

WSFS FINANCIAL CORP  
Form 10-Q  
November 08, 2018

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

FORM  
10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 22-2866913

(State

or

other (I.R.S.

jurisdiction Employer

of Identification

Incorporation Number)

or

organization)

500

Delaware

Avenue, 19801

Wilmington,

Delaware

(Address

of

principal (Zip Code)

executive

offices)

(302)

792-6000

(Registrant's

telephone

number,  
including area  
code)

Not Applicable  
(Former name  
or former  
address, if  
changed since  
last report)

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 such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  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 Exchange Act). Yes  No

The Registrant had 31,369,448 shares of common stock, par value \$0.01 per share, outstanding at November 2, 2018.

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FORWARD-LOOKING STATEMENTS

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

- those related to difficult market conditions and unfavorable economic trends in the United States generally, and particularly in the markets in which the Company operates and in which its loans are concentrated, including the effects of declines in housing markets, an increase in unemployment levels and slowdowns in economic growth;
- the Company’s level of nonperforming assets and the costs associated with resolving problem loans including litigation and other costs;
- possible additional loan losses and impairment in the collectability of loans;
- changes in market interest rates, which may increase funding costs and reduce earning asset yields and thus reduce margin;
- the impact of changes in interest rates and the credit quality and strength of underlying collateral and the effect of such changes on the market value of the Company’s investment securities portfolio;
- the credit risk associated with the substantial amount of commercial real estate, construction and land development and commercial and industrial loans in our loan portfolio;
- the extensive federal and state regulation, supervision and examination governing almost every aspect of the Company’s operations including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations issued in accordance with this statute and potential expenses associated with complying with such regulations;
- the Company’s ability to comply with applicable capital and liquidity requirements (including the finalized Basel III capital standards), including our ability to generate liquidity internally or raise capital on favorable terms;
- possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations;
- conditions in the financial markets that may limit the Company’s access to additional funding to meet its liquidity needs;
- any impairment of the Company’s goodwill or other intangible assets;
- failure of the financial and operational controls of the Company’s Cash Connec<sup>®</sup> division;
- the success of the Company’s growth plans, including the successful integration of past and future acquisitions; including the pending acquisition of Beneficial Bancorp, Inc. which is subject to customary closing conditions including regulatory and stockholder approvals;
- 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;
- 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 failure or cybersecurity breaches of the Company’s network security;
- the Company’s ability to recruit and retain key employees;
-

the effects of problems encountered by other financial institutions that adversely affect the Company or the banking industry generally;  
the effects of weather and natural disasters such as floods, droughts, wind, tornadoes and hurricanes as well as effects from geopolitical instability and man-made disasters including terrorist attacks;  
possible changes in the speed of loan prepayments by the Company's customers and loan origination or sales volumes;

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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 effects of other risks and uncertainties, including those discussed in the Company's Form 10-K for the year ended December 31, 2017 and other documents filed by the Company with the Securities and Exchange Commission from time to time.

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 Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q are the property of their respective holders.

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CONSOLIDATED STATEMENTS OF INCOME

|  | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |           |
|--|--|----------|------------------------------------|-----------|
|  | 2018                                   | 2017     | 2018                               | 2017      |
| (Dollars in thousands, except per share data)  |  |          |                                    |           |
| Interest income:   |  |          |                                    |           |
| Interest and fees on loans   | \$67,164                               | \$58,504 | \$192,071                          | \$169,258 |
| Interest on mortgage-backed securities   | 6,662                                  | 4,955    | 18,251                             | 14,132    |
| Interest and dividends on investment securities:                                       |  |          |                                    |           |
| Taxable  | 14                                     | 14       | 47                                 | 137       |
| Tax-exempt   | 1,065                                  | 1,125    | 3,260                              | 3,387     |
| Other interest income  | 510                                    | 412      | 1,550                              | 1,256     |
|  | 75,415                                 | 65,010   | 215,179                            | 188,170   |
| Interest expense:  |  |          |                                    |           |
| Interest on deposits   | 7,977                                  | 3,862    | 19,585                             | 10,278    |
| Interest on senior debt  | 1,179                                  | 1,807    | 3,538                              | 6,049     |
| Interest on Federal Home Loan Bank advances  | 2,097                                  | 2,402    | 7,096                              | 6,057     |
| Interest on federal funds purchased and securities sold under agreements to repurchase | 381                                    | 273      | 1,261                              | 709       |
| Interest on trust preferred borrowings   | 677                                    | 500      | 1,871                              | 1,418     |
| Interest on other borrowings   | 7                                      | 37       | 28                                 | 113       |
|  | 12,318                                 | 8,881    | 33,379                             | 24,624    |
| Net interest income  | 63,097                                 | 56,129   | 181,800                            | 163,546   |
| Provision for loan losses  | 3,716                                  | 2,896    | 9,864                              | 6,901     |
| Net interest income after provision for loan losses                                    | 59,381                                 | 53,233   | 171,936                            | 156,645   |
| Noninterest income:  |  |          |                                    |           |
| Credit/debit card and ATM income   | 11,239                                 | 9,350    | 31,753                             | 26,406    |
| Investment management and fiduciary income   | 10,029                                 | 8,809    | 29,462                             | 25,683    |
| Deposit service charges  | 4,670                                  | 4,695    | 13,964                             | 13,652    |
| Mortgage banking activities, net   | 1,509                                  | 1,756    | 4,938                              | 4,785     |
| Securities gains, net  | —                                      | 736      | 21                                 | 1,764     |
| Unrealized gains on equity investments   | 3,249                                  | —        | 18,595                             | —         |
| Realized gain on sale of equity investment   | 3,757                                  | —        | 3,757                              | —         |
| Loan fee income  | 693                                    | 483      | 1,859                              | 1,483     |
| Bank owned life insurance income   | 96                                     | 546      | 328                                | 1,124     |
| Other income   | 6,659                                  | 6,066    | 19,678                             | 17,312    |
|  | 41,901                                 | 32,441   | 124,355                            | 92,209    |
| Noninterest expense:   |  |          |                                    |           |
| Salaries, benefits and other compensation  | 30,641                                 | 29,172   | 91,438                             | 86,231    |
| Occupancy expense  | 4,697                                  | 4,756    | 14,953                             | 14,602    |
| Equipment expense  | 3,258                                  | 2,922    | 9,523                              | 9,544     |
| Data processing and operations expenses  | 1,962                                  | 1,817    | 5,765                              | 5,185     |
| Professional fees  | 2,358                                  | 2,248    | 6,403                              | 6,552     |
| Marketing expense  | 1,499                                  | 712      | 3,341                              | 2,268     |
| Early extinguishment of debt   | —                                      | 695      | —                                  | 695       |
| FDIC expenses  | 518                                    | 560      | 1,632                              | 1,683     |

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|  |          |          |           |          |
|--|----------|----------|-----------|----------|
| Loan workout and OREO expenses               | (19 )    | 484      | 1,088     | 1,504    |
| Corporate development expense                | 3,794    | 153      | 4,251     | 857      |
| (Recovery of) provision for legal settlement | (7,938 ) | —        | (7,938 )  | —        |
| (Recovery of) provision for fraud loss       | (10 )    | —        | (1,675 )  | —        |
| Other operating expense                      | 11,694   | 10,644   | 34,916    | 29,275   |
|  | 52,454   | 54,163   | 163,697   | 158,396  |
| Income before taxes                          | 48,828   | 31,511   | 132,594   | 90,458   |
| Income tax provision                         | 9,893    | 10,942   | 27,569    | 30,382   |
| Net income                                   | \$38,935 | \$20,569 | \$105,025 | \$60,076 |
| Earnings per share:                          |          |          |           |          |
| Basic  | \$1.22   | \$0.65   | \$3.32    | \$1.91   |
| Diluted                                      | \$1.20   | \$0.64   | \$3.26    | \$1.86   |

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



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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |          |
|--|--|----------|------------------------------------|----------|
|  | 2018<br>(Unaudited)                    | 2017     | 2018<br>(Unaudited)                | 2017     |
| (Dollars in thousands)   |  |          |                                    |          |
| Net income   | \$38,935                               | \$20,569 | \$105,025                          | \$60,076 |
| Other comprehensive (loss) income:   |  |          |                                    |          |
| Net change in unrealized (loss) gains on investment securities available for sale  |  |          |                                    |          |
| Net unrealized (loss) gains arising during the period, net of tax (benefit) expense of (\$1,846), \$761, (\$6,958) and \$3,498, respectively   | (6,042 )                               | 1,289    | (22,370 )                          | 5,802    |
| Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of \$0, \$261, \$5, and \$628, respectively  | —                                      | (475 )   | (16 )                              | (1,136 ) |
|  | (6,042 )                               | 814      | (22,386 )                          | 4,666    |
| Net change in securities held to maturity  |  |          |                                    |          |
| Amortization of unrealized gain on securities reclassified to held-to-maturity, net of tax expense (benefit) of \$36, \$60, \$109 and \$181, respectively  | (107 )                                 | (99 )    | (343 )                             | (297 )   |
| 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 \$(9), (\$15), \$1, and (\$42), respectively | (30 )                                  | (22 )    | (1 )                               | (67 )    |
| Net change in cash flow hedge  |  |          |                                    |          |
| Net unrealized (loss) gain arising during the period, net of tax expense (benefit) of (\$75), \$26, (\$391) and \$118 respectively   | (109 )                                 | 42       | (1,119 )                           | 192      |
| Total other comprehensive (loss) income  | (6,288 )                               | 735      | (23,849 )                          | 4,494    |
| Total comprehensive income   | \$32,647                               | \$21,304 | \$81,176                           | \$64,570 |

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

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|  | September<br>30, 2018 | December<br>31, 2017 |
|--|-----------------------|----------------------|
| (Dollars in thousands, except per share and share data)  |                       |                      |
| Assets:  |                       |                      |
| Cash and due from banks  | \$158,234             | \$122,141            |
| Cash in non-owned ATMs   | 552,952               | 598,117              |
| Interest-bearing deposits in other banks including collateral of \$0 and \$3,380 at September 30, 2018 and December 31, 2017, respectively | 186                   | 3,608                |
| Total cash and cash equivalents  | 711,372               | 723,866              |
| Investment securities, available for sale (amortized cost of \$1,036,905 at September 30, 2018 and \$847,791 at December 31, 2017)         | 997,131               | 837,499              |
| Investment securities, held to maturity-at cost (fair value of \$150,583 at September 30, 2018 and \$162,853 at December 31, 2017)         | 152,577               | 161,186              |
| Other investments  | 35,083                | 17,971               |
| Loans, held for sale at fair value   | 35,855                | 31,055               |
| Loans, net of allowance for loan losses of \$41,812 at September 30, 2018 and \$40,599 at December 31, 2017                                | 4,886,136             | 4,776,318            |
| Bank owned life insurance  | 6,840                 | 102,958              |
| Stock in Federal Home Loan Bank of Pittsburgh at cost  | 16,540                | 31,284               |
| Other real estate owned  | 2,004                 | 2,503                |
| Accrued interest receivable  | 21,331                | 19,405               |
| Premises and equipment   | 46,348                | 47,983               |
| Goodwill   | 166,007               | 166,007              |
| Intangible assets  | 20,577                | 22,437               |
| Other assets   | 62,041                | 59,068               |
| Total assets   | \$7,159,842           | \$6,999,540          |
| Liabilities and Stockholders' Equity   |                       |                      |
| Liabilities:   |                       |                      |
| Deposits:  |                       |                      |
| Noninterest-bearing  | \$1,515,336           | \$1,420,760          |
| Interest-bearing   | 4,208,580             | 3,826,844            |
| Total deposits   | 5,723,916             | 5,247,604            |
| Federal funds purchased  | —                     | 28,000               |
| Federal Home Loan Bank advances  | 338,465               | 710,001              |
| Trust preferred borrowings   | 67,011                | 67,011               |
| Senior debt  | 98,334                | 98,171               |
| Other borrowed funds   | 41,279                | 34,623               |
| Accrued interest payable   | 7,119                 | 1,037                |
| Other liabilities  | 84,896                | 88,748               |
| Total liabilities  | 6,361,020             | 6,275,195            |
| Stockholders' Equity:  |                       |                      |
| Common stock \$0.01 par value, 65,000,000 shares authorized; issued 56,880,335 at September 30, 2018 and 56,279,527 at December 31, 2017   | 567                   | 563                  |
| Capital in excess of par value   | 347,900               | 336,271              |
| Accumulated other comprehensive loss   | (32,001 )             | (8,152 )             |
| Retained earnings  | 764,765               | 669,557              |
|  | (282,409 )            | (273,894 )           |

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Treasury stock at cost, 25,028,145 shares at September 30, 2018 and 24,861,145 shares at December 31, 2017

|  |             |             |
|--|-------------|-------------|
| Total stockholders' equity                 | 798,822     | 724,345     |
| Total liabilities and stockholders' equity | \$7,159,842 | \$6,999,540 |

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

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

| (Dollars in thousands, except per share and share amounts)                        | Shares     | Capital in Accumulated |                     |                                   |                   | Treasury Stock | Total Stockholders' Equity |
|---|------------|------------------------|---------------------|-----------------------------------|-------------------|----------------|----------------------------|
|   |            | Common Stock           | Excess of Par Value | Other Comprehensive Income (Loss) | Retained Earnings |                |                            |
| Balance, December 31, 2016  | 55,995,219 | \$ 580                 | \$ 329,457          | \$ (7,617 )                       | \$ 627,078        | \$(262,162)    | \$ 687,336                 |
| Net income  | —          | —                      | —                   | —                                 | 60,076            | —              | 60,076                     |
| Other comprehensive income  | —          | —                      | —                   | 4,494                             | —                 | —              | 4,494                      |
| Cash dividend, \$0.21 per share   | —          | —                      | —                   | —                                 | (6,600 )          | —              | (6,600 )                   |
| Issuance of common stock including proceeds from exercise of common stock options | 222,424    | 2                      | 2,315               | —                                 | —                 | —              | 2,317                      |
| Stock-based compensation expense  | —          | —                      | 2,449               | —                                 | —                 | —              | 2,449                      |
| Repurchase of common stock, 204,000 shares  | —          | (20 )                  | —                   | —                                 | —                 | (9,191 )       | (9,211 )                   |
| Balance, September 30, 2017   | 56,217,643 | \$ 562                 | \$ 334,221          | \$ (3,123 )                       | \$ 680,554        | \$(271,353)    | \$ 740,861                 |
| Balance, December 31, 2017  | 56,279,527 | \$ 563                 | \$ 336,271          | \$ (8,152 )                       | \$ 669,557        | \$(273,894)    | \$ 724,345                 |
| Net income  | —          | —                      | —                   | —                                 | 105,025           | —              | 105,025                    |
| Other comprehensive loss  | —          | —                      | —                   | (23,869 )                         | —                 | —              | (23,869 )                  |
| Cash dividend, \$0.31 per share   | —          | —                      | —                   | —                                 | (9,797 )          | —              | (9,797 )                   |
| Reclassification due to the adoption of ASU No. 2016-01                           | —          | —                      | —                   | 20                                | (20 )             | —              | —                          |
| Issuance of common stock including proceeds from exercise of common stock options | 600,808    | 4                      | 9,772               | —                                 | —                 | —              | 9,776                      |
| Stock-based compensation expense  | —          | —                      | 1,857               | —                                 | —                 | —              | 1,857                      |
| Repurchase of common stock, 167,000 shares  | —          | —                      | —                   | —                                 | —                 | (8,515 )       | (8,515 )                   |
| Balance, September 30, 2018   | 56,880,335 | \$ 567                 | \$ 347,900          | \$ (32,001 )                      | \$ 764,765        | \$(282,409)    | \$ 798,822                 |

