 31, 2018 and 2017, respectively, which consisted of residential first mortgage loans and reverse mortgage loans. We received fees from the servicing of loans of \$0.5 million and \$0.4 million during 2018 and 2017, respectively.

We record mortgage servicing rights on our mortgage loan servicing portfolio, which includes mortgages that we acquire or originate as well as mortgages that we service for others, and servicing rights on SBA loans. Mortgage servicing rights and Small Business Administration (SBA) loan servicing rights are included in *Intangible assets* in the accompanying Consolidated Statements of Financial Condition. Mortgage loans which we service for others are not included in *Loans, net of allowance for loan losses* in the accompanying Consolidated Statements of Financial Condition. Servicing rights represent the present value of the future net servicing fees from servicing mortgage loans we acquire or originate, or that we service for others. The value of our mortgage servicing rights was \$0.3 million and \$0.4 million at December 31, 2018 and 2017, respectively, and the value of our SBA loan servicing rights was \$1.1 million and \$0.5 million at December 31, 2018 and 2017, respectively. Changes in the value of these servicing rights resulted in net losses of \$0.2 million and less than \$0.1 million during 2018 and 2017, respectively. Revenues from originating, marketing and servicing mortgage loans as well as valuation adjustments related to capitalized mortgage servicing rights are included in *Mortgage Banking Activities, Net* in the Consolidated Statements of Income and revenues from our SBA loan servicing rights are included in *Loan fee income*, in the Consolidated Statements of Income.

Accrued interest receivable on loans outstanding was \$17.0 million and \$15.4 million at December 31, 2018 and 2017, respectively.

7. ACQUIRED CREDIT IMPAIRED LOANS

We account for acquired loans that have deteriorated in credit quality since their origination, and for which it is probable that all contractual cash flows will not be received, in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). Under ASC 310-30, acquired loans are generally considered accruing and performing as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing as long as the estimated cash flows are expected to be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income may be recognized on a cash basis or as a reduction of the principal amount outstanding. Credit deterioration evident at the acquisition date is included in the determination of the fair value of the loans at the acquisition date. Updates to expected cash flows for acquired impaired loans accounted for under ASC 310-30 since acquisition has resulted in a provision for loan losses of \$0.2 million and \$0.4 million in 2018 and 2017, respectively, due to changes in the amount and timing of expected cash flows subsequent to acquisition.

The following is the outstanding principal balance and carrying amounts for all acquired credit impaired loans for which the company applies ASC 310-30 as of December 31, 2018 and 2017:

<i>(Dollars in thousands)</i>	December 31, 2018	December 31, 2017
Outstanding principal balance	\$ 18,642	\$ 27,034
Carrying amount	14,718	21,295
Allowance for loan losses	227	358

The following table presents the changes in accretable yield on all acquired credit impaired loans for the years indicated:

<i>(Dollars in thousands)</i>	Accretable Yield
Balance at December 31, 2016	\$ 5,150
Accretion	(2,636)
Reclassification from nonaccretable difference	2,015
Additions/adjustments	(1,149)
Disposals	(345)
Balance at December 31, 2017	\$ 3,035
Accretion	(1,704)
Reclassification from nonaccretable difference	1,527
Additions/adjustments	(395)
Disposals	—
Balance at December 31, 2018	\$ 2,463

8. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

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

- Specific reserves for impaired loans
- An allowance for each pool of homogeneous loans based on historical loss experience
- Adjustments for qualitative and environmental factors allocated to pools of homogeneous loans

When it is probable that the Bank will be unable to collect all amounts due (interest and principal) in accordance with the contractual terms of the loan agreement, it assigns a specific reserve to that loan, as 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 years ended December 31, 2018 and 2017, net charge-offs totaled \$14.2 million, or 0.29% of average loans, and \$10.1 million or 0.30% of average loans, respectively.

Allowances for pooled homogeneous loans, that are not deemed impaired, are based on historical net loss experience. Estimated losses for pooled portfolios are determined differently for commercial loan pools and retail loan pools. Commercial loans are pooled as follows: commercial, owner-occupied commercial, commercial mortgages and construction. Each pool is further segmented by internally assessed risk ratings. Loan losses for commercial loans are estimated by determining the probability of default and expected loss severity upon default. The probability of default is calculated based on the historical rate of migration to impaired status during the last 32 quarters. During the year ended December 31, 2018, we increased the look-back period to 32 quarters from 28 quarters used at December 31, 2017. This increase in the look-back period allows us to continue to anchor to the fourth quarter of 2010 to ensure that the quantitative reserves calculated by the allowance for loan loss 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 32 quarter look-back period.

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

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

The above factors are based on their relative standing compared to the period in which historic losses are used in quantitative reserve estimates and current directional trends. Qualitative factors in our model can add to or subtract from quantitative reserves.

The allowance methodology uses a loss emergence period (LEP), which is the period of time between an event that triggers the probability of a loss and the confirmation of the loss. We estimate the commercial LEP to be approximately nine quarters as of December 31, 2018. Our residential mortgage and consumer LEP remained at four quarters as of December 31, 2018. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our LEP annually for our commercial portfolio and review of the current four quarter LEP for the retail portfolio to determine the continued reasonableness of this assumption.

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

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

The following tables provide the activity of our allowance for loan losses and loan balances for the years ended December 31, 2018, 2017 and 2016:

<i>(Dollars in thousands)</i>	Commercial	Owner-occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Total
Year Ended December 31, 2018							
Allowance for loan losses							
Beginning balance	\$ 16,732	\$ 5,422	\$ 5,891	\$ 2,861	\$ 1,798	\$ 7,895	\$ 40,599
Charge-offs	(12,130)	(417)	(255)	(1,475)	(91)	(2,615)	(16,983)
Recoveries	1,381	34	255	3	154	926	2,753
Provision (credit)	8,328	(38)	924	2,341	(404)	2,126	13,277
Provision (credit) for acquired loans	(100)	56	(9)	(18)	(29)	(7)	(107)
Ending balance	<u>\$ 14,211</u>	<u>\$ 5,057</u>	<u>\$ 6,806</u>	<u>\$ 3,712</u>	<u>\$ 1,428</u>	<u>\$ 8,325</u>	<u>\$ 39,539</u>
Period-end allowance allocated to:							
Loans individually evaluated for impairment	\$ 876	\$ —	\$ —	\$ 444	\$ 543	\$ 168	\$ 2,031
Loans collectively evaluated for impairment	13,334	4,965	6,727	3,254	847	8,155	37,282
Acquired loans evaluated for impairment	1	92	79	14	38	2	226
Ending balance	<u>\$ 14,211</u>	<u>\$ 5,057</u>	<u>\$ 6,806</u>	<u>\$ 3,712</u>	<u>\$ 1,428</u>	<u>\$ 8,325</u>	<u>\$ 39,539</u>
Period-end loan balances:							
Loans individually evaluated for impairment ⁽²⁾	\$ 14,837	\$ 4,406	\$ 4,083	\$ 2,781	\$ 11,017	\$ 7,883	\$ 45,007
Loans collectively evaluated for impairment	1,366,151	938,934	1,005,504	310,511	132,064	651,160	4,404,324
Acquired nonimpaired loans	89,970	112,386	145,648	2,525	57,708	21,745	429,982
Acquired impaired loans	1,531	4,248	7,504	749	761	151	14,944
Ending balance ⁽³⁾	<u>\$ 1,472,489</u>	<u>\$ 1,059,974</u>	<u>\$ 1,162,739</u>	<u>\$ 316,566</u>	<u>\$ 201,550</u>	<u>\$ 680,939</u>	<u>\$ 4,894,257</u>

<i>(Dollars in thousands)</i>	Commercial	Owner-occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Total
Year Ended December 31, 2017							
Allowance for loan losses							
Beginning balance	\$ 13,339	\$ 6,588	\$ 8,915	\$ 2,838	\$ 2,059	\$ 6,012	\$ 39,751
Charge-offs	(5,008)	(296)	(4,612)	(574)	(168)	(3,184)	(13,842)
Recoveries	1,355	127	255	306	178	1,505	3,726
Provision (credit)	6,972	(1,098)	1,160	222	(300)	3,572	10,528
Provision (credit) for acquired loans	74	101	173	69	29	(10)	436
Ending balance	<u>\$ 16,732</u>	<u>\$ 5,422</u>	<u>\$ 5,891</u>	<u>\$ 2,861</u>	<u>\$ 1,798</u>	<u>\$ 7,895</u>	<u>\$ 40,599</u>
Period-end allowance allocated to:							
Loans individually evaluated for impairment	\$ 3,687	\$ —	\$ 18	\$ —	\$ 760	\$ 193	\$ 4,658
Loans collectively evaluated for impairment	12,871	5,410	5,779	2,828	1,002	7,693	35,583
Acquired loans evaluated for impairment	174	12	94	33	36	9	358
Ending balance	<u>\$ 16,732</u>	<u>\$ 5,422</u>	<u>\$ 5,891</u>	<u>\$ 2,861</u>	<u>\$ 1,798</u>	<u>\$ 7,895</u>	<u>\$ 40,599</u>
Period-end loan balances:							
Loans individually evaluated for impairment ⁽²⁾	\$ 19,196	\$ 3,655	\$ 6,076	\$ 6,022	\$ 13,778	\$ 7,588	\$ 56,315
Loans collectively evaluated for impairment	1,324,636	933,352	983,400	258,887	146,621	514,713	4,161,609
Acquired nonimpaired loans	116,566	136,437	188,505	15,759	72,304	35,945	565,516
Acquired impaired loans	4,156	5,803	9,724	940	784	247	21,654
Ending balance ⁽³⁾	<u>\$ 1,464,554</u>	<u>\$ 1,079,247</u>	<u>\$ 1,187,705</u>	<u>\$ 281,608</u>	<u>\$ 233,487</u>	<u>\$ 558,493</u>	<u>\$ 4,805,094</u>

<i>(Dollars in thousands)</i>	Commercial	Owner-occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk ⁽¹⁾	Total
Year Ended December 31, 2016								
Allowance for loan losses								
Beginning balance	\$ 11,156	\$ 6,670	\$ 6,487	\$ 3,521	\$ 2,281	\$ 5,964	\$ 1,010	\$ 37,089
Charge-offs	(5,052)	(1,556)	(422)	(57)	(88)	(6,152)	—	(13,327)
Recoveries	594	117	322	484	254	1,232	—	3,003
Provision (credit)	6,260	1,163	2,466	(1,117)	(422)	4,989	(1,010)	12,329
Provision for acquired loans	381	194	62	7	34	(21)	—	657
Ending balance	<u>\$ 13,339</u>	<u>\$ 6,588</u>	<u>\$ 8,915</u>	<u>\$ 2,838</u>	<u>\$ 2,059</u>	<u>\$ 6,012</u>	<u>\$ —</u>	<u>\$ 39,751</u>
Period-end allowance allocated to:								
Loans individually evaluated for impairment	\$ 322	\$ —	\$ 1,247	\$ 217	\$ 911	\$ 198	\$ —	\$ 2,895
Loans collectively evaluated for impairment	12,834	6,573	7,482	2,535	1,125	5,797	—	36,346
Acquired loans evaluated for impairment	183	15	186	86	23	17	—	510
Ending balance	<u>\$ 13,339</u>	<u>\$ 6,588</u>	<u>\$ 8,915</u>	<u>\$ 2,838</u>	<u>\$ 2,059</u>	<u>\$ 6,012</u>	<u>\$ —</u>	<u>\$ 39,751</u>
Period-end loan balances evaluated for:								
Loans individually evaluated for impairment ⁽²⁾	\$ 2,266	\$ 2,078	\$ 9,898	\$ 1,419	\$ 13,547	\$ 7,863	\$ —	\$ 37,071
Loans collectively evaluated for impairment	1,120,193	899,590	921,333	189,468	157,738	386,146	—	3,674,468
Acquired nonimpaired loans	159,089	164,372	221,937	28,131	94,883	55,651	—	724,063
Acquired impaired loans	6,183	12,122	10,386	3,694	860	369	—	33,614
Ending balance ⁽³⁾	<u>\$ 1,287,731</u>	<u>\$ 1,078,162</u>	<u>\$ 1,163,554</u>	<u>\$ 222,712</u>	<u>\$ 267,028</u>	<u>\$ 450,029</u>	<u>\$ —</u>	<u>\$ 4,469,216</u>

(1) Represents the portion of the allowance for loan losses established to account for the inherent complexity and uncertainty of estimates.