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Nine Months Ended<br>September 30, |              |
|---|------------------------------------|--------------|
|   | 2018                               | 2017         |
|   | (Unaudited)                        |              |
| (Dollars in thousands)  |                                    |              |
| Operating activities:   |                                    |              |
| Net income  | \$ 105,025                         | \$ 60,076    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |              |
| Provision for loan losses   | 9,864                              | 6,901        |
| Depreciation of premises and equipment, net                                       | 6,347                              | 6,454        |
| Amortization of fees and discounts, net   | 11,952                             | 15,002       |
| Amortization of intangible assets   | 2,223                              | 2,352        |
| Income from mortgage banking activities, net                                      | (4,938                             | ) (4,785 )   |
| Gain on sale of securities, net   | (21                                | ) (1,764 )   |
| Loss on sale of other real estate owned and valuation adjustments, net            | 83                                 | 187          |
| Stock-based compensation expense  | 1,857                              | 2,449        |
| Unrealized gain on equity investments   | (18,595                            | ) —          |
| Debt extinguishment cost  | —                                  | 695          |
| Deferred income tax expense   | 3,330                              | 3,097        |
| (Increase) decrease in accrued interest receivable                                | (1,926                             | ) (762 )     |
| Decrease (increase) in other assets   | 3,171                              | (7,451 )     |
| Origination of loans held for sale  | (265,674                           | ) (258,962 ) |
| Proceeds from sales of loans held for sale  | 257,026                            | 284,797      |
| Increase in accrued interest payable  | 6,083                              | 2,731        |
| (Decrease) increase in other liabilities  | (5,273                             | ) 962        |
| Increase in value of bank owned life insurance                                    | (311                               | ) (899 )     |
| Increase in capitalized interest, net   | (2,795                             | ) (3,252 )   |
| Net cash provided by operating activities   | \$ 107,428                         | \$ 107,828   |
| Investing activities:   |                                    |              |
| Purchases of investment securities held to maturity                               | \$—                                | \$—          |
| Repayments, maturities and calls of investment securities held to maturity        | 7,055                              | 1,175        |
| Sale of investment securities available for sale                                  | 7,012                              | 415,486      |
| Purchases of investment securities available for sale                             | (280,401                           | ) (593,878 ) |
| Repayments of investment securities available for sale                            | 82,501                             | 174,251      |
| Proceeds of bank-owned life insurance death benefit                               | —                                  | 371          |
| Proceeds from bank-owned life insurance surrender                                 | 96,429                             | —            |
| Net increase in loans   | (119,641                           | ) (231,955 ) |
| Purchases of stock of Federal Home Loan Bank of Pittsburgh                        | (137,199                           | ) (128,159 ) |
| Redemptions of stock of Federal Home Loan Bank of Pittsburgh                      | 151,943                            | 133,130      |
| Sales of other real estate owned  | 2,323                              | 4,405        |
| Investment in premises and equipment  | (4,910                             | ) (7,336 )   |
| Sales of premises and equipment   | 201                                | 1,593        |
| Net cash used for investing activities  | \$(194,687)                        | \$(230,917)  |

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|   | Nine Months Ended<br>September 30,<br>2018      2017<br>(Unaudited) |               |
|---|---|---------------|
| (Dollars in thousands)  |   |               |
| Financing activities:   |   |               |
| Net increase in demand and saving deposits  | \$341,411   | \$ 320,784    |
| Increase (decrease) in time deposits  | 83,788  | (36,055 )     |
| Increase in brokered deposits   | 57,638  | 35,079        |
| Decrease in loan payable  | —   | (359 )        |
| Receipts from FHLB advances   | 85,335,984  | 109,432,123   |
| Repayments of FHLB advances   | (85,707,520)  | (109,588,547) |
| Receipts from federal funds purchased and securities sold under agreement to repurchase           | 18,821,100  | 17,610,000    |
| Repayments of federal funds purchased and securities sold under agreement to repurchase           | (18,849,100)  | (17,670,000)  |
| Dividends paid  | (9,797 )  | (6,600 )      |
| Issuance of common stock and exercise of common stock options                                     | 9,776   | 2,317         |
| Redemption of senior debt   | —   | (55,000 )     |
| Purchase of treasury stock  | (8,515 )  | (9,211 )      |
| Net cash provided by financing activities   | \$74,765  | \$ 34,531     |
| Decrease in cash and cash equivalents   | (12,494 )   | (88,558 )     |
| Cash and cash equivalents at beginning of period  | 723,866   | 821,923       |
| Cash and cash equivalents at end of period  | \$711,372   | \$ 733,365    |
| Supplemental Disclosure of Cash Flow Information:   |   |               |
| Cash paid during the period for:  |   |               |
| Interest  | \$27,297  | \$ 21,893     |
| Income taxes  | 21,754  | 20,861        |
| Non-cash information:   |   |               |
| Loans transferred to other real estate owned  | 1,907   | 4,925         |
| Loans transferred to portfolio from held-for-sale at fair value                                   | 7,261   | 12,782        |
| Goodwill adjustments, net   | —   | (1,532 )      |
| The accompanying notes are an integral part of these unaudited Consolidated Financial Statements. |   |               |

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WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)

1. BASIS OF PRESENTATION

General

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

Overview

Founded in 1832, the Bank is one of the ten oldest bank and trust companies continuously operating under the same name in the United States (U.S.). We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. Lending activities are funded primarily with customer deposits and borrowings. In addition, we offer a variety of wealth management and trust services to personal and corporate customers. The Federal Deposit Insurance Corporation (FDIC) insures our customers' deposits to their legal maximums. We serve our customers primarily from 77 offices located in Delaware (46), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at [www.wsfsbank.com](http://www.wsfsbank.com). Information on our website is not incorporated by reference into this quarterly report.

In preparing the unaudited Consolidated Financial Statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Amounts subject to significant estimates include the allowance for loan losses and reserves for lending-related commitments, goodwill, intangible assets, post-retirement benefit obligations, the fair value of financial instruments, and other-than-temporary impairment (OTTI). Among other effects, changes to these estimates could result in future impairments of investment securities, goodwill and intangible assets, the establishment of the allowance and lending-related commitments as well as increased post-retirement benefits expense.

Our accounting and reporting policies conform to Generally Accepted Accounting Principles (GAAP) in the U.S., prevailing practices within the banking industry for interim financial information and Rule 10-01 of SEC Regulation S-X (Rule 10-01). Rule 10-01 does not require us to include all information and notes that would be required in audited financial statements. Certain prior period amounts have been reclassified to conform with current period presentation. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2018. These unaudited, interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Annual Report on Form 10-K) that was filed with the SEC on March 1, 2018 and is available at [www.sec.gov](http://www.sec.gov) or on our website at <http://investors.wsfsbank.com/financials.cfm>. All significant intercompany transactions were eliminated in consolidation.

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 Agreement, among other things, (i) Beneficial will merge with and into WSFS, with WSFS continuing as the surviving corporation and (ii) concurrently, Beneficial Bank will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving bank. 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. These mergers, subject to customary closing conditions including required regulatory approvals and stockholder approvals, are expected to close in Q1 2019.





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### Significant Accounting Policies:

The significant accounting policies used in preparation of our Consolidated Financial Statements are disclosed in our 2017 Annual Report on Form 10-K. Those significant accounting policies remain unchanged at September 30, 2018, except as described below:

#### 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 may be classified into 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 their cost minus impairment, if any, plus or minus changes 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 investment in Visa Class B shares 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 the 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.

## 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 2 for additional disclosures resulting from our adoption of this standard.

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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 2017 Annual Report on Form 10-K, 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 revaluation was recorded in the Consolidated Statements of Income in the first quarter of 2018. See Note 10 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.

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## Accounting Guidance Pending Adoption at September 30, 2018

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for 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 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. The Company has substantially completed its process of identifying its lease population as defined by this guidance and anticipates finalizing the impact analysis on the Consolidated Financial Statements in the fourth quarter. To date, our review suggests that adoption will increase assets and liabilities on our Consolidated Statements of Financial Condition. The Company will continue to assess the impact of this guidance, taking into consideration available accounting policy elections and significant assumptions and judgments such as the discount rate and renewal options. In addition, the Company continues to evaluate its internal systems, accounting policies, processes and related internal controls for potential effects. To date, we have been working to implement a lease accounting and administration software to assist us with initial and on-going requirements of the new guidance. The Company expects to complete the implementation in the fourth quarter.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company 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. To date, we have selected a software solution to assist us with the initial and on-going requirements of the new guidance and are currently in the early stages of implementing the software. We have engaged third-party experts and specialists, where necessary, to assist with the implementation efforts. We continue to perform due diligence on acceptable methodologies under the guidance, as well as evaluate the potential effects to our accounting policies, processes and related internal controls. Our review of this guidance to date suggests 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 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 does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities. The new guidance requires the amortization period for certain non-contingent callable debt securities held at a premium to end at the earliest call date of the debt security. If the call option is not exercised at the earliest call date, the guidance requires the debt security's effective yield to be reset based on the contractual payment terms of the debt

security. The guidance is effective in annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted. Use of the modified retrospective method, with a cumulative-effect adjustment to retained earnings is required. In the period of adoption, a change in accounting principle disclosure is required. The Company does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements.

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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 does not expect the application of this guidance to have a material impact on its Consolidated Financial Statements, except for the one-time reclassification, if elected.

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.

## 2. 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 unaudited Consolidated Statements of Income. See Note 1 for further information about our adoption of ASU 2014-09, and Note 12 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:

|  | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended September<br>30, |          |
|--|--|---------|---------------------------------------|----------|
| (Dollars in thousands)                 | 2018                                   | 2017    | 2018                                  | 2017     |
| Bailment fees                          | \$7,188                                | \$5,603 | \$19,869                              | \$15,467 |
| Interchange fees                       | 3,766                                  | 3,469   | 11,073                                | 10,164   |
| Other card and ATM fees                | 285                                    | 278     | 811                                   | 775      |
| Total credit/debit card and ATM income | \$11,239                               | \$9,350 | \$31,753                              | \$26,406 |



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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:

|  | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended September<br>30, |          |
|--|--|---------|---------------------------------------|----------|
| (Dollars in thousands)                           | 2018                                   | 2017    | 2018                                  | 2017     |
| Trust fees                                       | \$5,932                                | \$5,044 | \$17,298                              | \$14,317 |
| Wealth management and advisory fees              | 4,097                                  | 3,765   | 12,164                                | 11,366   |
| Total investment management and fiduciary income | \$10,029                               | \$8,809 | \$29,462                              | \$25,683 |

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 the assets under management. 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 Christiana Trust. Wealth management and advisory fees are based on revenue earned from services including asset management, financial planning, family office, and brokerage. The fees are based on the market value of assets, are assessed as a flat fee, or are brokerage commissions. 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:

|                               | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended September<br>30, |          |
|-------------------------------|--|---------|---------------------------------------|----------|
| (Dollars in thousands)        | 2018                                   | 2017    | 2018                                  | 2017     |
| Service fees                  | \$2,663                                | \$2,603 | \$7,877                               | \$7,526  |
| Return and overdraft fees     | 1,885                                  | 1,973   | 5,662                                 | 5,660    |
| Other deposit service fees    | 122                                    | 119     | 425                                   | 466      |
| Total deposit service charges | \$4,670                                | \$4,695 | \$13,964                              | \$13,652 |

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.

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## Other income

The following table presents the components of other income:

|                                     | Three Months  |         | Nine Months     |          |
|-------------------------------------|---------------|---------|-----------------|----------|
|                                     | Ended         |         | Ended September |          |
|                                     | September 30, |         | 30,             |          |
| (Dollars in thousands)              | 2018          | 2017    | 2018            | 2017     |
| Managed service fees                | \$3,169       | \$2,894 | \$9,100         | \$8,184  |
| Currency preparation                | 863           | 765     | 2,406           | 2,185    |
| ATM insurance                       | 586           | 715     | 1,781           | 2,131    |
| Miscellaneous products and services | 2,041         | 1,692   | 6,391           | 4,812    |
| Total other income                  | \$6,659       | \$6,066 | \$19,678        | \$17,312 |

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.

## 3. EARNINGS PER SHARE

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

|  | Three Months    |          | Nine Months     |          |
|--|-----------------|----------|-----------------|----------|
|  | Ended September |          | Ended September |          |
|  | 30,             |          | 30,             |          |
| (Dollars and shares in thousands, except per share data)       | 2018            | 2017     | 2018            | 2017     |
| Numerator:   |                 |          |                 |          |
| Net income   | \$38,935        | \$20,569 | \$105,025       | \$60,076 |
| Denominator:   |                 |          |                 |          |
| Weighted average basic shares                                  | 31,800          | 31,420   | 31,599          | 31,424   |
| Dilutive potential common shares                               | 548             | 848      | 663             | 856      |
| Weighted average fully diluted shares                          | \$32,348        | \$32,268 | \$32,262        | \$32,280 |
| Earnings per share:  |                 |          |                 |          |
| Basic  | \$1.22          | \$0.65   | \$3.32          | \$1.91   |
| Diluted  | \$1.20          | \$0.64   | \$3.26          | \$1.86   |
| Outstanding common stock equivalents having no dilutive effect | 11              | —        | 16              | 5        |

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## 4. 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 in debt securities are classified as trading.

| (Dollars in thousands)                                | September 30, 2018 |                       |                       |            |
|---|--------------------|-----------------------|-----------------------|------------|
|   | Amortized Cost     | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| <b>Available-for-Sale Debt Securities</b>             |                    |                       |                       |            |
| CMO   | \$311,507          | \$ —                  | \$ 11,477             | \$300,030  |
| FNMA MBS  | 571,686            | —                     | 22,948                | 548,738    |
| FHLMC MBS   | 116,532            | 2                     | 4,112                 | 112,422    |
| GNMA MBS  | 37,180             | 72                    | 1,311                 | 35,941     |
|   | \$1,036,905        | \$ 74                 | \$ 39,848             | \$997,131  |
| <b>Held-to-Maturity Debt Securities<sup>(1)</sup></b> |                    |                       |                       |            |
| State and political subdivisions                      | \$152,577          | \$ 55                 | \$ 2,049              | \$150,583  |
| <b>Equity Investments<sup>(2)</sup></b>               |                    |                       |                       |            |
| Visa Class B shares                                   | \$13,918           | \$ 17,865             | \$ —                  | \$31,783   |
| Other equity investments                              | 3,300              | —                     | —                     | 3,300      |
|   | \$17,218           | \$ 17,865             | \$ —                  | \$35,083   |

(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 \$1.2 million at September 30, 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 unaudited Consolidated Statements of Financial Condition.

| (Dollars in thousands)                                | December 31, 2017 |                       |                       |            |
|---|-------------------|-----------------------|-----------------------|------------|
|   | Amortized Cost    | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| <b>Available-for-Sale Debt Securities</b>             |                   |                       |                       |            |
| 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  |
| <b>Held-to-Maturity Debt Securities<sup>(1)</sup></b> |                   |                       |                       |            |
| State and political subdivisions                      | \$161,186         | \$ 1,758              | \$ 91                 | \$162,853  |
| <b>Equity Investments<sup>(2)(3)</sup></b>            |                   |                       |                       |            |
| 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 unaudited Consolidated Statements of Financial Condition.

<sup>(3)</sup> These municipal securities were sold during the second quarter of 2018.

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The scheduled maturities of our available-for-sale debt securities at September 30, 2018 and December 31, 2017 are presented in the table below:

| (Dollars in thousands)                | Available for Sale |            |
|---------------------------------------|--------------------|------------|
|                                       | Amortized Cost     | Fair Value |
| September 30, 2018                    |                    |            |
| Within one year                       | \$—                | \$—        |
| After one year but within five years  | 19,792             | 19,160     |
| After five years but within ten years | 170,009            | 159,754    |
| After ten years                       | 847,104            | 818,217    |
|                                       | \$1,036,905        | \$997,131  |
| December 31, 2017                     |                    |            |
| 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    |
|                                       | \$847,791          | \$837,499  |

The scheduled maturities of our held-to-maturity debt securities at September 30, 2018 and December 31, 2017 are presented in the table below:

| (Dollars in thousands)                | Held to Maturity |            |
|---------------------------------------|------------------|------------|
|                                       | Amortized Cost   | Fair Value |
| September 30, 2018                    |                  |            |
| Within one year                       | \$1,027          | \$1,023    |
| After one year but within five years  | 6,636            | 6,599      |
| After five years but within ten years | 29,148           | 28,902     |
| After ten years                       | 115,766          | 114,059    |
|                                       | \$152,577        | \$150,583  |
| December 31, 2017                     |                  |            |
| 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    |
|                                       | \$161,186        | \$162,853  |

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 \$972.8 million and \$688.2 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 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 the nine months ended September 30, 2017, we sold \$415.5 million of debt securities categorized as available for sale, resulting in realized gains of \$1.9 million and realized losses of less than \$0.1 million. The cost basis of all debt securities sales is based on the specific identification method.

During the nine months ended September 30, 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 during the nine months ended September 30, 2017.



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As of September 30, 2018 and December 31, 2017, our debt securities portfolio had remaining unamortized premiums of \$12.8 million and \$14.1 million, respectively, and unaccreted discounts of \$1.8 million and \$1.3 million as of September 30, 2018 and December 31, 2017.

For 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 September 30, 2018.

| (Dollars in thousands)                 | Duration of Unrealized Loss Position |                 |                     |                 |            |                 |
|--|--------------------------------------|-----------------|---------------------|-----------------|------------|-----------------|
|  | Less than 12 months                  |                 | 12 months or longer |                 | Total      |                 |
|  | Fair Value                           | Unrealized Loss | Fair Value          | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale debt securities:    |                                      |                 |                     |                 |            |                 |
| CMO                                    | \$ 138,346                           | \$ 2,826        | \$ 161,684          | \$ 8,651        | \$ 300,030 | \$ 11,477       |
| FNMA MBS                               | 303,994                              | 8,047           | 244,744             | 14,901          | 548,738    | 22,948          |
| FHLMC MBS                              | 55,386                               | 1,271           | 52,514              | 2,841           | 107,900    | 4,112           |
| GNMA MBS                               | 19,329                               | 504             | 13,419              | 807             | 32,748     | 1,311           |
| Total temporarily impaired investments | \$ 517,055                           | \$ 12,648       | \$ 472,361          | \$ 27,200       | \$ 989,416 | \$ 39,848       |
| Held-to-maturity debt securities:      |                                      |                 |                     |                 |            |                 |
| State and political subdivisions       | \$ 150,060                           | \$ 2,013        | \$ 523              | \$ 36           | \$ 150,583 | \$ 2,049        |
| Total temporarily impaired investments | \$ 150,060                           | \$ 2,013        | \$ 523              | \$ 36           | \$ 150,583 | \$ 2,049        |

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

| (Dollars in thousands)                 | Duration of Unrealized Loss Position |                 |                     |                 |            |                 |
|--|--------------------------------------|-----------------|---------------------|-----------------|------------|-----------------|
|  | Less than 12 months                  |                 | 12 months or longer |                 | Total      |                 |
|  | Fair Value                           | Unrealized Loss | Fair Value          | Unrealized Loss | Fair Value | Unrealized Loss |
| Available-for-sale 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 September 30, 2018, we owned debt securities totaling \$1.1 billion for which the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$41.9 million at September 30, 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 September 30, 2018, were AA-rated or better at the time of purchase and remained investment grade at September 30, 2018. All securities were evaluated for OTTI at September 30, 2018 and December 31, 2017. The result of this evaluation showed no OTTI as of September 30, 2018 or December 31, 2017. The estimated weighted average duration of MBS was 5.6 years at September 30, 2018.



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## 5. LOANS

The following table shows our loan portfolio by category:

| (Dollars in thousands)     | September<br>30, 2018 | December<br>31, 2017 |
|----------------------------|-----------------------|----------------------|
| Commercial and industrial  | \$ 1,506,675          | \$ 1,464,554         |
| Owner-occupied commercial  | 1,085,404             | 1,079,247            |
| Commercial mortgages       | 1,133,281             | 1,187,705            |
| Construction               | 333,487               | 281,608              |
| Residential <sup>(1)</sup> | 223,308               | 253,301              |
| Consumer                   | 653,704               | 558,493              |
|                            | 4,935,859             | 4,824,908            |

Less:

|                           |              |              |
|---------------------------|--------------|--------------|
| Deferred fees, net        | 7,911        | 7,991        |
| Allowance for loan losses | 41,812       | 40,599       |
| Net loans                 | \$ 4,886,136 | \$ 4,776,318 |

<sup>(1)</sup> Includes reverse mortgages at fair value of \$16.6 million at September 30, 2018 and \$19.8 million at December 31, 2017.

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

| (Dollars in thousands)        | September<br>30, 2018 | December<br>31, 2017 |
|-------------------------------|-----------------------|----------------------|
| Outstanding principal balance | \$ 21,534             | \$ 27,034            |
| Carrying amount               | 17,264                | 21,295               |
| Allowance for loan losses     | 229                   | 358                  |

The following table presents the changes in accretable yield on the acquired credit impaired loans for the nine months ended September 30, 2018:

| (Dollars in thousands)                         | Three Months<br>Ended<br>September 30, |          | Nine Months<br>Ended<br>September 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2018                                   | 2017     | 2018                                  | 2017     |
| Balance at beginning of period                 | \$ 2,925                               | \$ 4,603 | \$ 3,035                              | \$ 5,150 |
| Accretion                                      | (433 )                                 | (583 )   | (1,351 )                              | (2,158 ) |
| Reclassification from nonaccretable difference | 2                                      | 3        | 1,080                                 | 1,246    |
| Additions/adjustments                          | (52 )                                  | (878 )   | (322 )                                | (1,089 ) |
| Disposals                                      | —                                      | (341 )   | —                                     | (345 )   |
| Balance at end of period                       | \$ 2,442                               | \$ 2,804 | \$ 2,442                              | \$ 2,804 |

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6. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION

Allowance for Loan Losses

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

Specific reserves for impaired loans

• An allowance for each pool of homogenous loans based on historical loss experience

• Adjustments for qualitative and environmental factors allocated to pools of homogenous loans

When it is probable that the Bank will be unable to collect all amounts due (interest and principal) in accordance with the contractual terms of the loan agreement, it assigns a specific reserve to that loan, 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 nine months ended September 30, 2018 and 2017, net charge-offs totaled \$8.7 million, or 0.24%, of average loans annualized, and \$6.5 million, or 0.19%, of average loans annualized, respectively.

Allowances for pooled homogeneous loans, that are not deemed impaired, are based on historical net loss experience. Estimated losses for pooled portfolios are determined differently for commercial loan pools and retail loan pools. Commercial loans are pooled as follows: commercial, owner-occupied commercial, commercial mortgages and construction. Each pool is further segmented by internally assessed risk ratings. Loan losses for commercial loans are estimated by determining the probability of default and expected loss severity upon default. The probability of default is calculated based on the historical rate of migration to impaired status during the last 31 quarters. During the third quarter of 2018, we increased the look-back period to 31 quarters from the 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 31 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 September 30, 2018. Our residential mortgage and consumer LEP remained at four quarters as of September 30, 2018. We evaluate LEP quarterly for reasonableness and complete a detailed historical analysis of our LEP annually for our commercial portfolio and review the current four quarter LEP for the retail portfolio to determine the continued reasonableness of this assumption.

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

The following tables provide the activity of our allowance for loan losses and loan balances for the three and nine months ended September 30, 2018:

| (Dollars in thousands)   | Commercial | Owner-occupied<br>Commercial | Commercial<br>Mortgages | Construction | Residential <sup>(1)</sup> | Consumer | Total     |
|--|------------|------------------------------|-------------------------|--------------|----------------------------|----------|-----------|
| Three months ended<br>September 30, 2018                         |            |                              |                         |              |                            |          |           |
| Allowance for loan losses  |            |                              |                         |              |                            |          |           |
| Beginning balance  | \$15,842   | \$5,284                      | \$6,951                 | \$3,289      | \$1,519                    | \$8,152  | \$41,037  |
| Charge-offs  | (1,761)    | —                            | —                       | (1,475)      | —                          | (567)    | (3,803)   |
| Recoveries   | 621        | 16                           | 52                      | 1            | 28                         | 144      | 862       |
| Provision (credit)   | 1,947      | 273                          | (598)                   | 1,657        | (71)                       | 626      | 3,834     |
| Provision (credit) for<br>acquired loans                         | (82)       | —                            | (21)                    | —            | (1)                        | (14)     | (118)     |
| Ending balance   | \$16,567   | \$5,573                      | \$6,384                 | \$3,472      | \$1,475                    | \$8,341  | \$41,812  |
| Nine months ended<br>September 30, 2018                          |            |                              |                         |              |                            |          |           |
| Allowance for loan losses  |            |                              |                         |              |                            |          |           |
| Beginning balance  | \$16,732   | \$5,422                      | \$5,891                 | \$2,861      | \$1,798                    | \$7,895  | \$40,599  |
| Charge-offs  | (6,861)    | (351)                        | (48)                    | (1,475)      | (54)                       | (1,857)  | (10,646)  |
| Recoveries   | 1,060      | 28                           | 189                     | 3            | 117                        | 598      | 1,995     |
| Provision (credit)   | 5,730      | 419                          | 356                     | 2,106        | (382)                      | 1,711    | 9,940     |
| Provision (credit) for<br>acquired loans                         | (94)       | 55                           | (4)                     | (23)         | (4)                        | (6)      | (76)      |
| Ending balance   | \$16,567   | \$5,573                      | \$6,384                 | \$3,472      | \$1,475                    | \$8,341  | \$41,812  |
| Period-end allowance<br>allocated to:                            |            |                              |                         |              |                            |          |           |
| Loans individually<br>evaluated for<br>impairment                | \$3,970    | \$9                          | \$—                     | \$444        | \$570                      | \$171    | \$5,164   |
| Loans collectively<br>evaluated for<br>impairment                | 12,517     | 5,546                        | 6,300                   | 3,019        | 870                        | 8,167    | 36,419    |
| Acquired loans<br>evaluated for<br>impairment                    | 80         | 18                           | 84                      | 9            | 35                         | 3        | 229       |
| Ending balance   | \$16,567   | \$5,573                      | \$6,384                 | \$3,472      | \$1,475                    | \$8,341  | \$41,812  |
| Period-end loan<br>balances:                                     |            |                              |                         |              |                            |          |           |
| Loans individually<br>evaluated for<br>impairment <sup>(2)</sup> | \$19,910   | \$2,829                      | \$6,502                 | \$2,903      | \$11,479                   | \$8,256  | \$51,879  |
| Loans collectively<br>evaluated for<br>impairment                | 1,387,143  | 958,356                      | 961,345                 | 322,822      | 134,074                    | 620,727  | 4,384,467 |

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|                               |             |             |             |           |           |           |             |
|-------------------------------|-------------|-------------|-------------|-----------|-----------|-----------|-------------|
| Acquired nonimpaired loans    | 97,552      | 119,403     | 156,483     | 7,025     | 60,407    | 24,568    | 465,438     |
| Acquired impaired loans       | 2,070       | 4,816       | 8,951       | 737       | 766       | 153       | 17,493      |
| Ending balance <sup>(3)</sup> | \$1,506,675 | \$1,085,404 | \$1,133,281 | \$333,487 | \$206,726 | \$653,704 | \$4,919,277 |

(1) Period-end loan balance excludes reverse mortgages at fair value of \$16.6 million.

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

(2) \$15.2 million for the period ending September 30, 2018. Accruing troubled debt restructured loans are considered impaired loans.