(2) The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans which are considered to be impaired loans of \$15.0 million at December 31, 2018, \$20.1 million as of December 31, 2017, and \$14.3 million at December 31, 2016.

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

Nonaccrual and Past Due Loans

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

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

December 31, 2018								
<i>(Dollars in thousands)</i>	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	\$ 3,653	\$ 993	\$ 71	\$ 4,717	\$ 1,452,185	\$ 1,531	\$ 14,056	\$ 1,472,489
Owner-occupied commercial	733	865	—	1,598	1,049,722	4,248	4,406	1,059,974
Commercial mortgages	1,388	908	—	2,296	1,148,988	7,504	3,951	1,162,739
Construction	157	—	—	157	312,879	749	2,781	316,566
Residential	1,970	345	660	2,975	194,960	761	2,854	201,550
Consumer	525	971	104	1,600	677,182	151	2,006	680,939
Total ^{(1) (2)}	\$ 8,426	\$ 4,082	\$ 835	\$ 13,343	\$ 4,835,916	\$ 14,944	\$ 30,054	\$ 4,894,257
% of Total Loans	0.17%	0.08%	0.02%	0.27%	98.81%	0.31%	0.61%	100.00%

(1) Balances in table above includes \$430.0 million in acquired non-impaired loans.

(2) Residential accruing current balances excludes reverse mortgages at fair value of \$16.5 million.

December 31, 2017								
<i>(Dollars in thousands)</i>	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	\$ 1,050	\$ —	\$ —	\$ 1,050	\$ 1,440,291	\$ 4,156	\$ 19,057	\$ 1,464,554
Owner-occupied commercial	2,069	233	—	2,302	1,067,488	5,803	3,654	1,079,247
Commercial mortgages	320	90	—	410	1,171,701	9,724	5,870	1,187,705
Construction	—	—	—	—	278,864	940	1,804	281,608
Residential	2,058	731	356	3,145	225,434	784	4,124	233,487
Consumer	1,117	463	105	1,685	554,634	247	1,927	558,493
Total ^{(1) (2)}	\$ 6,614	\$ 1,517	\$ 461	\$ 8,592	\$ 4,738,412	\$ 21,654	\$ 36,436	\$ 4,805,094
% of Total Loans	0.14%	0.03%	0.01%	0.18%	98.61%	0.45%	0.76%	100.00%

(1) Balances in table above includes \$565.5 million in acquired non-impaired loans.

(2) Residential accruing current balances excludes reverse mortgages at fair value of \$19.8 million.

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 ASC 310 and SAB 102. The amount of impairment is required to be measured using one of three methods: (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the fair value of collateral, if the loan is collateral dependent or (3) the loan's observable market price. If the measure of the impaired loan is less than the recorded investment in the loan, a related allowance is allocated for the impairment.

The following tables provide an analysis of our impaired loans at December 31, 2018 and December 31, 2017:

	December 31, 2018					
	Ending Loan Balances	Loans with No Related Reserve ⁽¹⁾	Loans with Related Reserve ⁽²⁾	Related Reserve	Contractual Principal Balances ⁽²⁾	Average Loan Balances
<i>(Dollars in thousands)</i>						
Commercial	\$ 14,841	\$ 8,625	\$ 6,216	\$ 878	\$ 22,365	\$ 18,484
Owner-occupied commercial	6,065	4,406	1,659	92	6,337	5,378
Commercial mortgages	5,679	4,083	1,596	79	15,372	7,438
Construction	3,530	—	3,530	458	5,082	5,091
Residential	11,321	6,442	4,879	581	13,771	12,589
Consumer	7,916	6,899	1,017	170	8,573	7,956
Total	<u>\$ 49,352</u>	<u>\$ 30,455</u>	<u>\$ 18,897</u>	<u>\$ 2,258</u>	<u>\$ 71,500</u>	<u>\$ 56,936</u>

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

(2) The above includes acquired impaired loans totaling \$4.3 million in the ending loan balance and \$4.8 million in the contractual principal balance.

	December 31, 2017					
	Ending Loan Balances	Loans with No Related Reserve ⁽¹⁾	Loans with Related Reserve ⁽²⁾	Related Reserve	Contractual Principal Balances ⁽²⁾	Average Loan Balances
<i>(Dollars in thousands)</i>						
Commercial	\$ 20,842	\$ 3,422	\$ 17,420	\$ 3,861	\$ 23,815	\$ 15,072
Owner-occupied commercial	5,374	3,654	1,720	12	5,717	5,827
Commercial mortgages	7,598	4,487	3,111	112	16,658	12,630
Construction	6,292	6,023	269	33	6,800	4,523
Residential	14,181	8,282	5,899	796	17,015	14,533
Consumer	7,819	6,304	1,515	203	8,977	8,158
Total	<u>\$ 62,106</u>	<u>\$ 32,172</u>	<u>\$ 29,934</u>	<u>\$ 5,017</u>	<u>\$ 78,982</u>	<u>\$ 60,743</u>

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

(2) The above includes acquired impaired loans totaling \$5.8 million in the ending loan balance and \$6.8 million in the contractual principal balance.

Interest income of \$0.8 million and \$1.0 million was recognized on impaired loans during 2018 and 2017 respectively.

As of December 31, 2018, there were 26 residential loans and 11 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$1.9 million and \$5.3 million, respectively. As of December 31, 2017, there were 33 residential loans and 8 commercial loans in the process of foreclosure. The total outstanding balance on the loans was \$2.9 million and \$6.0 million, respectively.

Reserves on Acquired Nonimpaired Loans

In accordance with ASC 310, loans acquired by the Bank through its mergers with First National Bank of Wyoming (FNBW), Alliance Bancorp, Inc. (Alliance), and Penn Liberty Bank (Penn Liberty) are 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
- *Special Mention.* Borrowers have potential weaknesses that deserve management's close attention. Borrowers in this category may be experiencing adverse operating trends, for example, declining revenues or margins, high leverage, tight liquidity, or increasing inventory without increasing sales. These adverse trends can have a potential negative effect on the borrower's repayment capacity. These assets are not adversely classified and do not expose the Bank to significant risk that would warrant a more severe rating. Borrowers in this category may also be experiencing significant management problems, pending litigation, or other structural credit weaknesses.
- *Substandard.* Borrowers have well-defined weaknesses that require extensive oversight by management. Borrowers in this category may exhibit one or more of the following: inadequate debt service coverage, unprofitable operations, insufficient liquidity, high leverage, and weak or inadequate capitalization. Relationships in this category are not adequately protected by the sound financial worth and paying capacity of the obligor or the collateral pledged on the loan, if any. A distinct possibility exists that the Bank will sustain some loss if the deficiencies are not corrected.
- *Doubtful.* Borrowers have well-defined weaknesses inherent in the Substandard category with the added characteristic that the possibility of loss is extremely high. Current circumstances in the credit relationship make collection or liquidation in full highly questionable. A doubtful asset has some pending event that may strengthen the asset that defers the loss classification. Such impending events include: perfecting liens on additional collateral, obtaining collateral valuations, an acquisition or liquidation preceding, proposed merger, or refinancing plan.
- *Loss.* Loans 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 it is not practical to defer writing off this asset even though partial recovery may be recognized sometime in the future.

Residential and Consumer Loans

The residential and consumer loan portfolios are monitored on an ongoing basis using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed in the aggregate in these relatively homogeneous portfolios. Loans that are greater than 90 days past due are generally considered nonperforming and placed on nonaccrual status. The following tables provide an analysis of loans by portfolio segment based on the credit quality indicators used to determine the Allowance for Loan Loss.

Commercial Credit Exposure

(Dollars in thousands)	December 31, 2018					
	Commercial and Industrial	Owner-occupied Commercial	Commercial Mortgages	Construction	Total Commercial ⁽¹⁾	
					Amount	%
Risk Rating:						
Special mention	\$ 8,710	\$ 21,230	\$ —	\$ —	\$ 29,940	
Substandard:						
Accrual	37,424	21,081	9,767	168	68,440	
Nonaccrual	13,180	4,406	3,951	2,337	23,874	
Doubtful	876	—	—	444	1,320	
Total Special Mention and Substandard	60,190	46,717	13,718	2,949	123,574	3%
Acquired impaired	1,531	4,248	7,504	749	14,032	—%
Pass	1,410,768	1,009,009	1,141,517	312,868	3,874,162	97%
Total	\$ 1,472,489	\$ 1,059,974	\$ 1,162,739	\$ 316,566	\$ 4,011,768	100%

(1) Table includes \$350.5 million of acquired non-impaired loans at December 31, 2018.

December 31, 2017

	Commercial and Industrial		Owner-occupied Commercial		Commercial Mortgages		Construction		Total Commercial ⁽¹⁾	
									Amount	%
<i>(Dollars in thousands)</i>										
Risk Rating:										
Special mention	\$	22,789	\$	16,783	\$	—	\$	—	\$	39,572
Substandard:										
Accrual		34,332		19,386		1,967		4,965		60,650
Nonaccrual		15,370		3,654		5,852		1,804		26,680
Doubtful		3,687		—		18		—		3,705
Total Special Mention and Substandard		76,178		39,823		7,837		6,769		130,607 3%
Acquired impaired		4,156		5,803		9,724		940		20,623 1%
Pass		1,384,220		1,033,621		1,170,144		273,899		3,861,884 96%
Total	\$	1,464,554	\$	1,079,247	\$	1,187,705	\$	281,608	\$	4,013,114 100%

(1) Table includes \$457.3 million of acquired non-impaired loans at December 31, 2017.

Residential and Consumer Credit Exposure

	Residential		Consumer		Total Residential and Consumer ⁽¹⁾									
					2018		2017							
	2018	2017	2018	2017	Amount	Percent	Amount	Percent						
<i>(Dollars in thousands)</i>														
Nonperforming ⁽²⁾	\$	11,017	\$	13,778	\$	7,883	\$	7,588	\$	18,900	2%	\$	21,366	3%
Acquired impaired loans		761		784		151		247		912	—%		1,031	—%
Performing		189,772		218,925		672,905		550,658		862,677	98%		769,583	97%
Total	\$	201,550	\$	233,487	\$	680,939	\$	558,493	\$	882,489	100%	\$	791,980	100%

(1) Total includes acquired non-impaired loans of \$79.5 million at December 31, 2018 and \$108.2 million at December 31, 2017.

(2) Includes \$14.0 million as of December 31, 2018 and \$15.3 million as of December 31, 2017 of troubled debt restructured mortgages and home equity installment loans that are performing in accordance with the loans modified terms and are accruing interest.

Troubled Debt Restructurings (TDR)

A modification is classified as a TDR if both of the following exist: (1) the borrower is experiencing financial difficulty and (2) the Bank has granted a concession to the borrower. Many aspects of the borrower's financial situation are assessed when determining whether they are experiencing financial difficulty. Concessions may include the reduction of the interest rate to a rate lower than current market rate for a new loan with similar risk, extension of the maturity date, reduction of accrued interest, or principal forgiveness. The assessments of whether a borrower is experiencing (or is likely to experience) financial difficulty and whether a concession has been granted is subjective in nature and management's judgment is required when determining whether a modification is a TDR.

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

	December 31, 2018		December 31, 2017	
Performing TDRs	\$	14,953	\$	20,061
Nonperforming TDRs		10,211		9,627
Total TDRs	\$	25,164	\$	29,688

Approximately \$1.2 million and \$1.0 million in related reserves have been established for these loans at December 31, 2018 and December 31, 2017, respectively.

The following tables present information regarding the types of loan modifications made and the balances of loans modified as TDRs during the years ended December 31, 2018 and 2017:

	December 31, 2018					December 31, 2017				
	Contractual payment reduction	Maturity date extension	Discharged in bankruptcy	Other ⁽¹⁾	Total	Contractual payment reduction	Maturity date extension	Discharged in bankruptcy	Other ⁽¹⁾	Total
Commercial	6	—	—	—	6	1	4	—	—	5
Owner-occupied commercial	—	—	—	—	—	—	1	—	—	1
Commercial mortgages	2	1	—	—	3	—	1	—	—	1
Construction	—	1	—	—	1	—	5	—	1	6
Residential	4	—	1	—	5	2	1	5	1	9
Consumer	8	2	7	3	20	1	4	12	8	25
	20	4	8	3	35	4	16	17	10	47

(1) Other includes interest rate reduction, forbearance, and interest only payments.