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

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The following table provides the activity of the allowance for loan losses and loan balances for the three and nine months ended September 30, 2017:

| (Dollars in thousands)                                     | Commercial   | Owner -<br>occupied<br>Commercial | Commercial<br>Mortgages | Construction | Residential <sup>(1)</sup> | Consumer   | Total        |
|--|--------------|-----------------------------------|-------------------------|--------------|----------------------------|------------|--------------|
| Three months ended   |              |                                   |                         |              |                            |            |              |
| September 30, 2017   |              |                                   |                         |              |                            |            |              |
| Allowance for loan losses                                  |              |                                   |                         |              |                            |            |              |
| Beginning balance  | \$ 14,224    | \$ 5,816                          | \$ 7,335                | \$ 3,432     | \$ 2,050                   | \$ 7,148   | \$ 40,005    |
| Charge-offs  | (1,603 )     | (104 )                            | (1,196 )                | (215 )       | (59 )                      | (575 )     | (3,752 )     |
| Recoveries   | 417          | 12                                | 16                      | 301          | 11                         | 295        | 1,052        |
| Provision (credit)   | 2,128        | (96 )                             | (231 )                  | 427          | (49 )                      | 644        | 2,823        |
| Provision for acquired loans                               | (7 )         | 104                               | (5 )                    | (28 )        | 9                          | —          | 73           |
| Ending balance   | \$ 15,159    | \$ 5,732                          | \$ 5,919                | \$ 3,917     | \$ 1,962                   | \$ 7,512   | \$ 40,201    |
| Nine months ended  |              |                                   |                         |              |                            |            |              |
| September 30, 2017   |              |                                   |                         |              |                            |            |              |
| Allowance for loan losses                                  |              |                                   |                         |              |                            |            |              |
| Beginning balance  | \$ 13,339    | \$ 6,588                          | \$ 8,915                | \$ 2,838     | \$ 2,059                   | \$ 6,012   | \$ 39,751    |
| Charge-offs  | (3,787 )     | (296 )                            | (1,702 )                | (346 )       | (112 )                     | (2,606 )   | (8,849 )     |
| Recoveries   | 820          | 120                               | 69                      | 305          | 141                        | 943        | 2,398        |
| Provision (credit)   | 4,597        | (802 )                            | (1,602 )                | 1,056        | (146 )                     | 3,177      | 6,280        |
| Provision for acquired loans                               | 190          | 122                               | 239                     | 64           | 20                         | (14 )      | 621          |
| Ending balance   | \$ 15,159    | \$ 5,732                          | \$ 5,919                | \$ 3,917     | \$ 1,962                   | \$ 7,512   | \$ 40,201    |
| Period-end allowance allocated to:                         |              |                                   |                         |              |                            |            |              |
| Loans individually evaluated for impairment                | \$ 1,220     | \$ —                              | \$ 131                  | \$ —         | \$ 858                     | \$ 198     | \$ 2,407     |
| Loans collectively evaluated for impairment                | 13,646       | 5,699                             | 5,638                   | 3,881        | 1,078                      | 7,310      | 37,252       |
| Acquired loans evaluated for impairment                    | 293          | 33                                | 150                     | 36           | 26                         | 4          | 542          |
| Ending balance   | \$ 15,159    | \$ 5,732                          | \$ 5,919                | \$ 3,917     | \$ 1,962                   | \$ 7,512   | \$ 40,201    |
| Period-end loan balances:                                  |              |                                   |                         |              |                            |            |              |
| Loans individually evaluated for impairment <sup>(2)</sup> | \$ 12,845    | \$ 3,346                          | \$ 9,012                | \$ 1,839     | \$ 14,060                  | \$ 7,409   | \$ 48,511    |
| Loans collectively evaluated for impairment                | 1,249,027    | 941,296                           | 943,699                 | 271,447      | 148,715                    | 472,488    | 4,026,672    |
| Acquired nonimpaired loans                                 | 120,987      | 144,710                           | 194,394                 | 19,085       | 77,154                     | 40,136     | 596,466      |
| Acquired impaired loans                                    | 5,235        | 7,401                             | 9,969                   | 946          | 788                        | 243        | 24,582       |
| Ending balance <sup>(3)</sup>                              | \$ 1,388,094 | \$ 1,096,753                      | \$ 1,157,074            | \$ 293,317   | \$ 240,717                 | \$ 520,276 | \$ 4,696,231 |

<sup>(1)</sup> Period-end loan balance excludes reverse mortgages at fair value of \$21.4 million.

The difference between this amount and nonaccruing loans represents accruing troubled debt restructured loans of (2) \$14.9 million for the period ending September 30, 2017. Accruing troubled debt restructured loans are considered impaired loans.

(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.

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

| (Dollars in thousands)                  | September 30, 2018                     |  |  |                                   |                           |                         |                  |              |   |
|---|--|--|--|-----------------------------------|---------------------------|-------------------------|------------------|--------------|---|
|   | 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                              | \$ 1,324                               | \$ 144                                 | \$ 2   | \$ 1,470                          | \$ 1,484,007              | \$ 2,070                | \$ 19,128        | \$ 1,506,675 |   |
| Owner-occupied commercial               | 1,526                                  | 782                                    | —  | 2,308                             | 1,075,451                 | 4,816                   | 2,829            | 1,085,404    |   |
| Commercial mortgages                    | 674                                    | 263                                    | —  | 937                               | 1,117,184                 | 8,951                   | 6,209            | 1,133,281    |   |
| Construction Residential <sup>(1)</sup> | —                                      | —                                      | —  | —                                 | 329,847                   | 737                     | 2,903            | 333,487      |   |
| Consumer                                | 2,336                                  | 879                                    | 24   | 3,239                             | 199,456                   | 766                     | 3,265            | 206,726      |   |
| Total <sup>(2)</sup>                    | 612                                    | 174                                    | 185  | 971                               | 650,226                   | 153                     | 2,354            | 653,704      |   |
| Total <sup>(2)</sup>                    | \$ 6,472                               | \$ 2,242                               | \$ 211   | \$ 8,925                          | \$ 4,856,171              | \$ 17,493               | \$ 36,688        | \$ 4,919,277 |   |
| % of Total Loans                        | 0.13 %                                 | 0.05 %                                 | — %  | 0.18 %                            | 98.72 %                   | 0.36 %                  | 0.75 %           | 100 %        | % |

(1) Residential accruing current balances excludes reverse mortgages at fair value of \$16.6 million.

(2) The balances above include a total of \$465.4 million acquired non-impaired loans.

| (Dollars in thousands)                  | December 31, 2017                      |  |  |                                   |                           |                         |                  |              |   |
|---|--|--|--|-----------------------------------|---------------------------|-------------------------|------------------|--------------|---|
|   | 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 Residential <sup>(1)</sup> | —                                      | —                                      | —  | —                                 | 278,864                   | 940                     | 1,804            | 281,608      |   |
| Consumer                                | 2,058                                  | 731                                    | 356  | 3,145                             | 225,434                   | 784                     | 4,124            | 233,487      |   |
| Total <sup>(2)</sup>                    | 1,117                                  | 463                                    | 105  | 1,685                             | 554,634                   | 247                     | 1,927            | 558,493      |   |
| Total <sup>(2)</sup>                    | \$ 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 %        | % |

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

(2) The balances above include a total of \$565.5 million acquired non-impaired loans.

**Impaired Loans**

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



allocated for the impairment.

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The following tables provide an analysis of our impaired loans at September 30, 2018 and December 31, 2017:

| (Dollars in thousands)    | September 30, 2018 |                        |            |          |             |           |
|---------------------------|--------------------|------------------------|------------|----------|-------------|-----------|
|                           | Ending             | Loans with             | Loans with | Related  | Contractual | Average   |
|                           | Loan               | No Related             | Related    | Related  | Principal   | Loan      |
|                           | Balances           | Reserve <sup>(1)</sup> | Reserve    | Reserve  | Balances    | Balances  |
| Commercial                | \$20,211           | \$ 8,713               | \$ 11,498  | \$ 4,050 | \$ 23,609   | \$ 18,479 |
| Owner-occupied commercial | 4,502              | 2,553                  | 1,949      | 27       | 4,766       | 5,099     |
| Commercial mortgages      | 8,114              | 6,502                  | 1,612      | 84       | 16,816      | 8,740     |
| Construction              | 3,132              | 122                    | 3,010      | 453      | 5,171       | 4,808     |
| Residential               | 11,690             | 7,509                  | 4,181      | 605      | 14,109      | 13,249    |
| Consumer                  | 8,289              | 7,264                  | 1,025      | 174      | 9,015       | 7,862     |
| Total <sup>(2)</sup>      | \$55,938           | \$ 32,663              | \$ 23,275  | \$ 5,393 | \$ 73,486   | \$ 58,237 |

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

<sup>(2)</sup> The above includes acquired impaired loans totaling \$4.1 million in the ending loan balance and \$4.5 million in the contractual principal balance.

| (Dollars in thousands)    | December 31, 2017 |                        |            |          |             |           |
|---------------------------|-------------------|------------------------|------------|----------|-------------|-----------|
|                           | Ending            | Loans with             | Loans with | Related  | Contractual | Average   |
|                           | Loan              | No Related             | Related    | Related  | Principal   | Loan      |
|                           | Balances          | Reserve <sup>(1)</sup> | Reserve    | Reserve  | Balances    | Balances  |
| 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 <sup>(2)</sup>      | \$62,106          | \$ 32,172              | \$ 29,934  | \$ 5,017 | \$ 78,982   | \$ 60,743 |

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

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

Interest income of \$0.6 million and \$1.3 million was recognized on impaired loans during the three and nine months ended September 30, 2018, respectively. Interest income of \$0.3 million and \$1.0 million was recognized on impaired loans during the three and nine months ended September 30, 2017, respectively.

As of September 30, 2018, there were 27 residential loans and eight commercial loans in the process of foreclosure.

The total outstanding balance on these loans was \$2.1 million and \$5.6 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, 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.

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Credit Quality Indicators

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

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

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

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

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

Loss. 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.

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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

|                                       | September 30, 2018        |                           |                      |              |             | Total Commercial <sup>(1)</sup> |   |
|---------------------------------------|---------------------------|---------------------------|----------------------|--------------|-------------|---------------------------------|---|
|                                       | Commercial and Industrial | Owner-occupied Commercial | Commercial Mortgages | Construction |             | Amount                          | % |
| (Dollars in thousands)                |                           |                           |                      |              |             |                                 |   |
| Risk Rating:                          |                           |                           |                      |              |             |                                 |   |
| Special mention                       | \$21,315                  | \$ 32,123                 | \$ 10,806            | \$ —         | \$64,244    |                                 |   |
| Substandard:                          |                           |                           |                      |              |             |                                 |   |
| Accrual                               | 17,247                    | 24,662                    | 1,546                | 169          | 43,624      |                                 |   |
| Nonaccrual                            | 15,158                    | 2,820                     | 6,209                | 2,460        | 26,647      |                                 |   |
| Doubtful                              | 3,970                     | 9                         | —                    | 444          | 4,423       |                                 |   |
| Total Special Mention and Substandard | 57,690                    | 59,614                    | 18,561               | 3,073        | 138,938     | 3                               | % |
| Acquired impaired                     | 2,070                     | 4,816                     | 8,951                | 737          | 16,574      | 1                               | % |
| Pass                                  | 1,446,915                 | 1,020,974                 | 1,105,769            | 329,677      | 3,903,335   | 96                              | % |
| Total                                 | \$1,506,675               | \$ 1,085,404              | \$ 1,133,281         | \$ 333,487   | \$4,058,847 | 100                             | % |

<sup>(1)</sup> Table includes \$380.5 million of acquired non-impaired loans as of September 30, 2018.

|                                       | December 31, 2017         |                           |                      |              |             | Total Commercial <sup>(1)</sup> |   |
|---------------------------------------|---------------------------|---------------------------|----------------------|--------------|-------------|---------------------------------|---|
|                                       | Commercial and Industrial | Owner-occupied Commercial | Commercial Mortgages | Construction |             | Amount                          | % |
| (Dollars in thousands)                |                           |                           |                      |              |             |                                 |   |
| 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                             | % |

<sup>(1)</sup> Table includes \$457.3 million of acquired non-impaired loans as of December 31, 2017.

Residential and Consumer Credit Exposure

|                              | Residential <sup>(2)</sup> |                   | Consumer           |                   | Total Residential and Consumer <sup>(3)</sup> |         |                   |         |
|------------------------------|----------------------------|-------------------|--------------------|-------------------|---|---------|-------------------|---------|
|                              | September 30, 2018         | December 31, 2017 | September 30, 2018 | December 31, 2017 | September 30, 2018                            |         | December 31, 2017 |         |
| (Dollars in thousands)       |                            |                   |                    |                   | Amount  | Percent | Amount            | Percent |
| Nonperforming <sup>(1)</sup> | \$11,479                   | \$13,778          | \$8,256            | \$7,588           | \$19,735                                      | 2 %     | \$21,366          | 3 %     |
| Acquired impaired loans      | 766                        | 784               | 153                | 247               | 919   | — %     | 1,031             | — %     |
| Performing                   | 194,481                    | 218,925           | 645,295            | 550,658           | 839,776                                       | 98 %    | 769,583           | 97 %    |
| Total                        | \$206,726                  | \$233,487         | \$653,704          | \$558,493         | \$860,430                                     | 100 %   | \$791,980         | 100 %   |

Includes \$14.1 million as of September 30, 2018 and \$15.3 million as of December 31, 2017 of troubled debt

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

- (2) Residential performing loans excludes \$16.6 million and \$19.8 million of reverse mortgages at fair value as of September 30, 2018 and December 31, 2017, respectively.
- (3) Total includes \$85.0 million and \$108.2 million in acquired non-impaired loans as of September 30, 2018 and December 31, 2017, respectively.

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## Troubled Debt Restructurings (TDRs)

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

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

| (Dollars in thousands) | September<br>30, 2018 | December<br>31, 2017 |
|------------------------|-----------------------|----------------------|
| Performing TDRs        | \$ 15,192             | \$ 20,061            |
| Nonperforming TDRs     | 14,604                | 9,627                |
| Total TDRs             | \$ 29,796             | \$ 29,688            |

Approximately \$2.0 million and \$1.0 million in related reserves have been established for these loans at September 30, 2018 and December 31, 2017, respectively.

The following table presents information regarding the types of loan modifications made for the nine months ended September 30, 2018 and 2017:

|                           | September 30, 2018  |                               |                                |                      | Total | September 30, 2017  |                               |                                |                      |    |
|---------------------------|---|-------------------------------|--------------------------------|----------------------|-------|---|-------------------------------|--------------------------------|----------------------|----|
|                           | Contractual<br>payment<br>reduction<br>and<br>term<br>extension | Maturity<br>Date<br>Extension | Discharged<br>in<br>bankruptcy | Other <sup>(1)</sup> |       | Contractual<br>payment<br>reduction<br>and<br>term<br>extension | Maturity<br>Date<br>Extension | Discharged<br>in<br>bankruptcy | Other <sup>(1)</sup> |    |
| Commercial                | 6   | —                             | —                              | —                    | 6     | 1   | 1                             | —                              | —                    | 2  |
| Owner-occupied commercial | —   | —                             | —                              | —                    | —     | —   | 1                             | —                              | —                    | 1  |
| Commercial Mortgages      | 2   | 1                             | —                              | —                    | 3     | —   | —                             | —                              | —                    | —  |
| Construction              | —   | 1                             | —                              | —                    | 1     | —   | 2                             | —                              | 1                    | 3  |
| Residential               | 4   | —                             | —                              | —                    | 4     | 2   | —                             | 3                              | —                    | 5  |
| Consumer                  | 8   | 1                             | 4                              | 2                    | 15    | 1   | —                             | 11                             | 6                    | 18 |
| Total                     | 20  | 3                             | 4                              | 2                    | 29    | 4   | 4                             | 14                             | 7                    | 29 |

<sup>(1)</sup> Other includes underwriting exceptions.