	Year Ended December 31,			
	2018		2017	
	Pre Modification	Post Modification	Pre Modification	Post Modification
<i>(Dollars in thousands)</i>				
Commercial	\$ 5,102	\$ 5,102	\$ 954	\$ 954
Owner-occupied commercial	—	—	3,071	3,071
Commercial mortgages	2,190	2,190	183	183
Construction	920	920	6,054	6,054
Residential	557	557	1,652	1,652
Consumer	1,481	1,481	2,498	2,498
	\$ 10,250	\$ 10,250	\$ 14,412	\$ 14,412

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

The TDRs shown in the table above resulted in a decreased our allowance for loan losses by \$2.0 million through allocation of a related reserve, and resulted in \$5.0 million of incremental charge-offs during the year ended December 31, 2018. For the year ended December 31, 2017, the TDRs set forth in the table above increased our allowance for loan losses by \$0.1 million through allocation of a related reserve, and resulted in no incremental charge-offs.

9. PREMISES AND EQUIPMENT

The following table shows the components of premises and equipment, at cost, are summarized by major classifications:

<i>(Dollars in thousands)</i>	December 31,	
	2018	2017
Land	\$ 2,758	\$ 2,758
Buildings	6,179	6,155
Leasehold improvements	49,704	48,573
Furniture and equipment	49,035	44,968
	107,676	102,454
Less: Accumulated depreciation	62,720	54,471
	\$ 44,956	\$ 47,983

Depreciation expense is computed on a straight-line basis over the estimated useful life of the asset. Leasehold improvements are amortized over the term of the lease or the estimated useful life, whichever is shorter. In general, computer equipment, furniture and equipment and building renovations are expensed over 3, 5 and 10 years, respectively. We recognized depreciation expense of \$8.3 million, \$8.6 million and \$7.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.

We occupy certain premises including some with renewal options and operate certain equipment under leases with noncancelable terms ranging primarily from 1 year to 25 years. These leases are accounted for as operating leases. Accordingly, lease costs are expensed as incurred in accordance with ASC 840-20, *Operating Leases*. Rent expense was \$12.9 million in 2018, \$13.0 million in 2017 and \$11.5 million in 2016. Future minimum cash payments under these leases at December 31, 2018 are as follows:

<i>(Dollars in thousands)</i>	
2019	\$ 11,562
2020	11,411
2021	11,132
2022	11,078
2023	11,141
Thereafter	169,929
Total future minimum lease payments	\$ 226,253

10. GOODWILL AND INTANGIBLE ASSETS

In accordance with ASC 805 and ASC 350, all assets acquired and liabilities assumed in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles are recorded at fair value.

The fair value of acquired assets and liabilities assumed, including the resulting goodwill, was based either on quoted market prices or provided by other third-party sources, when available. When third-party information was not available we made good-faith estimates primarily through the use of internal cash flow modeling techniques. The assumptions used in the cash flow modeling are subjective and susceptible to significant changes.

Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least annually and charged to results of operations in periods in which the recorded value is more than the estimated fair value. Intangible assets that have finite useful lives will continue to be amortized over their useful lives and are periodically evaluated for impairment. Goodwill totaled \$166.0 million at both December 31, 2018 and 2017. The majority of this goodwill, \$145.8 million, is in the WSFS Bank segment and is the result of a branch acquisition in 2008 and the purchases of Christiana Bank and Trust (CB&T) in 2010, Array (currently known as WSFS Mortgage) and Arrow in 2013, FNBW in 2014, Alliance in 2015 and Penn Liberty in 2016. The Wealth Management segment also recorded goodwill as a result of the acquisitions of CB&T in 2010 as well as Powdermill and West Capital in 2016.

ASC 350 states that an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Therefore the entity may first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of goodwill is less than carrying value. The qualitative assessment includes adverse events or circumstances identified that could negatively affect the reporting units' fair value as well as positive and mitigating events. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the quantitative assessment is not required. The entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to a quantitative assessment. The entity can resume performing the qualitative assessment in any subsequent period.

When required, the quantitative assessment is done by comparing the reporting unit's aggregate fair value to its carrying value. The quantitative goodwill impairment test is used to identify both the existence of impairment and the amount of impairment loss. Absent other indicators of impairment, if the aggregate fair value exceeds the carrying value, goodwill is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit exceeds the aggregate fair value, an impairment loss shall be recognized in an amount equal to that excess.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other variables. Estimated cash flows extend five years into the future and, by their nature, are difficult to estimate over such an extended period of time. Factors that may significantly affect estimates include, but are not limited to, balance sheet growth assumptions, credit losses in our investment and loan portfolios, competitive pressures in our market area, changes in customer base and customer product preferences, changes in revenue growth trends, cost structure, changes in discount rates, conditions in the banking sector, and general economic variables.

During the fourth quarter of 2018, we completed a quantitative assessment and determined the fair value of any of our reporting units exceeded their respective carrying amounts. No impairment losses related to our goodwill were recorded in 2018 or 2017, however, there can be no assurances that impairments to our goodwill will not occur in the future periods.

As of December 31, 2018, we had three operating segments: WSFS Bank, Cash Connect®, and Wealth Management. Our operating segments may contain one or more reporting units depending on economic characteristics, products and customers. When we acquire a business, we assign it to a reporting unit and allocate its goodwill to that reporting unit based on its relative fair value. Should we have a significant business reorganization, we may reallocate the goodwill. See Note 21 for additional information on management reporting.

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

<i>(Dollars in thousands)</i>	WSFS Bank	Wealth Management	Consolidated Company
December 31, 2016	\$ 147,396	\$ 20,143	\$ 167,539
Goodwill adjustments ⁽¹⁾	(1,588)	56	(1,532)
December 31, 2017	145,808	20,199	166,007
Goodwill adjustments	—	—	—
December 31, 2018	\$ 145,808	\$ 20,199	\$ 166,007

(1) The goodwill adjustments for WSFS Bank represent remeasurement adjustments related to our acquisition of Penn Liberty in 2016. The goodwill adjustments for Wealth Management represent remeasurement adjustments related to our acquisition of West Capital in 2016.

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

The following table summarizes our intangible assets:

<i>(Dollars in thousands)</i>	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Amortization Period
December 31, 2018				
Core deposits	\$ 10,658	\$ (5,285)	\$ 5,373	10 years
Customer relationships	17,561	(5,815)	11,746	7-15 years
Non-compete agreements	221	(101)	120	5 years
Loan servicing rights	2,652	(1,301)	1,351	10-30 years
Favorable lease asset	1,932	(506)	1,426	10 months-18 years
Total other intangible assets	\$ 33,024	\$ (13,008)	\$ 20,016	
December 31, 2017				
Core deposits	\$ 10,658	\$ (4,263)	\$ 6,395	10 years
Customer relationships	17,561	(4,214)	13,347	7-15 years
Non-compete agreements	221	(57)	164	5 years
Loan servicing rights	2,132	(1,191)	941	10-30 years
Favorable lease asset	1,932	(342)	1,590	10 months-18 years
Total other intangible assets	\$ 32,504	\$ (10,067)	\$ 22,437	

We recognized amortization expense on other intangible assets of \$2.9 million, and \$3.0 million and \$2.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The following presents the estimated amortization expense of intangibles:

<i>(Dollars in thousands)</i>	Amortization of Intangibles
2019	\$ 2,873
2020	2,677
2021	2,352
2022	2,289
2023	2,257
Thereafter	7,568
Total	\$ 20,016

There was no impairment of other intangible assets as of December 31, 2018 or 2017. Changing economic conditions that may adversely affect our performance and stock price could result in impairment, which could adversely affect earnings in the future.

11. DEPOSITS

The following table is a summary of our deposits by category:

<i>(Dollars in thousands)</i>	December 31,	
	2018	2017
Noninterest-bearing:		
Noninterest-bearing demand	\$ 1,626,252	\$ 1,420,760
Total noninterest-bearing	\$ 1,626,252	\$ 1,420,760
Interest-bearing:		
Interest-bearing demand	\$ 1,062,228	\$ 1,071,512
Savings	538,213	549,744
Money market	1,542,962	1,347,146
Customer time deposits	672,942	629,071
Brokered deposits	197,834	229,371
Total interest-bearing	\$ 4,014,179	\$ 3,826,844
Total deposits	\$ 5,640,431	\$ 5,247,604

The following table is a summary of the remaining time to maturity for customer time deposits:

<i>(Dollars in thousands)</i>	December 31,	
	2018	2017
Certificates of deposit (not jumbo):		
Less than one year	\$ 228,045	\$ 167,757
One year to two years	94,488	103,192
Two years to three years	14,441	46,827
Three years to four years	4,048	5,962
Over four years	5,927	6,399
Total certificates of deposit (not jumbo)	\$ 346,949	\$ 330,137
Jumbo certificates of deposit		
Less than one year	\$ 223,798	\$ 166,348
One year to two years	91,486	94,905
Two years to three years	5,957	30,400
Three years to four years	2,399	3,512
Over four years	2,353	3,769
Total jumbo certificates of deposit	325,993	298,934
Total certificates of deposit	\$ 672,942	\$ 629,071

The following table is a summary of interest expense on deposits by category:

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Interest-bearing demand	\$ 4,523	\$ 2,211	\$ 1,119
Money market	9,854	4,690	3,343
Savings	1,030	1,017	655
Time deposits	8,591	4,806	3,303
Total customer interest expense	\$ 23,998	\$ 12,724	\$ 8,420
Brokered deposits	5,070	2,180	1,001
Total interest expense on deposits	\$ 29,068	\$ 14,904	\$ 9,421

12. BORROWED FUNDS

The following is a summary of borrowed funds by type, at or for the twelve months ended:

<i>(Dollars in thousands)</i>	Balance at End of Period	Weighted Average Interest Rate	Maximum Outstanding at Month End During the Period	Average Amount Outstanding During the Year	Weighted Average Interest Rate During the Year
December 31, 2018					
FHLB advances	\$ 328,465	2.52%	\$ 695,484	\$ 426,755	1.97%
Federal funds purchased	157,975	2.52	157,975	89,325	1.90
Trust preferred borrowings	67,011	4.51	67,011	67,011	3.84
Senior debt	98,388	4.50	98,388	98,275	4.80
Other borrowed funds	47,949	0.23	71,584	39,314	0.12
December 31, 2017					
FHLB advances	\$ 710,001	1.51 %	\$ 924,518	\$ 716,962	1.15 %
Federal funds purchased	28,000	1.54	135,000	87,438	1.11
Trust preferred borrowings	67,011	3.25	67,011	67,011	2.89
Senior debt	98,171	5.12	155,000	134,136	4.38
Other borrowed funds	34,623	0.09	97,984	43,514	0.09

Federal Home Loan Bank Advances

Advances from the FHLB with rates ranging from 1.50% to 2.79% at December 31, 2018 are due as follows:

<i>(Dollars in thousands)</i>	Amount	Weighted Average Rate
2019	\$ 265,790	2.58%
2020	33,465	1.80
2021	29,210	2.77
	<u>\$ 328,465</u>	<u>2.52%</u>

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

As a member of the FHLB, we are required to purchase and hold shares of capital stock in the FHLB in an amount at least equal to 0.10% of our member asset value plus 4.00% of advances outstanding. We were in compliance with this requirement with a stock investment in FHLB of \$19.3 million at December 31, 2018 and \$31.3 million at December 31, 2017. This stock is carried on the accompanying Consolidated Statements of Financial Condition at cost, which approximates liquidation value.

The decrease in FHLB stock was due to the decrease in FHLB advances outstanding. We received dividends on our stock investment in FHLB of \$1.5 million and \$1.6 million for the years ended December 31, 2018 and 2017, respectively. For additional information regarding FHLB Stock, see Note 18.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

During 2018 and 2017, we purchased federal funds as a short-term funding source. At December 31, 2018, we had purchased \$158.0 million in federal funds at an average rate of 2.52%. At December 31, 2017, we had purchased \$28.0 million in federal funds at an average rate of 1.54%.

We had no securities sold under agreements to repurchase at December 31, 2018 and December 31, 2017.

Trust Preferred Borrowings

In 2005, we issued \$67.0 million of aggregate principal amount of Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate. These securities are callable and have a maturity date of June 1, 2035.