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

The following table presents loans identified as TDRs during the three and nine months ended September 30, 2018 and 2017.

| (Dollars in thousands)    | Three Months Ended September 30, |                      |                     |                      | Nine Months Ended September 30, |                      |                     |                      |
|---------------------------|----------------------------------|----------------------|---------------------|----------------------|---------------------------------|----------------------|---------------------|----------------------|
|                           | 2018                             |                      | 2017                |                      | 2018                            |                      | 2017                |                      |
|                           | Pre<br>Modification              | Post<br>Modification | Pre<br>Modification | Post<br>Modification | Pre<br>Modification             | Post<br>Modification | Pre<br>Modification | Post<br>Modification |
| Commercial                | \$320                            | \$ 320               | \$—                 | \$ —                 | \$5,102                         | \$ 5,102             | \$781               | \$ 781               |
| Owner-occupied commercial | —                                | —                    | —                   | —                    | —                               | —                    | 3,071               | 3,071                |
| Commercial mortgages      | 168                              | 168                  | —                   | —                    | 2,190                           | 2,190                | —                   | —                    |
| Construction              | —                                | —                    | —                   | —                    | 920                             | 920                  | 1,836               | 1,836                |
| Residential               | —                                | —                    | 1,058               | 1,058                | 469                             | 469                  | 1,300               | 1,300                |
| Consumer                  | 113                              | 113                  | 609                 | 609                  | 1,236                           | 1,236                | 1,867               | 1,867                |
| Total                     | \$601                            | \$ 601               | \$1,667             | \$ 1,667             | \$9,917                         | \$ 9,917             | \$8,855             | \$ 8,855             |

During the nine months ended September 30, 2018, the TDRs set forth in the table above resulted in a \$0.7 million decrease in our allowance for loan losses and \$0.1 million of additional charge-offs. For the same period of 2017, the TDRs set forth in the table resulted in no increase in our allowance for loan losses, and resulted in no additional charge-offs. During the three months ended September 30, 2018, five TDRs defaulted that had received troubled debt modification during the past twelve months with a total loan amount of \$0.5 million. During the three months ended September 30, 2017, four TDRs defaulted that had received troubled debt modification during the past twelve months

with a total loan amount of \$3.7 million.

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## 7. DEPOSITS

The following table shows our deposits by category:

| (Dollars in thousands)    | September 30,<br>2018 | December 31,<br>2017 |
|---------------------------|-----------------------|----------------------|
| Noninterest-bearing:      |                       |                      |
| Noninterest demand        | \$ 1,515,336          | \$ 1,420,760         |
| Total noninterest-bearing | \$ 1,515,336          | \$ 1,420,760         |
| Interest-bearing:         |                       |                      |
| Interest-bearing demand   | \$ 1,091,546          | \$ 1,071,512         |
| Savings                   | 535,344               | 549,744              |
| Money market              | 1,581,684             | 1,347,146            |
| Customer time deposits    | 712,859               | 629,071              |
| Brokered deposits         | 287,147               | 229,371              |
| Total interest-bearing    | 4,208,580             | 3,826,844            |
| Total deposits            | \$ 5,723,916          | \$ 5,247,604         |



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## 8. ASSOCIATE BENEFIT PLANS

## Postretirement Medical Benefits

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

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

The following table presents the components of net periodic benefit cost related to our postretirement medical benefits plan measured at January 1, 2018 and 2017.

|                                 | Three months ended September 30, |        | Nine months ended September 30, |        |
|---------------------------------|----------------------------------|--------|---------------------------------|--------|
| (Dollars in thousands)          | 2018                             | 2017   | 2018                            | 2017   |
| Service cost                    | \$15                             | \$11   | \$45                            | \$40   |
| Interest cost                   | 18                               | 16     | 53                              | 54     |
| Prior service cost amortization | (19 )                            | (19 )  | (57 )                           | (57 )  |
| Net gain recognition            | (11 )                            | (18 )  | (34 )                           | (52 )  |
| Net periodic benefit cost       | \$3                              | \$(10) | \$7                             | \$(15) |

## Alliance Associate Pension Plan

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

The following table presents the components of net periodic benefit cost related to the Alliance Associate Pension Plan measured at January 1, 2018 and 2017.

|                                 | Three months ended September 30, |        | Nine months ended September 30, |         |
|---------------------------------|----------------------------------|--------|---------------------------------|---------|
| (Dollars in thousands)          | 2018                             | 2017   | 2018                            | 2017    |
| Service cost                    | \$10                             | \$10   | \$30                            | \$30    |
| Interest cost                   | 75                               | 75     | 222                             | 225     |
| Expected return on plan assets  | (138 )                           | (135 ) | (410 )                          | (405 )  |
| Prior service cost amortization | —                                | —      | —                               | —       |
| Net gain recognition            | —                                | —      | —                               | —       |
| Net periodic benefit cost       | \$(53)                           | \$(50) | \$(158)                         | \$(150) |



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

ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. We recognize, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the financial statements. Assessment of uncertain tax positions under ASC 740 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations. We have recorded certain items to account for the tax effects of the Tax Cuts and Jobs Act, enacted on December 22, 2017, which among other items, lowered the corporate income tax rate from 35% to 21%. During the quarter ended September 30, 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 quarter. We recorded a \$0.9 million tax benefit in the quarter, 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 are no remaining provisional items as of September 30, 2018.

There were no unrecognized tax benefits as of September 30, 2018. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2015 through 2017 tax years are subject to examination as of September 30, 2018. We do not expect to record or realize any material unrecognized tax benefits during 2018.

As a result of the adoption of ASU No. 2014-01, Investments-Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects, the amortization of our low-income housing credit investments has been reflected as income tax expense. Accordingly, \$0.5 million and \$0.4 million of such amortization has been reflected as income tax expense for the three months ended September 30, 2018 and 2017, respectively, and \$1.4 million and \$1.2 million of such amortization has been reflected as income tax expense for the nine months ended September 30, 2018 and September 30, 2017, respectively.

The amount of affordable housing tax credits, amortization and tax benefits recorded as income tax expense for the nine months ended September 30, 2018 were \$1.3 million, \$1.4 million and \$0.2 million, respectively. The carrying value of the investment in affordable housing credits is \$12.3 million at September 30, 2018, compared to \$13.8 million at December 31, 2017.

**10. FAIR VALUE DISCLOSURES OF FINANCIAL ASSETS AND LIABILITIES****FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

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

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

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.

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The following tables present financial instruments carried at fair value as of September 30, 2018 and December 31, 2017 by level in the valuation hierarchy (as described above):

| (Dollars in thousands)                                      | September 30, 2018   |  |  | Total<br>Fair<br>Value |
|---|--|--|--|------------------------|
|   | Quoted<br>Prices<br>in Significant<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
| Assets measured at fair value on a recurring basis:         |  |  |  |                        |
| Available-for-sale securities:                              |  |  |  |                        |
| CMO   | \$ 300,030   | \$ —                                       | \$ —   | \$ 300,030             |
| FNMA MBS  | 548,738  | —  | —  | 548,738                |
| FHLMC MBS   | 112,422  | —  | —  | 112,422                |
| GNMA MBS  | 35,941   | —  | —  | 35,941                 |
| Other assets  | 977  | —  | —  | 977                    |
| Total assets measured at fair value on a recurring basis    | \$ 998,108   | \$ —                                       | \$ —   | \$ 998,108             |
| Liabilities measured at fair value on a recurring basis:    |  |  |  |                        |
| Other liabilities   | \$ 4,781   | \$ —                                       | \$ —   | \$ 4,781               |
| Assets measured at fair value on a nonrecurring basis:      |  |  |  |                        |
| Other investments <sup>(1)</sup>                            | \$ —   | \$ 35,083                                  | \$ —   | \$ 35,083              |
| Other real estate owned                                     | —  | 2,004                                      | —  | 2,004                  |
| Loans held for sale   | 35,855   | —  | —  | 35,855                 |
| Impaired loans, net   | —  | 50,545                                     | —  | 50,545                 |
| Total assets measured at fair value on a nonrecurring basis | \$ 35,855  | \$ 87,632                                  | \$ —   | \$ 123,487             |

<sup>(1)</sup> See Note 1 for additional disclosures resulting from the Company's adoption of ASU 2016-01.

| (Dollars in thousands)                              | December 31, 2017  |  |  | Total<br>Fair<br>Value |
|---|--|--|--|------------------------|
|   | Quoted<br>Prices<br>in Significant<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                        |
| Assets measured at fair value on a recurring basis: |  |  |  |                        |
| Available-for-sale securities:                      |  |  |  |                        |
| CMO   | \$ —   | \$ 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                    |

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|   |       |            |           |           |
|---|-------|------------|-----------|-----------|
| 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 the nine months ended September 30, 2018.

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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 September 30, 2018, securities classified as available-for-sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are \$997.1 million in Federal Agency MBS. We believe that this Level 2 designation is appropriate for these securities under ASC 820-10 as, with almost all fixed income securities, none are exchange traded, and all are priced by correlation to observed market data. For these securities we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors.

### Other investments

Other investments includes our 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 \$18.6 million during the nine months ended September 30, 2018. See Note 1 for further information.

### 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% - 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 \$55.9 million and \$62.1 million at September 30, 2018 and December 31, 2017, respectively. The valuation allowance on impaired loans was \$5.4 million as of September 30, 2018 and \$5.0 million as of December 31, 2017.



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**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 discussion in "Fair Value of Financial Assets and Liabilities" section above).

**Loans held for sale**

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

**Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, owner-occupied commercial, construction, residential mortgages and consumer. For loans that reprice frequently, the book value approximates fair value. The fair values of other types of loans, with the exception of reverse mortgages, are estimated by discounting expected cash flows using the current rates at which similar loans would be made to borrowers with comparable credit ratings and for similar remaining maturities. The fair values of reverse mortgages are based on the net present value of the expected cash flows using a discount rate specific to the reverse mortgages portfolio. The fair value of nonperforming loans is based on recent external appraisals of the underlying collateral. Estimated cash flows, discounted using a rate commensurate with current rates and the risk associated with the estimated cash flows, are used if appraisals are not available. This technique does contemplate 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, derivative financial instruments and deferred tax assets (see discussion in "Fair Value of Financial Assets and Liabilities" section above).

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## 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 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 pipeline is based on valuation of the loans held for sale portfolio as described above in Loans held for sale.

## Off-balance sheet instruments

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

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

| (Dollars in thousands)                   | Fair Value Measurement | September 30, 2018 |            | December 31, 2017 |            |
|--|------------------------|--------------------|------------|-------------------|------------|
|  |                        | Book Value         | Fair Value | Book Value        | Fair Value |
| Financial assets:                        |                        |                    |            |                   |            |
| Cash and cash equivalents                | Level 1                | \$711,372          | \$711,372  | \$723,866         | \$723,866  |
| Investment securities available for sale | See previous table     | 997,131            | 997,131    | 837,499           | 837,499    |
| Investment securities held to maturity   | Level 2                | 152,577            | 150,583    | 161,186           | 162,853    |
| Other investments                        | Level 1,3              | 35,083             | 35,083     | 14,671            | 45,326     |
| Loans, held for sale                     | Level 2                | 35,855             | 35,855     | 31,055            | 31,055     |
| Loans, net <sup>(1)(2)</sup>             | Level 2,3              | 4,835,591          | 4,802,841  | 4,719,229         | 4,699,458  |
| Impaired loans, net                      | Level 3                | 50,545             | 50,545     | 57,089            | 57,089     |
| Stock in FHLB of Pittsburgh              | Level 2                | 16,540             | 16,540     | 31,284            | 31,284     |
| Accrued interest receivable              | Level 2                | 21,331             | 21,331     | 19,405            | 19,405     |
| Other assets                             | Level 3                | 977                | 977        | 2,883             | 2,883      |
| Financial liabilities:                   |                        |                    |            |                   |            |
| Deposits                                 | Level 2                | 5,723,916          | 5,685,435  | 5,247,604         | 4,848,588  |
| Borrowed funds                           | Level 2                | 545,089            | 538,395    | 937,806           | 937,605    |
| Standby letters of credit                | Level 3                | 328                | 328        | 603               | 603        |
| Accrued interest payable                 | Level 2                | 7,119              | 7,119      | 1,037             | 1,037      |
| Other liabilities                        | Level 2                | 4,781              | 4,781      | 3,188             | 3,188      |

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

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

At September 30, 2018 and December 31, 2017 we had no commitments to extend credit measured at fair value.

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## 11. DERIVATIVE FINANCIAL INSTRUMENTS

## Risk Management Objective of Using Derivatives

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

## Fair Values of Derivative Instruments

The table below presents the fair value of our derivative financial instruments as well as their location on the unaudited Consolidated Statements of Financial Condition as of September 30, 2018.

| (Dollars in thousands)                             | Fair Values of Derivative Instruments |           |                        | Derivatives<br>(Fair<br>Value) |
|--|---------------------------------------|-----------|------------------------|--------------------------------|
|  | Count                                 | Notional  | Balance Sheet Location |                                |
| Derivatives designated as hedging instruments:     |                                       |           |                        |                                |
| Interest rate products                             | 3                                     | \$75,000  | Other Liabilities      | \$ (4,689 )                    |
| Total  |                                       | \$75,000  |                        | \$ (4,689 )                    |
| Derivatives not designated as hedging instruments: |                                       |           |                        |                                |
| Interest rate lock commitments with customers      |                                       | 47,634    | Other Assets           | \$ 595                         |
| Interest rate lock commitments with customers      |                                       | 16,064    | Other Liabilities      | (61 )                          |
| Forward sale commitments                           |                                       | 44,840    | Other Assets           | 382                            |
| Forward sale commitments                           |                                       | 15,792    | Other Liabilities      | (31 )                          |
| Total  |                                       | \$124,330 |                        | \$ 885                         |
| Total derivatives                                  |                                       | \$199,330 |                        | \$ (3,804 )                    |

## 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 nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2018, \$0.4 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 September 30, 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.