Senior Debt

On September 1, 2017, we redeemed \$55.0 million in aggregate principal amount of 6.25% senior notes due 2019 which were issued in 2012 (the 2012 senior notes). The 2012 senior debt were repaid using a portion of the proceeds from our 2016 issuance of senior unsecured fixed-to-floating rate notes (the 2016 senior notes) described below. We recorded noninterest expense of \$0.7 million due to the write-off of unamortized debt issuance costs in connection with this redemption.

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

Other Borrowed Funds

Included in other borrowed funds are collateralized borrowings of \$47.9 million and \$34.6 million at December 31, 2018 and 2017, respectively, consisting of outstanding retail repurchase agreements, contractual arrangements under which portions of certain securities are sold overnight to retail customers under agreements to repurchase. Such borrowings were collateralized by mortgage-backed securities. The average rates on these borrowings were 0.12% and 0.09% at December 31, 2018 and 2017 respectively.

Borrower in Custody

The Bank had \$176.4 million and \$222.8 million of loans pledged to the Federal Reserve of Philadelphia (FRB) at December 31, 2018 and December 31, 2017, respectively. The Bank did not borrow funds from the FRB during 2018 or 2017.

13. STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL

Savings associations such as the Bank are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements could result in certain actions by regulators that could have a material effect on the Company's Consolidated Financial Statements. In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The U.S. Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, and included a minimum common equity Tier 1 capital ratio of 4.50% of risk-weighted assets, a minimum Tier 1 capital ratio of 6.00% of risk-weighted assets, and a current minimum total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets.

As of December 31, 2018 and 2017, the Bank was in compliance with regulatory capital requirements and exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

The following table presents the capital position of the Bank and the Company as of December 31, 2018 and 2017:

	Consolidated Bank Capital		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
<i>(Dollars in thousands)</i>						
December 31, 2018						
Total Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	\$ 788,512	13.37%	\$ 471,659	8.00%	\$ 589,574	10.00%
WSFS Financial Corporation	761,027	12.71	478,980	8.00	598,724	10.00
Tier 1 Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	748,219	12.69	353,744	6.00	471,659	8.00
WSFS Financial Corporation	720,734	12.04	359,235	6.00	478,980	8.00
Common Equity Tier 1 Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	748,219	12.69	265,308	4.50	383,223	6.50
WSFS Financial Corporation	655,734	10.95	269,426	4.50	389,171	6.50
Tier 1 Leverage Capital						
Wilmington Savings Fund Society, FSB	748,219	10.82	276,665	4.00	345,831	5.00
WSFS Financial Corporation	720,734	10.37	278,111	4.00	347,636	5.00
December 31, 2017						
Total Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	\$ 695,739	12.08%	\$ 460,639	8.00%	\$ 575,799	10.00%
WSFS Financial Corporation	659,376	11.41	462,195	8.00	577,743	10.00
Tier 1 Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	654,308	11.36	345,480	6.00	460,639	8.00
WSFS Financial Corporation	617,945	10.70	346,646	6.00	462,195	8.00
Common Equity Tier 1 Capital (to risk-weighted assets)						
Wilmington Savings Fund Society, FSB	654,308	11.36	259,110	4.50	374,270	6.50
WSFS Financial Corporation	552,982	9.57	259,984	4.50	375,533	6.50
Tier 1 Leverage Capital						
Wilmington Savings Fund Society, FSB	654,308	9.73	269,008	4.00	336,260	5.00
WSFS Financial Corporation	617,945	9.15	270,249	4.00	337,812	5.00

The December 31, 2018 and 2017 capital ratios presented above were determined in accordance with the Basel III Capital Rules.

The Holding Company

As of December 31, 2018, our capital structure includes one class of stock, \$0.01 par common stock outstanding with each share having equal voting rights.

In 2005, WSFS Capital Trust III, our unconsolidated subsidiary, issued Pooled Floating Rate Securities at a variable interest rate of 177 basis points over the three-month LIBOR rate with a scheduled maturity of June 1, 2035. The par value of these securities is \$2.0 million and the aggregate principal is \$67.0 million. The proceeds from the issue were invested in Junior Subordinated Debentures issued by the Company. These securities are treated as borrowings with interest included in interest expense on the Consolidated Statements of Income. At December 31, 2018, the coupon rate of the WSFS Capital Trust III securities was 4.51%. The effective rate will vary due to fluctuations in interest rates.

When infused into the Bank, the Trust Preferred Securities issued in 2005 qualify as Tier 1 capital. The Bank is prohibited from paying any dividend or making any other capital distribution if, after making the distribution, the Bank would be undercapitalized within the meaning of the Prompt Corrective Action regulations.

At December 31, 2018, \$30.6 million in cash remains at the holding company to support the parent company's needs.

Pursuant to federal laws and regulations, our ability to engage in transactions with affiliated corporations, including the loan of funds to, or guarantee of the indebtedness of, an affiliate, is limited.

During the year ended December 31, 2018, the Company repurchased 691,742 common shares at an average price of \$45.06 per share substantially completing our previous 5% buyback program approved by the Board of Directors in 2015. The Board of Directors approved a new share buy-back program in the fourth quarter of 2018 that will enable us to repurchase that will enable us to repurchase shares worth up to \$15.4 million in 2019 after completion of our pending Merger with Beneficial. The program is consistent with our intent to return a minimum of 25% of annual net income to stockholders through dividends and share repurchases while maintaining capital ratios in excess of "well-capitalized" regulatory benchmarks.

14. ASSOCIATE BENEFIT PLANS

Associate 401(k) Savings Plan

Certain subsidiaries of ours maintain a qualified plan in which Associates may participate. Participants in the plan may elect to direct a portion of their wages into investment accounts that include professionally managed mutual and money market funds and our common stock. Generally, the principal and related earnings are tax deferred until withdrawn. We match a portion of the Associates' contributions. As a result, our total cash contributions to the plan on behalf of our Associates resulted in an expense of \$3.8 million, \$3.6 million, and \$3.1 million for 2018, 2017, and 2016, respectively.

All contributions are invested in accordance with the Associates' selection of investments. If Associates do not designate how discretionary contributions are to be invested, 100% is invested in target-date fund that corresponds with the participant's age. Associates may generally make transfers to various other investment vehicles within the plan. The plan's yearly activity includes net sales of 51,000, 156,000 and 36,000 shares of our common stock in 2018, 2017 and 2016 respectively. There were no purchases in 2018, 83,000 net purchases in 2017 and none in 2016.

Postretirement Medical Benefits

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

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

ASC 715 requires that we recognize the funded status of our defined benefit postretirement plan in our statement of financial condition, with a corresponding adjustment to accumulated other comprehensive (loss) income, net of tax. The adjustment to accumulated other comprehensive (loss) income at adoption represented the net unrecognized actuarial losses and unrecognized transition obligation remaining from the initial adoption of ASC 715, all of which were previously netted against the plan's funded status in our statement of financial condition pursuant to the provisions of ASC 715. These amounts will be subsequently recognized as net periodic pension costs pursuant to our historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods, and are not recognized as net periodic pension cost in the same periods, will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of ASC 715.

In accordance with ASC 715, during 2019 we expect to recognize \$0.1 million of amortization related to net actuarial gain and \$0.1 million of amortization related to the net transition obligation.

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

<i>(Dollars in thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 1,990	\$ 1,764	\$ 1,805
Service cost	60	53	58
Interest cost	70	71	76
Actuarial gain	(143)	207	(68)
Benefits paid	(84)	(105)	(107)
Benefit obligation at end of year	<u>\$ 1,893</u>	<u>\$ 1,990</u>	<u>\$ 1,764</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —
Employer contributions	84	105	107
Benefits paid	(84)	(105)	(107)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status:			
Unfunded status	\$ (1,893)	\$ (1,990)	\$ (1,764)
Total (income) recognized in other comprehensive income	(1,370)	(1,348)	(1,701)
Net amount recognized	<u>\$ (3,263)</u>	<u>\$ (3,338)</u>	<u>\$ (3,465)</u>
Components of net periodic benefit cost:			
Service cost	\$ 60	\$ 53	\$ 58
Interest cost	70	71	76
Amortization of transition obligation	(76)	(76)	(76)
Net (gain) loss recognition	(45)	(70)	505
Net periodic benefit cost	<u>\$ 9</u>	<u>\$ (22)</u>	<u>\$ 563</u>
Assumption used to determine net periodic benefit cost:			
Discount rate	3.60%	4.10%	4.25%
Assumption used to value the Accumulated Postretirement Benefit Obligation (APBO):			
Discount rate	4.20%	3.60%	4.10%

Estimated future benefit payments:

The following table shows the expected future payments for the next 10 years:

<i>(Dollars in thousands)</i>	
During 2018	\$ 68
During 2019	69
During 2020	69
During 2021	72
During 2022	76
During 2023 through 2027	463
	<u>\$ 817</u>

We assume medical benefits will increase at an average rate of less than 10% per annum. The costs incurred for retirees' health care are limited since certain current and all future retirees are restricted to an annual medical premium cap indexed (since 1995) by the lesser of 4% or the actual increase in medical premiums paid by us. For 2018, this annual premium cap amounted to \$3,553 per retiree. We estimate that we will contribute approximately \$3,695 per retiree to the plan during fiscal 2019.

Alliance Associate Pension Plan

During the fourth quarter of 2015, we completed the acquisition of Alliance and its wholly-owned subsidiary, Alliance Bank, headquartered in Broomall, Pennsylvania. At the time of the acquisition we assumed the Alliance pension plan offered to current Alliance associates. The net amount recognized in 2018 was \$0.3 million.

No estimated net loss and prior service cost for the defined benefit pension plans will be amortized from the accumulated other comprehensive income into net periodic benefit cost over the next fiscal year.

The following disclosures relating to Alliance pension benefits were measured at December 31:

<i>(Dollars in thousands)</i>	2018	2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 7,853	\$ 7,517	\$ 7,148
Interest cost	279	297	301
Settlements	(1,142)	—	—
Disbursements	(271)	(407)	(374)
Actuarial loss	(430)	446	442
Benefit obligation at end of year	<u>\$ 6,289</u>	<u>\$ 7,853</u>	<u>\$ 7,517</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 8,378	\$ 7,504	\$ 7,397
Actual return on Plan Assets	(393)	1,314	518
Settlements	(1,146)	—	—
Benefits paid	(271)	(407)	(374)
Administrative Expenses	(35)	(33)	(37)
Fair value of plan assets at end of year	<u>\$ 6,533</u>	<u>\$ 8,378</u>	<u>\$ 7,504</u>
Funded status:			
Unfunded status	\$ (6,289)	\$ (7,853)	\$ (7,517)
Total loss (income) recognized in other comprehensive income	6,533	8,378	7,504
Net amount recognized	<u>\$ 244</u>	<u>\$ 525</u>	<u>\$ (13)</u>
Components of net periodic benefit cost:			
Service cost	\$ 40	\$ 40	\$ 40
Interest cost	279	297	301
Expected return on plan assets	(596)	(548)	(541)
Settlements	(24)	—	—
Net gain recognition	413	(170)	(157)
Net periodic benefit cost	<u>\$ 112</u>	<u>\$ (381)</u>	<u>\$ (357)</u>
Assumptions used to value the Accumulated Postretirement Benefit Obligation (APBO):			
Discount rate for Net Periodic Benefit Cost	3.60%	4.00%	4.00%
Expected Return on Plan Assets	7.50%	7.50%	7.50%
Discount rate for Disclosure Obligations	4.20%	3.60%	4.00%

Estimated future benefit payments:

The following table shows the expected future payments for the next 10 years:

(Dollars in thousands)

During 2019	\$	312
During 2020		310
During 2021		432
During 2022		318
During 2023		322
During 2024 through 2028		2,810
	\$	<u>4,504</u>

During the fourth quarter of 2018, the Company notified the Alliance pension plan participants of its intention to terminate the plan. The Company anticipates completing the pension plan termination in 2019. As of December 31, 2018, the valuation of the benefit obligations and estimated future benefit payments did not include termination assumptions.

We have five additional plans which are no longer being provided to Associates: (1) a Supplemental Pension Plan with a corresponding liability of \$0.7 million for both December 31, 2018 and 2017; (2) an Early Retirement Window Plan with a corresponding liability of \$0.1 million for both December 31, 2018 and 2017; (3) a Director's Plan with a corresponding asset of less than \$0.1 million for both December 31, 2018 and 2017; (4) a Supplemental Executive Retirement Plan with a corresponding liability of \$1.5 million for both December 31, 2018 and 2017 respectively, and; (5) a Post-Retirement Medical Plan with a corresponding liability of \$0.1 million for both December 31, 2018 and 2017.

15. INCOME TAXES

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

<i>(Dollars in thousands)</i>	Year ended December 31,		
	2018	2017	2016
Current income taxes:			
Federal taxes	\$ 26,164	\$ 36,005	\$ 23,857
State and local taxes	6,513	4,342	3,847
Deferred income taxes:			
Federal taxes	3,455	17,899	5,135
State and local taxes	(77)	—	235
Total	\$ 36,055	\$ 58,246	\$ 33,074

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of our deferred tax assets and liabilities as of December 31, 2018 and 2017:

<i>(Dollars in thousands)</i>	2018	2017
Deferred tax assets:		
Unrealized losses on available-for-sale securities	\$ 4,350	\$ 2,084
Allowance for loan losses	8,303	8,526
Purchase accounting adjustments—loans	2,427	3,487
Reserves and other accruals	10,426	9,194
Provision for legal settlement	—	2,520
Deferred gains	458	589
Net operating losses	165	188
Derivatives	775	757
Reverse mortgages	384	606
Total deferred tax assets	\$ 27,288	\$ 27,951
Deferred tax liabilities:		
Unrealized gains on equity investments	\$ (4,203)	\$ —
Accelerated depreciation	(806)	(778)
Other	(537)	(326)
Bank-owned life insurance	—	(5,387)
Deferred loan costs	(2,052)	(989)
Intangibles	(4,130)	(3,826)
Total deferred tax liabilities	(11,728)	(11,306)
Net deferred tax asset	\$ 15,560	\$ 16,645

Included in the table above is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized. In 2018, such items consisted primarily of \$4.4 million of unrealized losses on certain investments in debt and equity securities accounted for under ASC 320 along with \$0.3 million of unrealized gains related to postretirement benefit obligations accounted for under ASC 715 and \$0.8 million of unrealized losses on derivatives accounted for under ASC 815. In 2017, they consisted primarily of \$2.1 million of unrealized losses on certain investments in debt and equity securities along with \$0.3 million of unrealized gains related to postretirement benefit obligations and \$0.8 million of unrealized losses on derivatives.

On December 22, 2017 the Tax Reform Act (the Act) was enacted. As a result, we were required to re-measure our existing net deferred tax asset (DTA) on that date based on the future federal corporate income tax rate of 21%. This DTA re-measurement resulted in a one-time charge to income tax expense in 2017 in the amount of \$14.5 million, which we estimated as required under ASC 740 and which was based on our initial analysis of the impact of the provisions of the Act. During 2018, we recorded certain tax provision to tax return true-up adjustments associated with items that were finalized as part of our 2017 tax return filing during the year. We recorded a \$0.9 million tax benefit in 2018, primarily for deferred tax temporary difference items that were claimed on the 2017 tax return at a 35% federal tax rate that were recorded at December 31, 2017 as anticipating to be deducted at a 21% federal tax rate. There were no remaining provisional items as of December 31, 2018.

Based on our history of prior earnings and our expectations of the future, it is anticipated that operating income and the reversal pattern of our temporary differences will, more likely than not, be sufficient to realize a net deferred tax asset of \$15.6 million at December 31, 2018.

Due to the reduction in the corporate tax rate resulting from the Tax Reform Act, in 2017, we decided to surrender substantially all of our bank-owned life insurance (BOLI) policies. While the formal surrender did not occur until 2018, we were required under ASC 740 to record a deferred tax liability in 2017 for the income tax effect of the surrender. We owed approximately \$7.5 million for federal income taxes and an early-surrender penalty in 2018 due to the BOLI surrender.

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

Year Ended December 31,	Year ended December 31,		
	2018	2017	2016
Statutory federal income tax rate	21.0%	35.0%	35.0%
State tax, net of federal tax benefit	3.1	2.7	3.1
Adjustment to net deferred tax asset for enacted changes in tax laws and rates	(0.5)	13.4	—
Nondeductible acquisition costs	0.4	—	0.2
Tax-exempt interest	(0.8)	(1.9)	(2.1)
Bank-owned life insurance income	—	(0.5)	(0.3)
Excess tax benefits from share-based compensation	(1.8)	(2.0)	(1.4)
Surrender of bank-owned life insurance policies	—	7.3	—
Federal tax credits, net of amortization	(0.1)	(0.3)	(0.5)
Other	(0.2)	—	—
Effective tax rate	21.1%	53.7%	34.0%

As a result of the adoption of ASU 2016-09, “*Improvements to Employee Share-Based Payment Accounting*,” we recorded \$3.5 million, \$2.3 million and \$1.5 million of income tax benefits in 2018, 2017 and 2016, respectively, related to excess tax benefits from stock compensation. Prior to 2016, such excess tax benefits were recorded directly in stockholders’ equity. This accounting standard will result in volatility to future effective tax rates.

We have \$0.8 million of remaining Federal net operating losses. Such NOLs expire beginning in 2030 and, due to Internal Revenue Service (IRS) limitations, \$0.1 million are being utilized each year. Accordingly, we fully expect to utilize all of these NOLs. We have no state NOLs.

We account for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

We record interest and penalties on potential income tax deficiencies as income tax expense. Federal tax years 2015 through 2018 remain subject to examination as of December 31, 2018, while tax years 2015 through 2018 remain subject to examination by state taxing jurisdictions. No federal or state income tax return examinations are currently in process. We do not expect to record or realize any material unrecognized tax benefits during 2019.

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 Consolidated 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 are no unrecognized tax benefits related to ASC 740 as of December 31, 2018 nor has there been any unrecognized tax benefit activity since December 31, 2012.

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, \$1.9 million of such amortization has been reflected as income tax expense for the year ended December 31, 2018, compared to \$1.7 million and \$1.6 million for the years ended December 31, 2017 and December 31, 2016, respectively.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the year ended December 31, 2018 were \$1.7 million, \$1.9 million and \$0.3 million respectively. The carrying value of the investment in affordable housing credits is \$16.9 million at December 31, 2018, compared to \$13.8 million at December 31, 2017.

16. STOCK-BASED COMPENSATION

Our Stock Incentive Plans provide for the granting of stock options, stock appreciation rights, performance awards, restricted stock and restricted stock unit awards (RSUs), deferred stock units, and other awards that are payable in or valued by reference to our common shares. Upon stockholder approval in 2018, the 2013 Incentive Plan was replaced by the 2018 Incentive Plan (2018 Plan). We still have awards outstanding under the 2013 Plan for officers, directors and Associates. The 2018 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. Collectively, the 2013 Plan and the 2018 Plan are referred to as Stock Incentive Plans. The number of shares reserved for issuance under the 2018 Plan is 1,500,000, of which 1,483,392 shares were available for future grants at December 31, 2018. Generally, all awards become exercisable immediately in the event of a change in control, as defined within the Stock Incentive Plans.

Total stock-based compensation expense recognized was \$2.6 million (\$2.0 million after tax) for 2018, \$3.7 million (\$2.5 million after tax) for 2017, and \$3.0 million (\$2.0 million after tax) for 2016. 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* in our Consolidated Statements of Income.

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. With the exception of certain Non-Plan Stock Options (as defined below), all stock options granted during 2018, 2017, and 2016 vest in 25% per annum increments, start to become exercisable in April of the year following the year of grant, and expire between five years and seven years from the grant date. We issue new shares upon the exercise of options.

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. Beginning in 2016, the expected term was derived from historical exercise patterns and represents the amount of time that stock options granted are expected to be outstanding. Other significant assumptions to determine 2018, 2017, and 2016 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 2018, 2017, and 2016 are presented below:

	2018	2017	2016
Expected term (in years)	5.3	5.3	5.3
Volatility	23.0%	24.9%	29.6%
Weighted-average risk-free interest rate	2.69%	1.95%	1.25%
Dividend yield	0.74%	0.60%	0.80%

On April 25, 2013 stockholders approved a change in future compensation for Mark A. Turner, President and CEO. As a result, Mr. Turner was granted 750,000 non-statutory stock options (Non-Plan Stock Options) with a longer and slower vesting schedule than our standard options. Under this vesting schedule, 40% of these options vested after the second year and 20% vested in each of the following three years. These options were awarded at an exercise price of 20% over the December 2012 market value (the date on which framework of the plan was decided). Upon the grant, Mr. Turner was no longer eligible to receive grants under any of our other stock based award programs for a period of 5 years, ending on February 28, 2018. The Black-Scholes option-pricing model was used to determine the grant date fair value of the options. Significant assumptions used in the model included a weighted-average risk-free rate of return (zero coupon treasury yield) of 0.76%; an expected option life of 5 years; an expected stock price volatility of 40.5%; and a dividend yield of 1.01%. These awards fully vested in 2018. At December 31, 2018, 376,177 of these option awards were outstanding and exercisable. In March 2018, based on performance in 2017, Mr. Turner was granted stock options and RSUs with terms and conditions, including exercise price and vesting period, pursuant to our 2013 Incentive Plan.

Additionally, in 2013, 450,000 incentive stock options were issued to certain executive officers of the Company under the 2013 Plan. These options had the same vesting schedule and exercise price as the Non-Plan Stock Options granted to Mr. Turner. The Black-Scholes option-pricing model with the same assumptions as the Non-Plan Stock Options was used to determine the grant date fair value of the options. These awards fully vested in 2018.

A summary of the status of our options as of December 31, 2018, and changes during the year, is presented below:

	2018			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Year)	Aggregate Intrinsic Value (In Thousands)
Stock Options:				
Outstanding at beginning of year	1,339,106	\$ 19.08	2.56	\$ 38,525
Plus: Granted	72,521	48.33		
Less: Exercised	613,588	17.63		
Forfeited	7,295	47.01		
Outstanding at end of year	<u>790,744</u>	22.48	2.18	13,235
Nonvested at end of year	<u>124,348</u>	42.76	5.69	603
Exercisable at end of year	666,396	18.69	1.58	12,923

The weighted-average fair value of options granted was \$11.62 in 2018, \$11.50 in 2017 and \$7.84 in 2016. The aggregate intrinsic value of options exercised was \$20.6 million in 2018, \$7.5 million in 2017, and \$5.0 million in 2016.

The following table provides information about our nonvested stock options outstanding at December 31, 2018:

	2018		
	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Stock Options:			
Nonvested at beginning of period	389,134	\$ 23.25	\$ 6.24
Plus: Granted	72,521	48.33	11.62
Less: Vested	330,012	20.59	5.69
Forfeited	7,295	47.01	11.38
Nonvested at end of period	<u>124,348</u>	42.76	10.38

The total amount of unrecognized compensation cost related to nonvested stock options as of December 31, 2018 was \$0.9 million. The weighted-average period over which the expense is expected to be recognized is 2.6 years. During 2018, we recognized \$0.7 million of compensation expense related to these awards.

Restricted Stock Units

RSUs are granted at no cost to the recipient and generally vest over a four year period. All outstanding awards granted to senior executives vest over no less than a four year period. The 2013 and 2018 Plans allow for awards with vesting periods less than four years, subject to Board approval. The fair value of RSUs is equal to the fair value of the common stock on the date of grant.

We recognize the expense related to RSUs granted to Associates in *Salaries, benefits and other compensation* and granted to directors in *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 weighted-average fair value of RSUs granted was \$48.38 in 2018, \$47.05 in 2017, and \$29.94 in 2016. The total amount of compensation cost to be recognized relating to nonvested restricted stock as of December 31, 2018, was \$3.6 million. The weighted-average period over which the cost is expected to be recognized is 2.6 years. During 2018, we recognized \$1.6 million of compensation cost related to these awards.

The following table summarizes the Company's RSUs and changes during the year:

	Units (in whole)	Weighted Average Grant-Date Fair Value per Unit
Balance at December 31, 2017	114,388	\$ 35.54
Plus: Granted	49,561	48.38
Less: Vested	62,500	32.48
Forfeited	5,742	39.77
Balance at December 31, 2018	<u>95,707</u>	43.08

The total fair value of RSUs that vested was \$1.6 million in 2018, \$1.2 million in 2017, and \$1.4 million in 2016.