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## Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the derivative financial instruments on the unaudited Consolidated Statements of Income for the three and nine months ended September 30, 2018 and September 30, 2017.

|   | Amount of<br>(Loss) or<br>Gain<br>Recognized<br>in OCI on<br>Derivative<br>(Effective<br>Portion) |       | Amount of<br>(Loss) or Gain<br>Recognized in<br>OCI on<br>Derivative<br>(Effective<br>Portion) |        | Location of (Loss) or Gain Reclassified from<br>Accumulated OCI into Income (Effective Portion) |
|---|---|-------|--|--------|---|
|   | Three<br>Months<br>Ended<br>September<br>30,  | 2017  | 2018   | 2017   |   |
| (Dollars in thousands)                            |   |       |  |        |   |
| Derivatives in Cash Flow<br>Hedging Relationships | 2018  | 2017  | 2018   | 2017   |   |
| Interest Rate Products                            | \$(109)   | \$ 42 | \$(1,119)  | \$ 192 | Interest income   |
| Total   | \$(109)   | \$ 42 | \$(1,119)  | \$ 192 |   |

|   | Amount of<br>Gain or<br>(Loss)<br>Recognized<br>in Income |      | Amount of<br>Gain or (Loss)<br>Recognized in<br>Income |      | Location of Gain or (Loss) Recognized in Income |
|---|---|------|--|------|---|
|   | Three<br>Months<br>Ended<br>September<br>30,              | 2017 | 2018   | 2017 |   |
| (Dollars in thousands)                                |   |      |  |      |   |
| Derivatives Not Designated as a<br>Hedging Instrument | 2018  | 2017 | 2018   | 2017 |   |
| Interest Rate Lock Commitments                        | \$ 192  | \$ — | \$(104 )   | \$ — | Mortgage banking activities, net                |
| Forward Sale Commitments                              | (176 )  | \$ — | (508 )   | \$ — | Mortgage banking activities, net                |
| Total   | \$ 16   | \$ — | \$(612 )   | \$ — |   |

## 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 September 30, 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 \$4.7 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 September 30, 2018, we could have been required to settle our obligations under the agreements at the termination value.



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12. SEGMENT INFORMATION

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

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

Cash Connect<sup>®</sup> provides ATM vault cash and smart safe and cash logistics services through strategic partnerships with several of the largest networks, manufacturers and service providers in the ATM industry. Cash Connect<sup>®</sup> 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<sup>®</sup>.

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. WSFS (West) Capital Management, 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 Christiana Trust) 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.

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The following tables show segment results for the three and nine months ended September 30, 2018 and 2017:

| (Dollars in thousands)           | Three Months Ended September 30, 2018 |                  |                      |          | Three Months Ended September 30, 2017 |                  |                      |          |
|----------------------------------|---------------------------------------|------------------|----------------------|----------|---------------------------------------|------------------|----------------------|----------|
|                                  | WSFS<br>Bank                          | Cash<br>Connect® | Wealth<br>Management | Total    | WSFS<br>Bank                          | Cash<br>Connect® | Wealth<br>Management | Total    |
| <b>Statements of Income</b>      |                                       |                  |                      |          |                                       |                  |                      |          |
| External customer revenues:      |                                       |                  |                      |          |                                       |                  |                      |          |
| Interest income                  | \$72,836                              | \$ —             | \$ 2,579             | \$75,415 | \$62,748                              | \$ —             | \$ 2,262             | \$65,010 |
| Noninterest income               | 18,524                                | 13,026           | 10,351               | 41,901   | 12,102                                | 11,212           | 9,127                | 32,441   |
| Total external customer revenues | 91,360                                | 13,026           | 12,930               | 117,316  | 74,850                                | 11,212           | 11,389               | 97,451   |
| Inter-segment revenues:          |                                       |                  |                      |          |                                       |                  |                      |          |
| Interest income                  | 4,002                                 | —                | 3,020                | 7,022    | 2,537                                 | —                | 2,235                | 4,772    |
| Noninterest income               | 2,122                                 | 200              | 36                   | 2,358    | 1,721                                 | 213              | 37                   | 1,971    |
| Total inter-segment revenues     | 6,124                                 | 200              | 3,056                | 9,380    | 4,258                                 | 213              | 2,272                | 6,743    |
| Total revenue                    | 97,484                                | 13,226           | 15,986               | 126,696  | 79,108                                | 11,425           | 13,661               | 104,194  |
| External customer expenses:      |                                       |                  |                      |          |                                       |                  |                      |          |
| Interest expense                 | 11,461                                | —                | 857                  | 12,318   | 8,542                                 | —                | 339                  | 8,881    |
| Noninterest expenses             | 44,922                                | 8,133            | (601)                | 52,454   | 39,546                                | 7,048            | 7,569                | 54,163   |
| Provision for loan losses        | 3,776                                 | —                | (60)                 | 3,716    | 3,065                                 | —                | (169)                | 2,896    |
| Total external customer expenses | 60,159                                | 8,133            | 196                  | 68,488   | 51,153                                | 7,048            | 7,739                | 65,940   |
| Inter-segment expenses:          |                                       |                  |                      |          |                                       |                  |                      |          |
| Interest expense                 | 3,020                                 | 2,885            | 1,117                | 7,022    | 2,235                                 | 1,856            | 681                  | 4,772    |
| Noninterest expenses             | 236                                   | 627              | 1,495                | 2,358    | 250                                   | 556              | 1,165                | 1,971    |
| Total inter-segment expenses     | 3,256                                 | 3,512            | 2,612                | 9,380    | 2,485                                 | 2,412            | 1,846                | 6,743    |
| Total expenses                   | 63,415                                | 11,645           | 2,808                | 77,868   | 53,638                                | 9,460            | 9,585                | 72,683   |
| Income before taxes              | \$34,069                              | \$ 1,581         | \$ 13,178            | \$48,828 | \$25,470                              | \$ 1,965         | \$ 4,076             | \$31,511 |
| Income tax provision             |                                       |                  |                      | 9,893    |                                       |                  |                      | 10,942   |
| Consolidated net income          |                                       |                  |                      | \$38,935 |                                       |                  |                      | \$20,569 |

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| (Dollars in thousands)           | Nine Months Ended September 30, 2018 |               |                   |           | Nine Months Ended September 30, 2017 |               |                   |           |
|----------------------------------|--------------------------------------|---------------|-------------------|-----------|--------------------------------------|---------------|-------------------|-----------|
|                                  | WSFS Bank                            | Cash Connect® | Wealth Management | Total     | WSFS Bank                            | Cash Connect® | Wealth Management | Total     |
| <b>Statements of Income</b>      |                                      |               |                   |           |                                      |               |                   |           |
| External customer revenues:      |                                      |               |                   |           |                                      |               |                   |           |
| Interest income                  | \$207,725                            | \$ —          | \$ 7,454          | \$215,179 | \$181,670                            | \$ —          | \$ 6,500          | \$188,170 |
| Noninterest income               | 57,175                               | 36,707        | 30,473            | 124,355   | 34,318                               | 31,403        | 26,488            | 92,209    |
| Total external customer revenues | 264,900                              | 36,707        | 37,927            | 339,534   | 215,988                              | 31,403        | 32,988            | 280,379   |
| Inter-segment revenues:          |                                      |               |                   |           |                                      |               |                   |           |
| Interest income                  | 10,535                               | —             | 8,053             | 18,588    | 6,780                                | —             | 6,735             | 13,515    |
| Noninterest income               | 6,449                                | 581           | 107               | 7,137     | 5,791                                | 611           | 113               | 6,515     |
| Total inter-segment revenues     | 16,984                               | 581           | 8,160             | 25,725    | 12,571                               | 611           | 6,848             | 20,030    |
| Total revenue                    | 281,884                              | 37,288        | 46,087            | 365,259   | 228,559                              | 32,014        | 39,836            | 300,409   |
| External customer expenses:      |                                      |               |                   |           |                                      |               |                   |           |
| Interest expense                 | 31,563                               | —             | 1,816             | 33,379    | 23,744                               | —             | 880               | 24,624    |
| Noninterest expenses             | 126,862                              | 23,357        | 13,478            | 163,697   | 117,288                              | 19,774        | 21,334            | 158,396   |
| Provision for loan losses        | 9,721                                | —             | 143               | 9,864     | 6,097                                | —             | 804               | 6,901     |
| Total external customer expenses | 168,146                              | 23,357        | 15,437            | 206,940   | 147,129                              | 19,774        | 23,018            | 189,921   |
| Inter-segment expenses:          |                                      |               |                   |           |                                      |               |                   |           |
| Interest expense                 | 8,053                                | 7,460         | 3,075             | 18,588    | 6,735                                | 4,843         | 1,937             | 13,515    |
| Noninterest expenses             | 688                                  | 1,936         | 4,513             | 7,137     | 724                                  | 1,944         | 3,847             | 6,515     |
| Total inter-segment expenses     | 8,741                                | 9,396         | 7,588             | 25,725    | 7,459                                | 6,787         | 5,784             | 20,030    |
| Total expenses                   | 176,887                              | 32,753        | 23,025            | 232,665   | 154,588                              | 26,561        | 28,802            | 209,951   |
| Income before taxes              | \$104,997                            | \$ 4,535      | \$ 23,062         | \$132,594 | \$73,971                             | \$ 5,453      | \$ 11,034         | \$90,458  |
| Income tax provision             |                                      |               |                   | 27,569    |                                      |               |                   | 30,382    |
| Consolidated net income          |                                      |               |                   | \$105,025 |                                      |               |                   | \$60,076  |

The following table shows significant components of segment net assets as of September 30, 2018 and December 31, 2017:

| (Dollars in thousands)                   | September 30, 2018 |               |                   |             | December 31, 2017 |               |                   |             |
|--|--------------------|---------------|-------------------|-------------|-------------------|---------------|-------------------|-------------|
|  | WSFS Bank          | Cash Connect® | Wealth Management | Total       | WSFS Bank         | Cash Connect® | Wealth Management | Total       |
| <b>Statements of Financial Condition</b> |                    |               |                   |             |                   |               |                   |             |
| Cash and cash equivalents                | \$132,857          | \$564,915     | \$13,600          | \$711,372   | \$104,530         | \$611,385     | \$7,951           | \$723,866   |
| Goodwill                                 | 145,808            | —             | 20,199            | 166,007     | 145,808           | —             | 20,199            | 166,007     |
| Other segment assets                     | 6,053,095          | 8,098         | 221,270           | 6,282,463   | 5,882,910         | 6,078         | 220,679           | 6,109,667   |
| Total segment assets                     | \$6,331,760        | \$573,013     | \$255,069         | \$7,159,842 | \$6,133,248       | \$617,463     | \$248,829         | \$6,999,540 |
| Capital expenditures                     | \$4,252            | \$340         | \$316             | \$4,908     | \$8,197           | \$184         | \$613             | \$8,994     |



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13. INDEMNIFICATIONS AND GUARANTEES

Secondary Market Loan Sales

Given the current interest rate environment and our overall asset and liability management approach, we typically sell newly originated residential mortgage loans in the secondary market to mortgage loan aggregators and on a more limited basis, to government sponsored entities (GSEs) such as FHLMC, FNMA, and the FHLB. Loans held for sale are reflected on our unaudited Consolidated Statements of Financial Condition at fair value with changes in the value reflected in our unaudited Consolidated Statements of Income. Gains and losses are recognized at the time of sale. We periodically retain the servicing rights on residential mortgage loans sold which results in monthly service fee income. The mortgage servicing rights are included in our intangible assets in our unaudited Consolidated Statements of Financial Condition. Otherwise, we sell loans with servicing released on a nonrecourse basis. Rate-locked loan commitments that we intend to sell in the secondary market are accounted for as derivatives under ASC Topic 815, Derivatives and Hedging (ASC 815).

We do not sell loans with recourse, except for standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, early payment default by the borrower. These are customary repurchase provisions in the secondary market for residential mortgage loan sales. These provisions may include either an indemnification from loss or the repurchase of the loans. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no such repurchases during the nine months ended September 30, 2018.

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 that the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. This is a customary arrangement that allows us to provide access to interest rate swap transactions for our customers without creating the swap ourselves. These swap guarantees are accounted for as credit derivatives.

At September 30, 2018 and December 31, 2017, there were 135 and 134 variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, respectively. The initial notional aggregate amount was approximately \$571.7 million at September 30, 2018 compared to \$561.8 million at December 31, 2017. At September 30, 2018 maturities ranged from under 1 year to 10 years. The aggregate market value of these swaps to the customers was an asset of \$9.8 million at September 30, 2018 and a liability of \$3.3 million at December 31, 2017. We had no reserves for the swap guarantees as of September 30, 2018.

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## 14. CHANGE IN ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss 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 are presented, net of tax, as a component of stockholders' equity. Amounts that are reclassified out of accumulated other comprehensive loss are recorded on the unaudited Consolidated Statement of Income either as a gain or loss.

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

| (Dollars in thousands)  | Net change<br>in<br>investment<br>securities<br>available<br>for sale | Net change<br>in investment<br>securities<br>held to<br>maturity | Net<br>change in<br>defined<br>benefit<br>plan | Net change in<br>fair value of<br>derivatives<br>used for<br>cash<br>flow hedges | Total       |
|---|---|--|--|--|-------------|
| Balance, June 30, 2018  | \$(24,186 )   | \$ 987   | \$ 894   | \$ (3,408 )  | \$(25,713 ) |
| Other comprehensive (loss) income before reclassifications                    | (6,042 )  | —  | 7  | (109 )   | (6,144 )    |
| Less: Amounts reclassified from accumulated other comprehensive (loss) income | —   | (107 )   | (37 )  | —  | (144 )      |
| Net current-period other comprehensive loss                                   | (6,042 )  | (107 )   | (30 )  | (109 )   | (6,288 )    |
| Balance, September 30, 2018   | \$(30,228 )   | \$ 880   | \$ 864   | \$ (3,517 )  | \$(32,001 ) |
| Balance, June 30, 2017  | \$(4,342 )  | \$ 1,194   | \$ 912   | \$ (1,622 )  | \$(3,858 )  |
| Other comprehensive income before reclassifications                           | 1,289   | —  | —  | 42   | 1,331       |
| Less: Amounts reclassified from accumulated other comprehensive income        | (475 )  | (99 )  | (22 )  | —  | (596 )      |
| Net current-period other comprehensive (loss) income                          | 814   | (99 )  | (22 )  | 42   | 735         |
| Balance, September 30, 2017   | \$(3,528 )  | \$ 1,095   | \$ 890   | \$ (1,580 )  | \$(3,123 )  |
| Balance, December 31, 2017  | \$(7,842 )  | \$ 1,223   | \$ 865   | \$ (2,398 )  | \$(8,152 )  |
| Other comprehensive (loss) income before reclassifications                    | (22,370 )   | —  | 15   | (1,119 )   | (23,474 )   |
| Less: Amounts reclassified from accumulated other comprehensive (loss) income | (16 )   | (343 )   | (16 )  | —  | (375 )      |
| Net current-period other comprehensive (loss) income                          | (22,386 )   | (343 )   | (1 )   | (1,119 )   | (23,849 )   |
| Balance, September 30, 2018   | \$(30,228 )   | \$ 880   | \$ 864   | \$ (3,517 )  | \$(32,001 ) |
| Balance, December 31, 2016  | \$(8,194 )  | \$ 1,392   | \$ 957   | \$ (1,772 )  | \$(7,617 )  |
| Other comprehensive income before reclassifications                           | 5,802   | —  | —  | 192  | 5,994       |
| Less: Amounts reclassified from accumulated other comprehensive income        | (1,136 )  | (297 )   | (67 )  | —  | (1,500 )    |
| Net current-period other comprehensive income (loss)                          | 4,666   | (297 )   | (67 )  | 192  | 4,494       |
| Balance, September 30, 2017   | \$(3,528 )  | \$ 1,095   | \$ 890   | \$ (1,580 )  | \$(3,123 )  |

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

| (Dollars in thousands)   | Three Months<br>Ended<br>September 30,<br>2018    2017 |           | Affected line item in unaudited<br>Consolidated Statements of Income        |
|--|--|-----------|---|
| Securities available for sale:   |  |           |   |
| Realized gains on securities transactions  | \$—  | \$(736 )  | Securities gains, net   |
| Income taxes   | —  | 261       | Income tax provision  |
| Net of tax   | \$—  | \$(475 )  |   |
| Net unrealized holding gains on securities transferred<br>between available-for-sale and held-to-maturity: |  |           |   |
| Amortization of net unrealized gains to income during the<br>period  | \$(142)  | \$(159 )  | Interest and dividends on investment<br>securities                          |
| Income taxes   | 35   | 60        | Income tax provision  |
| Net of tax   | \$(107)  | \$(99 )   |   |
| Amortization of Defined Benefit Pension items:   |  |           |   |
| Prior service costs (credits)  | \$(19 )  | \$(19 )   |   |
| Actuarial gains  | (11 )  | (18 )     |   |
| Total before tax   | \$(30 )  | \$(37 )   | Salaries, benefits and other<br>compensation                                |
| Income taxes   | (7 )   | 15        | Income tax provision  |
| Net of tax   | (37 )  | (22 )     |   |
| Total reclassifications  | \$(144)  | \$(596 )  |   |
|  |  |           |   |
|  | Nine Months<br>Ended<br>September 30,<br>2018    2017  |           | Affected line item in unaudited<br>Consolidated<br>Statements of Operations |
| Securities available-for-sale:   |  |           |   |
| Realized gains on securities transactions  | \$(21 )  | \$(1,764) | Securities gains, net   |
| Income taxes   | 5  | 628       | Income tax provision  |
| Net of tax   | \$(16 )  | \$(1,136) |   |
| Net unrealized holding gains on securities transferred<br>between available-for-sale and held-to-maturity: |  |           |   |
| Amortization of net unrealized gains to income during the<br>period  | \$(451)  | \$(478 )  | Interest and dividends on investment<br>securities                          |
| Income taxes   | 108  | 181       | Income tax provision  |
| Net of tax   | \$(343)  | \$(297 )  |   |
| Amortization of defined benefit pension plan-related<br>items:   |  |           |   |
| Prior service costs (credits) <sup>(1)</sup>   | \$21   | \$(57 )   |   |
| Actuarial gains  | (34 )  | (52 )     |   |
| Total before tax   | \$(13 )  | \$(109 )  | Salaries, benefits and other<br>compensation                                |
| Income taxes   | (3 )   | 42        | Income tax provision  |
| Net of tax   | \$(16 )  | \$(67 )   |   |
| Total reclassifications  | \$(375)  | \$(1,500) |   |

(1)

Prior service costs balance for the nine months ended September 30, 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.

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**15. RELATED PARTY TRANSACTIONS**

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

The outstanding balances of loans to related parties at September 30, 2018 and December 31, 2017 were \$1.2 million in both periods. Total deposits from related parties at September 30, 2018 and December 31, 2017 were \$4.6 million and \$5.4 million, respectively. During the third quarter of 2018, new loans and credit line advances to related parties were \$0.1 million and repayments were \$0.8 million.

**16. LEGAL AND OTHER PROCEEDINGS**

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation-related matters that arise in the ordinary course of our business activities when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. 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 Christiana Bank and Trust Company (CB&T) prior to its acquisition by WSFS in December 2010. In accordance with the litigation settlement, we paid Universitas \$12.0 million to fully settle the claims. During the third quarter of 2018, WSFS recovered \$7.9 million in settlement and legal costs from insurance carriers that provided coverage relating to the Universitas matter. WSFS will continue to pursue all of its rights and remedies to recover the remaining amounts relating to the Universitas proceeding, 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.

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

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

OVERVIEW

WSFS 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 our subsidiary, Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank), one of the ten oldest bank and trust companies continuously operating under the same name in the United States (U.S.). At \$7.2 billion in assets and \$19.7 billion in assets under management (AUM) and assets under administration (AUA), WSFS Bank is also the largest bank and trust company headquartered in the Delaware Valley. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader fiduciary powers than most other types of financial institutions. A fixture in the community, we have been in operation for more than 185 years. In addition to our focus on stellar customer service, we have continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed, community banking institution. We state our mission simply: "We Stand for Service." Our strategy of "Engaged Associates delivering stellar experiences growing Customer Advocates and value for our Owners" focuses on exceeding customer expectations, delivering stellar experiences and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

We have 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). We also have one unconsolidated subsidiary, WSFS Capital Trust III. WSFS Bank has three wholly-owned subsidiaries: WSFS Investment Group, Inc. (WSFS Wealth Investments), 1832 Holdings, Inc. and Monarch Entity Services LLC.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a \$4.1 billion commercial loan portfolio by recruiting 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 September 30, 2018, we service our customers primarily from 77 offices located in Delaware (46), Pennsylvania (29), Virginia (1) and Nevada (1) and through our website at [www.wsfsbank.com](http://www.wsfsbank.com). We also offer a broad variety of consumer loan products, retail securities and insurance brokerage through our retail branches, and mortgage and title services through our branches and Pennsylvania-based WSFS Mortgage. WSFS Mortgage is a mortgage banking 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, subject to the terms and conditions of the Agreement, among other things, (i) Beneficial will merge with and into WSFS, with WSFS continuing as the surviving corporation and (ii) concurrently, Beneficial Bank will merge with and into WSFS Bank, with WSFS Bank continuing as the surviving bank. 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. These mergers, subject to customary closing conditions including required regulatory approvals and stockholder approvals, are expected to close in Q1 2019.

Cash Connect<sup>®</sup> is a premier U.S. provider of ATM vault cash, smart safe and cash logistics. Cash Connect<sup>®</sup> manages \$969.4 million in total cash and services approximately 26,500 non-bank ATMs which includes approximately 2,000 smart safes nationwide. Cash Connect<sup>®</sup> 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<sup>®</sup> also operates 443 ATMs for the Bank, which has the largest branded ATM network in Delaware.

As a provider of ATM vault cash to the U.S. ATM industry, Cash Connect<sup>®</sup> 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 losses through theft from armored courier companies and consistently has been able to recover losses through its risk management strategies.

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Our Wealth Management business 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 \$19.7 billion (AUM) and (AUA) at September 30, 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. WSFS (West) Capital Management, 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 Christiana Trust) 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.



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## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

## Financial Condition

Total assets increased \$160.3 million, or 2%, to \$7.2 billion at September 30, 2018 compared to December 31, 2017. Investment securities increased \$151.0 million, or 15%, due to our redeployment of cash received from the surrender of our bank-owned life insurance (BOLI) policies into mortgage-backed securities in the first quarter of 2018. Net loans, excluding loans held for sale, increased \$109.8 million, or 2%, primarily due to a \$95.2 million increase in consumer loans. Total commercial loans were relatively flat, primarily as a result of a significant amount of liquidity in the market and less demand from borrowers given their strong cash flow positions. This dynamic has led to the ongoing, highly competitive pricing market, which includes competition from non-banks, resulting in increased amounts of payoffs and paydowns. Consistent with our historical strategy, we remained focused on both pricing and credit discipline over short-term loan growth. Other investments increased \$17.1 million, primarily due to an initial valuation adjustment of \$15.3 million to our equity investment in Visa Class B shares as a result of our adoption of ASU 2016-01 in the first quarter of 2018 and a subsequent adjustment of \$3.2 million in the third quarter of 2018 (see Notes 1 and 10 to the unaudited Consolidated Financial Statements for further information). These increases were partially offset by a decrease of \$96.1 million, or 93%, in BOLI, due to the previously disclosed planned policy surrender, a decrease of \$14.7 million, or 47%, in stock in the Federal Home Loan Bank of Pittsburgh, due to higher redemptions during the period, and a decrease of \$12.5 million, or 2%, cash and cash equivalents, primarily due to improved cash optimization at Cash Connect®.

Total liabilities increased \$85.8 million, or 1%, to \$6.4 billion during the nine months ended September 30, 2018. Deposits increased \$476.3 million, or 9%, including an increase of \$418.5 million in customer deposits and an increase of \$57.8 million in brokered deposits. As a result, FHLB advances decreased \$371.5 million, or 52%, and federal funds purchased decreased \$28.0 million, partially offset by an increase of \$6.7 million, or 19%, in other borrowed funds.

## Capital Resources

**Share Repurchases:** During the third quarter of 2018, WSFS repurchased 47,000 shares of common stock at an average price of \$52.15 as part of our 5% share buyback program approved by the Board of Directors during the fourth quarter of 2015. WSFS has 532,194 shares, or slightly less than 2% of outstanding shares, remaining to repurchase under this authorization.

Stockholders' equity increased \$74.5 million between December 31, 2017 and September 30, 2018. This increase was primarily due to net income for the nine months ended September 30, 2018 of \$105.0 million and an increase of \$9.8 million related to the issuance of stock. These were partially offset by a decline in the fair value of our available-for-sale securities portfolio of \$22.4 million, year-to-date stock buybacks of \$8.5 million and the payment of common stock dividends of \$9.8 million.

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The table below compares the Bank's and the Company's consolidated capital position to the minimum regulatory requirements as of September 30, 2018:

|  | Consolidated Capital |         | For Capital Adequacy Purposes |         | To be Well-Capitalized Under Prompt Corrective Action Provisions |         |
|--|----------------------|---------|-------------------------------|---------|--|---------|
|  | Amount               | Percent | Amount                        | Percent | Amount   | Percent |
| (Dollars in thousands)                                 |                      |         |                               |         |  |         |
| Total Capital (to Risk-Weighted Assets)                |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | \$ 776,157           | 13.09%  | \$ 474,319                    | 8.00 %  | \$ 592,899   | 10.00 % |
| WSFS Financial Corporation                             | 757,020              | 12.58%  | 481,344                       | 8.00 %  | 601,680  | 10.00 % |
| Tier 1 Capital (to Risk-Weighted Assets)               |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 733,605              | 12.37%  | 355,739                       | 6.00 %  | 474,319  | 8.00 %  |
| WSFS Financial Corporation                             | 714,468              | 11.87%  | 361,008                       | 6.00 %  | 481,344  | 8.00 %  |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets) |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 733,605              | 12.37%  | 266,805                       | 4.50 %  | 385,384  | 6.50 %  |
| WSFS Financial Corporation                             | 649,468              | 10.79%  | 270,756                       | 4.50 %  | 391,092  | 6.50 %  |
| Tier 1 Leverage Capital                                |                      |         |                               |         |  |         |
| Wilmington Savings Fund Society, FSB                   | 733,605              | 10.65%  | 275,500                       | 4.00 %  | 344,375  | 5.00 %  |
| WSFS Financial Corporation                             | 714,468              | 10.32%  | 276,933                       | 4.00 %  | 346,167  | 5.00 %  |

Book value per share of common stock was \$25.08 at September 30, 2018, an increase of \$2.02, or 9% from \$23.06 at December 31, 2017. Tangible book value per share of common stock (a non-GAAP financial measure) was \$19.22 at September 30, 2018, an increase of \$2.16, or 13%, from \$17.06 at December 31, 2017. We believe tangible common book value per share helps management and investors better understand and assess changes from period to period in stockholders' equity exclusive of changes in intangible assets. This non-GAAP data should be considered in addition to results prepared in accordance with GAAP, and is not a substitute for, or superior to, GAAP results. For a reconciliation of tangible common book value per share to book value per share in accordance with GAAP, see "Reconciliation of Non-GAAP Measure to GAAP Measure."

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

Regulatory capital requirements for the Bank and the Company include a minimum common equity Tier 1 capital ratio of 4.50% of risk-weighted assets, a Tier 1 capital ratio of 6.00% of risk-weighted assets, a minimum Total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets.

Not included in the Bank's capital, the Company separately held \$46.1 million in cash to support share repurchases, potential dividends, acquisitions, strategic growth plans and other general corporate purposes.

As shown in the table above, as of September 30, 2018, the Bank and the Company were in compliance with regulatory capital requirements and exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

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Liquidity

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

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

During the nine months ended September 30, 2018, cash and cash equivalents decreased \$12.5 million to \$711.4 million from \$723.9 million as of December 31, 2017. Cash provided by operating activities was \$107.4 million, reflecting the cash impact of earnings during the nine months ended September 30, 2018, including an insurance recovery of \$7.9 million and a \$3.8 million gain on sale of a portion of our Visa Class B shares. Cash used for investing activities was \$194.7 million, primarily due to \$190.9 million in net cash paid for debt securities and increased lending of \$119.6 million, partially offset by \$96.4 million received from the planned surrender of our BOLI policies. Cash provided by financing activities was \$74.8 million, primarily due to a \$482.8 million net increase in deposits and \$9.8 million related to the issuance of common stock, partially offset by \$371.5 million used to repay FHLB advances, \$28.0 million for repayment of federal funds purchased and securities sold under agreement to repurchase, cash paid for dividends of \$9.8 million and \$8.5 million for repurchases of common stock.

**NONPERFORMING ASSETS**

Nonperforming assets include nonaccruing loans, OREO and restructured loans. Nonaccruing loans are those on which we no longer accrue interest. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and the value of the collateral is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal and interest. Past due loans are defined as loans contractually past due 90 days or more as to principal or interest payments but which remain in accrual status because they are considered well secured and in the process of collection.