17. COMMITMENTS AND CONTINGENCIES

Data Processing and Network Operations

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

(Dollars in thousands)

Year	Amount
2019	\$ 6,660
2020	4,019
2021	1,684
2022	1,134
2023	325

Legal Proceedings

In the ordinary course of business, we are subject to legal actions that involve claims for monetary relief. See Note 24 for additional information.

Financial Instruments With Off-Balance Sheet Risk

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

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

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

	December 31,	
	2018	2017
<i>(Dollars in thousands)</i>		
Financial instruments with contract amounts which represent potential credit risk:		
Construction loan commitments	\$ 177,767	\$ 191,675
Commercial mortgage loan commitments	43,624	32,346
Commercial loan commitments	629,729	645,924
Commercial owner-occupied commitments	43,879	55,545
Commercial standby letters of credit	71,233	75,446
Residential mortgage loan commitments	6,297	8,057
Consumer loan commitments	330,929	296,010
Total	\$ 1,303,458	\$ 1,305,003

At December 31, 2018, we had total commitments to extend credit of \$1.3 billion. Commitments for consumer lines of credit were \$330.9 million of which, \$308.9 million were secured by real estate. Residential mortgage loan commitments generally have closing dates within a one month period but can be extended to six months. Not reflected in the table above are commitments to sell residential mortgages of \$32.4 million and \$28.8 million at December 31, 2018 and 2017, respectively.

Commitments provide for financing on predetermined terms as long as the customer continues to meet specific criteria. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. We evaluate each customer's creditworthiness and obtain collateral based on our credit evaluation of the counterparty.

Indemnifications

- **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 government-sponsored enterprises, such as the Federal Home Loan Mortgage Corp (FHLMC), the Federal National Mortgage Association (FNMA), and the FHLB. Loans held for sale are reflected on our Consolidated Statements of Financial Condition at their fair value with changes in the value reflected in our Consolidated Statements of Income. Gains and losses are recognized at the time of sale. We periodically retain the servicing rights on residential mortgage loans sold which results in monthly service fee income. Otherwise, we sell loans with servicing released on a nonrecourse basis. Rate-locked loan commitments that we intend to sell in the secondary market are accounted for as derivatives under ASC 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 an agreement to repurchase the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no repurchases for the years ended December 31, 2018 and December 31, 2017.

- **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. Under 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 us to provide access to interest rate swap transactions for our customers without creating the swap ourselves. These swap guarantees are accounted for as credit derivatives.

At December 31, 2018, there were 136 variable-rate to fixed-rate swap transactions between the third-party financial institutions and our customers. The initial notional aggregate amount was approximately \$581.5 million, with maturities ranging from under one year to 11 years. The aggregate fair value of these swaps to the customers was a liability of \$0.3 million as of December 31, 2018, of which 50 swaps, with a liability of \$4.6 million, were in paying positions to a third party. We had no reserves for the swap guarantees as of December 31, 2018.

At December 31, 2017, there were 134 variable-rate to fixed-rate swap transactions between the third-party financial institutions and our customers. The initial notional aggregated amount was approximately \$561.8 million, with maturities ranging from under one year to ten years. The aggregate fair value of these swaps to the customers was a liability of \$3.3 million as of December 31, 2017, of which 80 swaps, with a liability of \$5.4 million, were in paying positions to a third party. We had no reserves for the swap guarantees as of December 31, 2017.

18. 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 December 31, 2018 and December 31, 2017 by level in the valuation hierarchy (as described above):

<i>(Dollars in thousands)</i>	December 31, 2018			
	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	\$ —	\$ 371,750	\$ —	\$ 371,750
FNMA MBS	—	644,073	—	644,073
FHLMC MBS	—	153,922	—	153,922
GNMA MBS	—	35,334	—	35,334
Other assets	—	2,098	—	2,098
Total assets measured at fair value on a recurring basis	\$ —	\$ 1,207,177	\$ —	\$ 1,207,177
Liabilities measured at fair value on a recurring basis:				
Other liabilities	\$ —	\$ 3,493	\$ —	\$ 3,493
Assets measured at fair value on a nonrecurring basis:				
Other investments ⁽¹⁾	\$ —	\$ —	\$ 37,233	\$ 37,233
Other real estate owned	—	—	2,668	2,668
Loans held for sale	—	25,318	—	25,318
Impaired loans, net	—	—	47,094	47,094
Total assets measured at fair value on a nonrecurring basis	\$ —	\$ 25,318	\$ 86,995	\$ 112,313

(1) See Note 1 for additional disclosures resulting from the Company's adoption of ASU 2016-01.

<i>(Dollars in thousands)</i>	December 31, 2017			
	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	\$ —	\$ 246,539	\$ —	\$ 246,539
FNMA MBS	—	473,987	—	473,987
FHLMC MBS	—	87,875	—	87,875
GNMA MBS	—	29,098	—	29,098
Other investments	623	—	—	623
Other assets	—	747	—	747
Total assets measured at fair value on a recurring basis	\$ 623	\$ 838,246	\$ —	\$ 838,869
Liabilities measured at fair value on a recurring basis:				
Other liabilities	\$ —	\$ 3,225	\$ —	\$ 3,225
Assets measured at fair value on a nonrecurring basis:				
Other real estate owned	\$ —	\$ —	\$ 2,503	\$ 2,503
Loans held for sale	—	31,055	—	31,055
Impaired loans, net	—	—	57,089	57,089
Total assets measured at fair value on a nonrecurring basis	\$ —	\$ 31,055	\$ 59,592	\$ 90,647

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during 2018 and 2017.

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

Available-for-sale securities

As of December 31, 2018 securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are \$1.2 billion 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 investments

Other investments includes investments in equity securities with and without readily determinable fair values. Equity investments with readily determinable fair values are categorized as Level 1. Equity investments without readily determinable fair values, which includes our Visa Class B shares, are categorized as Level 3. Our Visa Class B ownership includes shares acquired at no cost from our prior participation in Visa's network while Visa operated as a cooperative as well as shares subsequently acquired through private transactions and auctions.

Our equity investments without readily determinable fair values are held at cost, and are adjusted for any observable transactions during the reporting period. As a result of our adoption of ASU 2016-01 and observable market transactions, we recorded an unrealized gain on our Visa Class B shares of \$20.7 million during the year ended December 31, 2018. See Note 1 for further information.

Other assets

Other assets include the fair value of derivatives on the residential mortgage held for sale loan pipeline. Valuation of the derivative related to the residential mortgage held for sale loan pipeline is based on valuation of the loans held for sale portfolio as described below in *Loans held for sale*.

Other liabilities

Other liabilities include the fair value of interest rate swaps and derivatives on the residential mortgage held for sale loan pipeline. Valuation of our cash flow derivatives is obtained from an independent pricing service and also from the derivative counterparty. Valuation of the derivative related to the residential mortgage held for sale loan pipeline is based on valuation of the loans held for sale portfolio as described below in *Loans held for sale*.

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 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 on estimates using Level 2 inputs. These inputs are based on pricing information obtained from wholesale mortgage banks and brokers and applied to loans with similar interest rates and maturities.

Impaired loans

We evaluate and value impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which typically ranges from 10% to 20%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by us. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The gross amount of impaired loans, which are measured for impairment by either calculating the expected future cash flows discounted at the loan's effective interest rate or determining the fair value of the collateral for collateral dependent loans was \$49.4 million and \$62.1 million at December 31, 2018 and December 31, 2017, respectively. The valuation allowance on impaired loans was \$2.3 million as of December 31, 2018 and \$5.0 million as of December 31, 2017.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Cash and cash equivalents

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

Investment securities

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

Other investments

Other investments includes our investments in equity securities with and without readily determinable fair values. See "Fair Value of Financial Assets and Liabilities" above.

Loans held for sale

Loans held for sale are carried at their fair value. See "Fair Value of Financial Assets and Liabilities" above.

Loans

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

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

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

Other assets

Other assets includes, among other things, investments in subsidiaries, prepaid expenses, interest and fee income receivable, derivatives on the residential mortgage held for sale loan pipeline and deferred tax assets. See "Fair Value of Financial Assets and Liabilities" above.

Deposits

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

Borrowed funds

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

Other liabilities

Other liabilities includes, among others, cash flow derivatives and derivatives on the residential mortgage held for sale loan pipeline. See “Fair Value of Financial Assets and Liabilities” above.

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:

<i>(Dollars in thousands)</i>	Fair Value Measurement	December 31,			
		2018		2017	
		Book Value	Fair Value	Book Value	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$ 620,757	\$ 620,757	\$ 723,866	\$ 723,866
Investment securities available for sale	See previous table	1,205,079	1,205,079	837,499	837,499
Investment securities held to maturity	Level 2	149,950	149,431	161,186	162,853
Other investments	Level 1,3	37,233	37,233	14,671	45,326
Loans, held for sale	Level 2	25,318	25,318	31,055	31,055
Loans, net ⁽¹⁾⁽²⁾	Level 3	4,816,825	4,772,377	4,719,229	4,699,458
Impaired loans, net	Level 3	47,094	47,094	57,089	57,089
Stock in FHLB of Pittsburgh	Level 2	19,259	19,259	31,284	31,284
Accrued interest receivable	Level 2	22,001	22,001	19,405	19,405
Other assets	Level 2	2,098	2,098	2,883	2,883
Financial liabilities:					
Deposits	Level 2	\$ 5,640,431	\$ 5,597,227	\$ 5,247,604	\$ 4,848,588
Borrowed funds	Level 2	699,788	694,526	937,806	937,605
Standby letters of credit	Level 3	495	495	603	603
Accrued interest payable	Level 2	1,900	1,900	1,037	1,037
Other liabilities	Level 2	3,493	3,493	3,188	3,188

(1) Excludes impaired loans, net.

(2) Includes reverse mortgage loans, which are categorized as Level 3.

At December 31, 2018 and December 31, 2017 we had no commitments to extend credit measured at fair value.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments

The table below presents the fair value of our derivative financial instruments as well as their location on the Consolidated Statements of Financial Condition as of December 31, 2018.

<i>(Dollars in thousands)</i>	Fair Values of Derivative Instruments			
	Count	Notional	Balance Sheet Location	Derivatives (Fair Value)
Derivatives designated as hedging instruments:				
Interest rate products	3	\$ 75,000	Other liabilities	\$ (3,308)
Total		\$ 75,000		\$ (3,308)
Derivatives not designated as hedging instruments:				
Interest rate lock commitments with customers		\$ 40,795	Other assets	\$ 686
Interest rate lock commitments with customers		6,530	Other liabilities	(24)
Forward sale commitments		19,732	Other assets	143
Forward sale commitments		25,876	Other liabilities	(161)
Total		\$ 92,933		\$ 644
Total derivatives		\$ 167,933		\$ (2,664)

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecast transaction affects earnings. During the year ended December 31, 2018, such derivatives were used to hedge the variable cash flows associated with a variable rate loan pool. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the year ended December 31, 2018, we did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives are reclassified to interest income as interest payments are received on our variable-rate pooled loans. During the next twelve months, we estimate that \$1.1 million will be reclassified as an increase to interest income. During the year ended December 31, 2018, \$0.7 million was reclassified into interest income.

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

As of December 31, 2018, we had three outstanding interest rate derivatives with an aggregate notional amount of \$75 million that were designated as cash flow hedges of interest rate risk.

Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the derivative financial instruments on the Consolidated Statements of Income for the years ended December 31, 2018 and December 31, 2017.

	Amount of (Loss) or Gain Recognized in OCI on Derivative (Effective Portion)		Location of (Loss) or Gain Reclassified from Accumulated OCI into Income (Effective Portion)
	Twelve Months Ended		
	2018	2017	
<i>(Dollars in thousands)</i>			
Derivatives in Cash Flow Hedging Relationships			
Interest Rate Products	\$ (56)	\$ 184	Interest income
Total	\$ (56)	\$ 184	

	Amount of (Loss) or Gain Recognized in Income		Location of (Loss) or Gain Recognized in Income
	Twelve Months Ended		
	2018	2017	
<i>(Dollars in thousands)</i>			
Derivatives Not Designated as a Hedging Instrument			
Interest Rate Lock Commitments	\$ (28)	\$ 680	Mortgage banking activities, net
Forward Sale Commitments	(336)	(986)	Mortgage banking activities, net
Total	\$ (364)	\$ (306)	

Credit-risk-related Contingent Features

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

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

As of December 31, 2018 the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.3 million. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of \$5.6 million against our obligations under these agreements. If we had breached any of these provisions at December 31, 2018, we could have been required to settle our obligations under the agreements at the termination value.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, from time to time we enter into transactions with related parties, including, but not limited to, our officers and directors. These transactions are made on substantially the same terms and conditions, including interest rates and collateral requirements, as those prevailing at the same time for comparable transactions with other customers. They do not, in the opinion of management, involve greater than normal credit risk or include other features unfavorable to us. Any related party loans exceeding \$500,000 require review and approval by the Board of Directors. In 2018, there was one loan transaction to an executive officer exceeding \$500,000, and this loan was approved by the Board.

The outstanding balances of loans to related parties at December 31, 2018 and 2017 were \$1.2 million in both periods. Total deposits from related parties at December 31, 2018 and 2017 were \$5.4 million in both periods. During 2018, new loans and credit line advances to related parties were \$1.7 million and repayments were \$1.7 million.

21. SEGMENT INFORMATION

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

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

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

The Wealth Management segment provides a broad array of planning and advisory services, investment management, trust services, and credit and deposit products to individual, corporate, and institutional clients through multiple integrated businesses. WSFS Wealth Investments provides financial advisory services along with insurance and brokerage products. Cypress, a registered investment adviser is a fee-only wealth management firm managing a "balanced" investment style portfolio focused on preservation of capital and generating current income. West Capital, a registered investment adviser, is a fee-only wealth management firm operating under a multi-family office philosophy to provide customized solutions to institutions and high-net-worth individuals. The trust division of WSFS Bank (doing business as WSFS Institutional Services) provides personal trust and fiduciary services, as well as trustee, agency, bankruptcy administration, custodial and commercial domicile services to corporate and institutional clients. Powdermill is a multi-family office specializing in providing independent solutions to high-net-worth individuals, families and corporate executives through a coordinated, centralized approach. WSFS Wealth Client Management serves high-net-worth clients by delivering credit and deposit products and partnering with other wealth management units to provide comprehensive solutions to clients.

The following tables show segment results for the years ended December 31, 2018, 2017, and 2016:

<i>(Dollars in thousands)</i>	Year Ended December 31, 2018			
	WSFS Bank	Cash Connect®	Wealth Management	Total
Statements of Income				
External customer revenues:				
Interest income	\$ 282,846	\$ —	\$ 10,127	\$ 292,973
Noninterest income	70,894	50,679	40,968	162,541
Total external customer revenues	353,740	50,679	51,095	455,514
Inter-segment revenues:				
Interest income	14,722	—	11,850	26,572
Noninterest income	8,793	774	145	9,712
Total inter-segment revenues	23,515	774	11,995	36,284
Total revenue	377,255	51,453	63,090	491,798
External customer expenses:				
Interest expense	43,671	—	2,828	46,499
Noninterest expenses	172,254	32,378	20,415	225,047
Provision for loan losses	12,934	—	236	13,170
Total external customer expenses	228,859	32,378	23,479	284,716
Inter-segment expenses				
Interest expense	11,850	10,417	4,305	26,572
Noninterest expenses	919	2,603	6,190	9,712
Total inter-segment expenses	12,769	13,020	10,495	36,284
Total expenses	241,628	45,398	33,974	321,000
Income before taxes	\$ 135,627	\$ 6,055	\$ 29,116	\$ 170,798
Income tax provision				36,055
Consolidated net income				\$ 134,743

<i>(Dollars in thousands)</i>	Year Ended December 31, 2017			
	WSFS Bank	Cash Connect®	Wealth Management	Total
Statements of Income				
External customer revenues:				
Interest income	\$ 245,932	\$ —	\$ 8,794	\$ 254,726
Noninterest income	45,749	42,641	36,254	124,644
Total external customer revenues	291,681	42,641	45,048	379,370
Inter-segment revenues:				
Interest income	9,567	—	9,012	18,579
Noninterest income	7,651	810	146	8,607
Total inter-segment revenues	17,218	810	9,158	27,186
Total revenue	308,899	43,451	54,206	406,556
External customer expenses:				
Interest expense	32,249	—	1,206	33,455
Noninterest expenses	158,942	26,654	40,865	226,461
Provision for loan losses	10,527	—	437	10,964
Total external customer expenses	201,718	26,654	42,508	270,880
Inter-segment expenses				
Interest expense	9,012	6,812	2,755	18,579
Noninterest expenses	956	2,603	5,048	8,607
Total inter-segment expenses	9,968	9,415	7,803	27,186
Total expenses	211,686	36,069	50,311	298,066
Income before taxes	\$ 97,213	\$ 7,382	\$ 3,895	\$ 108,490
Income tax provision				58,246
Consolidated net income				\$ 50,244

<i>(Dollars in thousands)</i>	Year Ended December 31, 2016			
	WSFS Bank	Cash Connect®	Wealth Management	Total
Statements of Income				
External customer revenues:				
Interest income	\$ 208,525	\$ —	\$ 8,053	\$ 216,578
Noninterest income	42,565	35,776 (r)	26,720	105,061
Total external customer revenues	251,090	35,776	34,773	321,639
Inter-segment revenues:				
Interest income	4,963	—	7,150	12,113
Noninterest income	8,145	835	118	9,098
Total inter-segment revenues	13,108	835	7,268	21,211
Total revenue	264,198	36,611	42,041	342,850
External customer expenses:				
Interest expense	22,028	—	805	22,833
Noninterest expenses	146,526	22,442 (r)	19,698	188,666
Provision for loan losses	9,370	—	3,616	12,986
Total external customer expenses	177,924	22,442	24,119	224,485
Inter-segment expenses				
Interest expense	7,150	2,915	2,048	12,113
Noninterest expenses	953	2,799	5,346	9,098
Total inter-segment expenses	8,103	5,714	7,394	21,211
Total expenses	186,027	28,156	31,513	245,696
Income before taxes	\$ 78,171	\$ 8,455	\$ 10,528	\$ 97,154
Income tax provision				33,074
Consolidated net income				\$ 64,080

^(r) Noninterest income and noninterest expense for the period ended December 31, 2016 have been restated to correct an immaterial error related to revenue earned for cash servicing fees. See Note 2 - Summary of Significant Accounting Policies for further information.

The following table shows significant components of segment net assets as of December 31, 2018 and 2017:

<i>(Dollars in thousands)</i>	December 31,							
	2018				2017			
	WSFS Bank	Cash Connect®	Wealth Management	Total	WSFS Bank	Cash Connect®	Wealth Management	Total
Cash and cash equivalents	\$ 115,147	\$ 491,863	\$ 13,747	\$ 620,757	\$ 104,530	\$ 611,385	\$ 7,951	\$ 723,866
Goodwill	145,808	—	20,199	166,007	145,808	—	20,199	166,007
Other segment assets	6,225,820	7,743	228,543	6,462,106	5,882,910	6,078	220,679	6,109,667
Total segment assets	\$ 6,486,775	\$ 499,606	\$ 262,489	\$ 7,248,870	\$ 6,133,248	\$ 617,463	\$ 248,829	\$ 6,999,540
Capital expenditures	\$ 4,779	\$ 375	\$ 344	\$ 5,498	\$ 8,197	\$ 184	\$ 613	\$ 8,994

22. PARENT COMPANY FINANCIAL INFORMATION

Condensed Statements of Income

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Income:			
Interest income	\$ 1,591	\$ 3,167	\$ 3,402
Unrealized gains on equity investments	15,819	—	—
Noninterest income	28,038	20,528	68,498
	45,448	23,695	71,900
Expenses:			
Interest expense	7,290	9,168	7,979
Other operating expenses	245	996	747
	7,535	10,164	8,726
Income before equity in undistributed income of subsidiaries	37,913	13,531	63,174
Equity in undistributed income (loss) of subsidiaries	97,626	35,722	(779)
Income before taxes	135,539	49,253	62,395
Income tax provision (benefit)	796	(991)	(1,685)
Net income allocable to common stockholders	\$ 134,743	\$ 50,244	\$ 64,080

Condensed Statements of Financial Condition

<i>(Dollars in thousands)</i>	December 31,	
	2018	2017
Assets:		
Cash	\$ 30,581	\$ 37,344
Investment in subsidiaries	923,381	833,763
Investment in Capital Trust III	2,011	2,011
Other assets	31,050	17,465
Total assets	\$ 987,023	\$ 890,583
Liabilities:		
Trust preferred	\$ 67,011	\$ 67,011
Senior debt	98,388	98,171
Interest payable	443	388
Other liabilities	261	668
Total liabilities	166,103	166,238
Stockholders' equity:		
Common stock	569	563
Capital in excess of par value	349,810	336,271
Accumulated other comprehensive loss	(15,394)	(8,152)
Retained earnings	791,031	669,557
Treasury stock	(305,096)	(273,894)
Total stockholders' equity	820,920	724,345
Total liabilities and stockholders' equity	\$ 987,023	\$ 890,583

Condensed Statements of Cash Flows

<i>(Dollars in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income	\$ 134,743	\$ 50,244	\$ 64,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed (income) loss of subsidiaries	(97,626)	(35,722)	779
Gain on sale of equity investments, net	(3,757)	—	—
Unrealized gains on equity investments	(15,088)	—	—
(Decrease) increase in other assets	2,265	1,618	133
(Decrease) increase in other liabilities	(237)	1,422	655
Net cash provided by operating activities	20,300	17,562	65,647
Investing activities:			
Payments for investment in and advances to subsidiaries	—	(1,360)	(119)
Sale or repayment of investments in and advances to subsidiaries	—	1,066	1,220
Sale of Visa Class B shares	6,186	—	—
Net cash from business combinations	—	—	(57,604)
Purchases of Visa Class B shares	(51)	(10,072)	(387)
Net cash provided by (used for) investing activities	6,135	(10,366)	(56,890)
Financing activities:			
Repayment of long-term debt	—	—	(10,000)
Issuance of common stock	11,253	3,307	1,900
Repayment of senior debt	—	(55,000)	—
Issuance of senior debt	—	—	97,849
Buy back of common stock	(31,202)	(11,752)	(14,312)
Cash dividends paid	(13,249)	(9,425)	(7,632)
Net cash (used for) provided by financing activities	(33,198)	(72,870)	67,805
(Decrease) increase in cash	(6,763)	(65,674)	76,562
Cash at beginning of period	37,344	103,018	26,456
Cash at end of period	\$ 30,581	\$ 37,344	\$ 103,018

23. CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

<i>(Dollars in thousands)</i>	Net change in investment securities available for sale	Net change in investment securities held to maturity	Net change in defined benefit plan	Net change in fair value of derivatives used for cash flow hedges	Total
Balance, December 31, 2015	\$ (1,887)	\$ 1,795	\$ 788	\$ —	\$ 696
Other comprehensive income before reclassifications	(4,838)	—	—	(1,772)	(6,610)
Less: Amounts reclassified from accumulated other comprehensive loss	(1,469)	(403)	169	—	(1,703)
Net current-period other comprehensive loss	(6,307)	(403)	169	(1,772)	(8,313)
Balance, December 31, 2016	\$ (8,194)	\$ 1,392	\$ 957	\$ (1,772)	\$ (7,617)
Other comprehensive loss before reclassifications	3,073	—	—	(184)	2,889
Less: Amounts reclassified from accumulated other comprehensive loss	(1,280)	(394)	(90)	—	(1,764)
Net current-period other comprehensive loss	1,793	(394)	(90)	(184)	1,125
Less: Reclassification due to the adoption of ASU No. 2018-02	\$ (1,441)	\$ 225	\$ (2)	\$ (442)	\$ (1,660)
Balance, December 31, 2017	\$ (7,842)	\$ 1,223	\$ 865	\$ (2,398)	\$ (8,152)
Other comprehensive income (loss) before reclassifications	(6,695)	6	22	(56)	(6,723)
Less: Amounts reclassified from accumulated other comprehensive income	(16)	(450)	(53)	—	(519)
Net current-period other comprehensive loss	(6,711)	(444)	(31)	(56)	(7,242)
Balance, December 31, 2018	\$ (14,553)	\$ 779	\$ 834	\$ (2,454)	\$ (15,394)

Components of other comprehensive income that impact the Consolidated Statements of Income are presented in the table below.

<i>(Dollars in thousands)</i>	Twelve Months Ended December 31,			Affected line item in Consolidated Statements of Income
	2018	2017	2016	
Securities available for sale:				
Realized gains on securities transactions	\$ (21)	\$ (1,984)	\$ (2,369)	Securities gains, net
Income taxes	5	704	900	Income tax provision
Net of tax	\$ (16)	\$ (1,280)	\$ (1,469)	
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	\$ (586)	\$ (635)	\$ (651)	Interest and dividends on investment securities
Income taxes	136	241	248	Income tax provision
Net of tax	\$ (450)	\$ (394)	\$ (403)	
Amortization of Defined Benefit Pension Items:				
Prior service costs (credits) ⁽¹⁾	\$ 2	\$ (76)	\$ (76)	
Transition obligation	—	—	—	
Actuarial losses	(45)	(70)	348	
Total before tax	\$ (43)	\$ (146)	\$ 272	Salaries, benefits and other compensation
Income taxes	(10)	56	(103)	Income tax provision
Net of tax	\$ (53)	\$ (90)	\$ 169	
Total reclassifications	\$ (519)	\$ (1,764)	\$ (1,703)	

⁽¹⁾ Prior service costs balance for year ended December 31, 2018 includes a tax true-up adjustment of \$0.1 million from March 31, 2018. Note that the tax true-up was made to the deferred tax asset with an offset to AOCI and does not affect the actual net periodic benefit costs of the pension plan.

24. LEGAL AND OTHER PROCEEDINGS

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation-related matters that arise in the ordinary course of our business activities when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. In addition, our defense of litigation claims may result in legal fees, which we expense as incurred.

As previously disclosed, on February 27, 2018, we entered into a settlement agreement with Universitas Education, LLC (Universitas) to resolve arbitration claims related to services provided by CB&T prior to its acquisition by WSFS in December 2010. In accordance with the settlement, we paid Universitas \$12.0 million to fully settle the claims. During the third quarter of 2018, we recovered \$7.9 million in settlement and legal costs from insurance carriers that provided coverage relating to the Universitas matter. During the fourth quarter of 2018, we filed suit to pursue all of our rights and remedies to recover the remaining amounts relating to the Universitas settlement, including the Universitas settlement payment, legal fees and related costs, by enforcing the indemnity right in the 2010 purchase agreement by which WSFS acquired CB&T.

In March 2017, Nature's Healing Trust (NHT) filed a complaint against WSFS Bank in the Delaware Court of Chancery. NHT asserts that WSFS Bank failed to provide timely notice concerning the possible lapse of two life settlement policies (aggregate face amount of \$6.3 million) held in the trust. NHT asserts claims against WSFS Bank for breach of contract, breach of fiduciary duty, and negligence, and seeks the face value of the policies. WSFS Bank disputes the factual allegations and denies liability. WSFS Bank has, in accordance with its normal procedures, notified its insurance carriers of a possible claim. WSFS Bank is vigorously defending itself in this matter and believes it has valid factual and legal defenses. The case is expected to go to trial during the fourth quarter of 2019.

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.

QUARTERLY FINANCIAL SUMMARY (Unaudited)

	Three months ended							
	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017	9/30/2017	6/30/2017	3/31/2017
<i>(Dollars in thousands, except per share data)</i>								
Interest income	\$ 77,794	\$ 75,415	\$ 72,151	\$ 67,613	\$ 66,556	\$ 65,010	\$ 62,334	\$ 60,826
Interest expense	13,120	12,318	11,162	9,899	8,831	8,881	8,020	7,723
Net interest income	64,674	63,097	60,989	57,714	57,725	56,129	54,314	53,103
Provision for loan losses	3,306	3,716	2,498	3,650	4,063	2,896	1,843	2,162
Net interest income after provision for loan losses	61,368	59,381	58,491	54,064	53,662	53,233	52,471	50,941
Noninterest income	38,186	41,901	34,987	47,467	32,435	32,441	31,676	28,092
Noninterest expenses	61,350	52,454	57,831	53,412	68,065	54,163	52,727	51,506
Income before taxes	38,204	48,828	35,647	48,119	18,032	31,511	31,420	27,527
Income tax provision	8,486	9,893	6,907	10,769	27,864	10,942	10,850	8,590
Net (loss) income	\$ 29,718	\$ 38,935	\$ 28,740	\$ 37,350	\$ (9,832)	\$ 20,569	\$ 20,570	\$ 18,937
Earnings per share:								
Basic	\$ 0.94	\$ 1.22	\$ 0.91	\$ 1.19	\$ (0.31)	\$ 0.65	\$ 0.65	\$ 0.60
Diluted	\$ 0.93	\$ 1.20	\$ 0.89	\$ 1.16	\$ (0.31)	\$ 0.64	\$ 0.64	\$ 0.59

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

To Our Stockholders:

Management of WSFS Financial Corporation (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is a process designed by, or under the supervision of, the Corporation's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework* (2013). Based on this assessment, management has concluded that, as of December 31, 2018, the Corporation's internal control over financial reporting was effective based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP, an independent registered public accounting firm, has audited the Corporation's Consolidated Financial Statements as of and for the year ended December 31, 2018 and the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2018, as stated in their reports, which are included herein.

/s/ Rodger Levenson

Rodger Levenson

President and Chief Executive Officer

/s/ Dominic C. Canuso

Dominic C. Canuso

*Executive Vice President and
Chief Financial Officer*

February 28, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
WSFS Financial Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited WSFS Financial Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

February 28, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Information required by this Item is incorporated herein by reference from the discussion responsive thereto under the headings “Directors and Officers of WSFS Financial Corporation and Wilmington Savings Fund Society, FSB” and “Corporate Governance - Committees of the Board of Directors” in our definitive proxy statement for our annual meeting of stockholders to be held on April 25, 2019 to be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year covered by this Annual Report on Form 10-K (the Proxy Statement).

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. A copy of the Code of Ethics is posted on our website at www.wsfsbank.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the headings “Executive Compensation” and “Compensation of the Board of Directors” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

Information required by this Item is incorporated herein by reference from the discussion responsive thereto under the headings “Other Information Large Stockholders” of the Proxy Statement.

Security Ownership of Management

Information required by this Item is incorporated herein by reference from the discussion responsive thereto under the heading “Directors and Officers of WSFS Financial Corporation and Wilmington Savings Fund Society, FSB - Ownership of WSFS Financial Corporation Common Stock” of the Proxy Statement.

Changes in Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the registrant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information relating to securities authorized for issuance under the Company’s equity compensation plans is included in Part II of this Annual Report on Form 10-K under “Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the heading “Directors and Officers of WSFS Financial Corporation and Wilmington Savings Fund Society, FSB - Transactions with our Insiders” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference from the discussion responsive thereto under the heading “Committees of the Board of Directors - Audit Committee” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

- 1 The Consolidated Statements of Financial Condition of WSFS Financial Corporation and subsidiary as of December 31, 2017 and 2016, and the related Consolidated Statements of Income, Comprehensive Income, Changes in Stockholders' Equity and Cash Flows for each of the years in the three year period ended December 31, 2017, together with the related notes and the report of KPMG LLP, independent registered public accounting firm.
- 2 Schedules omitted as they are not applicable.

The following exhibits are incorporated by reference herein or annexed to this Annual Report on Form 10-K:

Exhibit Number	Description of Document
3.1	Registrant's Amended and Restated Certificate of Incorporation, is incorporated herein by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K filed for the year ended December 31, 2011.
3.2	Certificate of Amendment, dated May 1, 2015, to the Registrant's Amended and Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on May 5, 2015.
3.3	Amended and Restated Bylaws of WSFS Financial Corporation, incorporated herein by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed on November 21, 2014.
10.1	WSFS Financial Corporation, 1994 Short Term Management Incentive Plan Summary Plan Description is incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
10.2	Amended and Restated Wilmington Savings Fund Society, Federal Savings Bank 1997 Stock Option Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-26099) filed with the Commission on April 29, 1997.
10.3	2000 Stock Option and Temporary Severance Agreement among Wilmington Savings Fund Society, Federal Savings Bank, WSFS Financial Corporation and Marvin N. Schoenhals on February 24, 2000 is incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.
10.4	WSFS Financial Corporation Severance Policy for Executive Vice Presidents dated February 28, 2008, incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.5	WSFS Financial Corporation's 2005 Incentive Plan is incorporated herein by reference to appendix A of the Registrant's Definitive Proxy Statement on Schedule 14-A for the 2005 Annual Meeting of Stockholders.
10.6	Amendment to WSFS Financial Corporation 2005 Incentive Plan for IRC 409A and FAS 123R dated December 31, 2008, incorporated herein by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.7	Amendment to the WSFS Financial Corporation Severance Policy for Executive Vice Presidents dated December 31, 2008, incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.8	WSFS Financial Corporation's 2013 Incentive Plan is incorporated herein by reference to appendix A of the Registrant's Definitive Proxy Statement on Schedule 14-A for the 2013 Annual Meeting of Stockholders.
10.9	Agreement and Plan of Reorganization, dated as of March 2, 2015, by and between WSFS Financial Corporation and Alliance Bancorp, Inc. of Pennsylvania, incorporated herein by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on March 6, 2015.
10.10	Agreement and Plan of Reorganization, dated as of November 23, 2015, by and between WSFS Financial Corporation and Penn Liberty Financial Corp, incorporated herein by reference to Exhibit 2.1 of the Registrant's Form 8-K filed on November 23, 2015.
10.11	WSFS Financial Corporation's 2018 Incentive Plan is incorporated herein by reference to Appendix A of the Registrant's Definitive Proxy Statement on Schedule 14-A for the 2019 Annual Meeting of Stockholders.
10.12	Agreement and Plan of Reorganization, dated as of August 7, 2018, as amended on November 1, 2018, by and between WSFS Financial Corporation and Beneficial Bancorp, Inc., incorporated herein by reference to Exhibit 2.01 of the Registrant's Form S-4/A filed on November 2, 2018.
10.13	Form of Voting Agreement, dated August 7, 2018, by and between WSFS Financial Corporation, Beneficial Bancorp, Inc. and certain stockholders of Beneficial Bancorp, Inc., incorporated herein by reference to Exhibit 10.01 of the Registrant's Form 8-K filed with the SEC on August 8, 2018.
10.14	Form of Voting Agreement, dated August 7, 2018, by and between WSFS Financial Corporation, Beneficial Bancorp, Inc. and certain stockholders of WSFS Financial Corporation, incorporated herein by reference to Exhibit 10.02 of the Registrant's Form 8-K filed with the SEC on August 8, 2018.

Exhibit Number	Description of Document
21	Subsidiaries of Registrant
23	Consent of KPMG LLP
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Schema Document *
101.CAL	XBRL Calculation Linkbase Document *
101.LAB	XBRL Labels Linkbase Document *
101.PRE	XBRL Presentation Linkbase Document *
101.DEF	XBRL Definition Linkbase Document *

* Submitted as Exhibits 101 to this Annual Report on Form 10-K are documents formatted in XBRL (Extensible Business Reporting Language). Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

Exhibits 10.1 through 10.8 represent management contracts or compensatory plan arrangements.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WSFS FINANCIAL CORPORATION

Date: February 28, 2019

BY: /s/ Rodger Levenson
Rodger Levenson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: <u>February 28, 2019</u>	BY: <u>/s/ Mark A. Turner</u> Mark A. Turner Executive Chairman
Date: <u>February 28, 2019</u>	BY: <u>/s/ Anat Bird</u> Anat Bird Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Francis B. Brake</u> Francis B. Brake Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Jennifer W. Davis</u> Jennifer W. Davis Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Eleuthère I. du Pont</u> Eleuthère I. du Pont Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Christopher T. Gheysens</u> Christopher T. Gheysens Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Rodger Levenson</u> Rodger Levenson President and Chief Executive Officer
Date: <u>February 28, 2019</u>	BY: <u>/s/ Calvert A. Morgan, Jr.</u> Calvert A. Morgan, Jr. Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Marvin N. Schoenhals</u> Marvin N. Schoenhals Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ David G. Turner</u> David G. Turner Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Patrick J. Ward</u> Patrick J. Ward Executive Vice President, Pennsylvania Market President and Director
Date: <u>February 28, 2019</u>	BY: <u>/s/ Dominic C. Canuso</u> Dominic C. Canuso Executive Vice President and Chief Financial Officer
Date: <u>February 28, 2019</u>	BY: <u>/s/ Charles K. Mosher</u> Charles K. Mosher Senior Vice President and Chief Accounting Officer