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

| (Dollars in thousands)  | September<br>30, 2018 | December<br>31, 2017 |        |   |
|---|-----------------------|----------------------|--------|---|
| Nonaccruing loans:  |                       |                      |        |   |
| Commercial and industrial   | \$19,128              | \$19,057             |        |   |
| Owner-occupied commercial   | 2,829                 | 3,654                |        |   |
| Commercial mortgages  | 6,209                 | 5,870                |        |   |
| Construction  | 2,903                 | 1,804                |        |   |
| Residential mortgages   | 3,265                 | 4,124                |        |   |
| Consumer  | 2,354                 | 1,927                |        |   |
| Total nonaccruing loans   | 36,688                | 36,436               |        |   |
| Other real estate owned   | 2,004                 | 2,503                |        |   |
| Restructured loans <sup>(1)</sup>   | 15,192                | 20,061               |        |   |
| Total nonperforming assets  | \$53,884              | \$59,000             |        |   |
| Past due loans: <sup>(1)</sup>  |                       |                      |        |   |
| Commercial  | \$2                   | \$—                  |        |   |
| Residential mortgages   | 24                    | 356                  |        |   |
| Consumer  | 185                   | 105                  |        |   |
| Total past due loans  | \$211                 | \$461                |        |   |
| Ratio of allowance for loan losses to total gross loans <sup>(2)</sup>    | 0.85                  | %                    | 0.84   | % |
| Ratio of nonaccruing loans to total gross loans <sup>(2)</sup>            | 0.75                  |                      | 0.76   |   |
| Ratio of nonperforming assets to total assets                             | 0.75                  |                      | 0.84   |   |
| Ratio of loan loss allowance to nonaccruing loans                         | 113.97                |                      | 111.43 |   |
| Ratio of loan loss allowance to total nonperforming assets <sup>(3)</sup> | 77.60                 |                      | 68.81  |   |

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

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

<sup>(3)</sup> Excludes acquired impaired loans.

Nonperforming assets decreased \$5.1 million between December 31, 2017 and September 30, 2018. Restructured loans decreased \$4.8 million, primarily due to a previously accruing restructured loan that moved to nonaccrual during the period. This increase in nonaccruing loans was offset by a \$4.7 million partial charge-off related to one large C&I relationship and \$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 0.75% at September 30, 2018.

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

| (Dollars in thousands) | Nine Months<br>Ended September<br>30, |           |
|------------------------|---------------------------------------|-----------|
|                        | 2018                                  | 2017      |
| Beginning balance      | \$59,000                              | \$40,803  |
| Additions              | 23,269                                | 37,028    |
| Collections            | (18,531 )                             | (14,890 ) |
| Transfers to accrual   | (9 )                                  | (2,694 )  |
| Charge-offs            | (9,845 )                              | (7,882 )  |
| Ending balance         | \$53,884                              | \$52,365  |

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

general, this system utilizes guidelines established by federal regulation.

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## INTEREST RATE SENSITIVITY

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. We regularly review our interest rate sensitivity and adjust the sensitivity within acceptable tolerance ranges. At September 30, 2018, interest-earning assets exceeded interest-bearing liabilities that mature or reprice within one year (interest-sensitive gap) by \$74.4 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window increased from 98.24% at December 31, 2017 to 102.41% at September 30, 2018. Likewise, the one-year interest-sensitive gap as a percentage of total assets increased from (0.81%) at December 31, 2017 to 1.04% at September 30, 2018. The low level of rate sensitivity reflects our continuing efforts to effectively manage interest rate risk.

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

The following table shows the estimated impact of immediate changes in interest rates on our net interest margin and economic value of equity ratio at the specified levels at September 30, 2018 and December 31, 2017:

| % Change in Interest Rate<br>(Basis Points) | September 30, 2018                                |  | December 31, 2017                                 |  |
|---|---|--|---|--|
|   | % Change in Net<br>Interest Margin <sup>(1)</sup> | Economic Value of<br>Equity <sup>(2)</sup> | % Change in Net<br>Interest Margin <sup>(1)</sup> | Economic Value of<br>Equity <sup>(2)</sup> |
| +300  | 10%   | 17.26%                                     | 7%  | 16.16%                                     |
| +200  | 7%  | 17.40%                                     | 4%  | 16.16%                                     |
| +100  | 3%  | 17.49%                                     | 2%  | 15.96%                                     |
| —   | —%  | 17.33%                                     | —%  | 15.63%                                     |
| -100  | (6)%  | 16.85%                                     | (4)%  | 14.69%                                     |
| -200 <sup>(3)</sup>                         | (12)%   | 15.85%                                     | NMF   | NMF  |
| -300 <sup>(3)</sup>                         | NMF   | NMF  | NMF   | NMF  |

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

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

(3) Sensitivity indicated by a decrease of 300 basis points is not deemed meaningful (NMF) given the low absolute level of interest rates in the periods presented.

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

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RESULTS OF OPERATIONS

Three months ended September 30, 2018: For the three months ended September 30, 2018, net income was \$38.9 million compared with \$20.6 million for the three months ended September 30, 2017. Net interest income increased \$7.0 million, primarily due to loan portfolio growth and higher interest income from mortgage backed securities, including those purchased with the proceeds from our surrendered BOLI policies. See “Net Interest Income” for further information. Noninterest income increased \$9.5 million, primarily due to a \$3.8 million realized gain from the sale of a portion of our investment in Visa Class B shares, a \$3.2 million unrealized gain on our remaining investment in Visa Class B shares and growth across our business lines. See “Noninterest (Fee) Income” for further information. Noninterest expense decreased \$1.7 million during the three months ended September 30, 2018, primarily due to an insurance recovery of \$7.9 million related to the previously disclosed Universitas legal settlement payment, partially offset by corporate development costs related to our pending merger with Beneficial Bancorp, Inc. (Beneficial), higher employee-related costs and other operating costs to support business growth. See “Noninterest Expense” for further information.

Nine months ended September 30, 2018: For the nine months ended September 30, 2018, net income was \$105.0 million, an increase of \$44.9 million compared to the nine months ended September 30, 2017. Net interest income increased \$18.3 million, primarily due to loan portfolio growth, higher interest income on mortgage backed securities, including those purchased with the proceeds from our surrendered BOLI policies, and lower interest expense on senior debt due to our redemption of the senior notes late in the third quarter of 2017. These increases were partially offset by higher interest expense on deposits and FHLB advances. See “Net Interest Income” for further information. Noninterest income increased \$32.1 million compared to the nine months ended September 30, 2017, primarily due to the \$18.6 million valuation adjustment to our Visa Class B shares, the majority of which was recorded in the first quarter of 2018. In addition, we recorded a \$3.8 million realized gain from the sale of a portion of our investment in Visa Class B shares. Credit/debit card and ATM fees as well as Fiduciary and Investment management fees increased due to business growth. See “Noninterest (Fee) Income” for further information. Noninterest expense increased \$5.3 million compared to the nine months ended September 30, 2017, primarily reflecting higher employee-related and ongoing operating costs to support our organic and acquisition growth and corporate development costs related to our pending merger with Beneficial, partially offset by the insurance recovery related to the previously disclosed legal settlement payment during the third quarter of 2018 and a fraud loss recovery in the second quarter of 2018. See “Noninterest Expense” for further information.

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## Net Interest Income

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

| (Dollars in thousands)  | Three months ended September 30, |           |                           |                 |           |                           |
|---|----------------------------------|-----------|---------------------------|-----------------|-----------|---------------------------|
|   | 2018                             |           |                           | 2017            |           |                           |
|   | Average Balance                  | Interest  | Yield/Rate <sup>(1)</sup> | Average Balance | Interest  | Yield/Rate <sup>(1)</sup> |
| Assets:   |                                  |           |                           |                 |           |                           |
| Interest-earning assets:  |                                  |           |                           |                 |           |                           |
| Loans: <sup>(2)</sup>   |                                  |           |                           |                 |           |                           |
| Commercial real estate loans  | \$ 1,453,110                     | \$ 19,833 | 5.41 %                    | \$ 1,422,306    | \$ 18,186 | 5.07 %                    |
| Residential real estate loans                                       | 228,256                          | 3,722     | 6.52                      | 269,134         | 3,747     | 5.57                      |
| Commercial loans  | 2,594,124                        | 34,463    | 5.29                      | 2,471,382       | 30,013    | 4.85                      |
| Consumer loans  | 638,849                          | 8,753     | 5.44                      | 509,750         | 6,329     | 4.93                      |
| Loans held for sale   | 27,503                           | 393       | 5.67                      | 22,734          | 229       | 4.03                      |
| Total loans   | 4,941,842                        | 67,164    | 5.40                      | 4,695,306       | 58,504    | 4.96                      |
| Mortgage-backed securities <sup>(3)</sup>                           | 970,501                          | 6,662     | 2.75                      | 809,655         | 4,955     | 2.45                      |
| Investment securities <sup>(3)</sup>                                | 153,718                          | 1,079     | 3.36                      | 168,526         | 1,139     | 4.08                      |
| Other interest-earning assets                                       | 62,145                           | 510       | 3.26                      | 36,992          | 412       | 4.46                      |
| Total interest-earning assets                                       | 6,128,206                        | 75,415    | 4.90 %                    | 5,710,479       | 65,010    | 4.57 %                    |
| Allowance for loan losses   | (42,074 )                        |           |                           | (40,831 )       |           |                           |
| Cash and due from banks   | 94,959                           |           |                           | 118,056         |           |                           |
| Cash in non-owned ATMs  | 546,464                          |           |                           | 558,855         |           |                           |
| Bank-owned life insurance   | 6,347                            |           |                           | 102,513         |           |                           |
| Other noninterest-earning assets                                    | 346,743                          |           |                           | 344,783         |           |                           |
| Total assets  | \$ 7,080,645                     |           |                           | \$ 6,793,855    |           |                           |
| Liabilities and Stockholders' Equity:                               |                                  |           |                           |                 |           |                           |
| Interest-bearing liabilities:                                       |                                  |           |                           |                 |           |                           |
| Interest-bearing deposits:  |                                  |           |                           |                 |           |                           |
| Interest-bearing demand   | \$ 977,915                       | \$ 1,126  | 0.46 %                    | \$ 939,239      | \$ 606    | 0.26 %                    |
| Money market  | 1,498,437                        | 2,667     | 0.71                      | 1,324,946       | 1,227     | 0.37                      |
| Savings   | 550,146                          | 257       | 0.19                      | 564,275         | 264       | 0.19                      |
| Customer time deposits  | 701,897                          | 2,393     | 1.35                      | 555,668         | 1,188     | 0.85                      |
| Total interest-bearing customer deposits                            | 3,728,395                        | 6,443     | 0.69                      | 3,384,128       | 3,285     | 0.39                      |
| Brokered certificates of deposit                                    | 319,456                          | 1,534     | 1.91                      | 195,073         | 577       | 1.17                      |
| Total interest-bearing deposits                                     | 4,047,851                        | 7,977     | 0.78                      | 3,579,201       | 3,862     | 0.43                      |
| FHLB of Pittsburgh advances   | 381,386                          | 2,097     | 2.18                      | 730,390         | 2,402     | 1.30                      |
| Trust preferred borrowings  | 67,011                           | 677       | 4.01                      | 67,011          | 500       | 2.96                      |
| Senior debt   | 98,301                           | 1,179     | 4.80                      | 134,658         | 1,807     | 5.37                      |
| Other borrowed funds <sup>(4)</sup>                                 | 114,427                          | 388       | 1.35                      | 132,030         | 310       | 0.93                      |
| Total interest-bearing liabilities                                  | 4,708,976                        | 12,318    | 1.04 %                    | 4,643,290       | 8,881     | 0.76 %                    |
| Noninterest-bearing demand deposits                                 | 1,507,434                        |           |                           | 1,333,266       |           |                           |
| Other noninterest-bearing liabilities                               | 82,135                           |           |                           | 79,176          |           |                           |
| Stockholders' equity  | 782,100                          |           |                           | 738,123         |           |                           |
| Total liabilities and stockholders' equity                          | \$ 7,080,645                     |           |                           | \$ 6,793,855    |           |                           |
| Excess of interest-earning assets over interest-bearing liabilities | \$ 1,419,230                     |           |                           | \$ 1,067,189    |           |                           |
| Net interest and dividend income                                    |                                  | \$ 63,097 |                           |                 | \$ 56,129 |                           |
| Interest rate spread  |                                  |           | 3.86 %                    |                 |           | 3.81 %                    |



|                     |        |        |
|---------------------|--------|--------|
| Net interest margin | 4.11 % | 3.95 % |
|---------------------|--------|--------|

- (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.

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| (Dollars in thousands)  | Nine Months Ended September 30, |           |                               |                    |           |                               |
|---|---------------------------------|-----------|-------------------------------|--------------------|-----------|-------------------------------|
|   | 2018                            |           |                               | 2017               |           |                               |
|   | Average<br>Balance              | Interest  | Yield/<br>Rate <sup>(1)</sup> | Average<br>Balance | Interest  | Yield/<br>Rate <sup>(1)</sup> |
| Assets:   |                                 |           |                               |                    |           |                               |
| Interest-earning assets:  |                                 |           |                               |                    |           |                               |
| Loans: <sup>(2)</sup>   |                                 |           |                               |                    |           |                               |
| Commercial real estate loans  | \$1,443,657                     | \$57,392  | 5.32 %                        | \$1,411,503        | \$52,934  | 5.01 %                        |
| Residential real estate loans                                       | 238,356                         | 11,070    | 6.19                          | 275,020            | 12,707    | 6.16                          |
| Commercial loans  | 2,577,153                       | 99,047    | 5.15                          | 2,432,837          | 85,366    | 4.72                          |
| Consumer loans  | 604,411                         | 23,681    | 5.24                          | 482,008            | 17,326    | 4.81                          |
| Loans held for sale   | 22,556                          | 881       | 5.22                          | 31,988             | 925       | 3.86                          |
| Total loans   | 4,886,133                       | 192,071   | 5.26                          | 4,633,356          | 169,258   | 4.90                          |
| Mortgage-backed securities <sup>(3)</sup>                           | 916,068                         | 18,251    | 2.66                          | 784,125            | 14,132    | 2.40                          |
| Investment securities <sup>(3)</sup>                                | 157,484                         | 3,307     | 3.41                          | 187,747            | 3,524     | 3.71                          |
| Other interest-earning assets                                       | 40,828                          | 1,550     | 5.08                          | 37,664             | 1,256     | 4.45                          |
| Total interest-earning assets                                       | 6,000,513                       | 215,179   | 4.82 %                        | 5,642,892          | 188,170   | 4.51 %                        |
| Allowance for loan losses   | (41,742 )                       |           |                               | (40,646 )          |           |                               |
| Cash and due from banks   | 113,992                         |           |                               | 130,537            |           |                               |
| Cash in non-owned ATMs  | 533,307                         |           |                               | 604,892            |           |                               |
| Bank-owned life insurance   | 32,747                          |           |                               | 101,952            |           |                               |
| Other noninterest-earning assets                                    | 346,026                         |           |                               | 345,514            |           |                               |
| Total assets  | \$6,984,843                     |           |                               | \$6,785,141        |           |                               |
| Liabilities and Stockholders' Equity:                               |                                 |           |                               |                    |           |                               |
| Interest-bearing liabilities:                                       |                                 |           |                               |                    |           |                               |
| Interest-bearing deposits:  |                                 |           |                               |                    |           |                               |
| Interest-bearing demand   | \$982,295                       | \$2,863   | 0.39 %                        | \$924,609          | \$1,444   | 0.31 %                        |
| Money market  | 1,425,725                       | 6,079     | 0.57                          | 1,311,967          | 3,314     | 0.51                          |
| Savings   | 556,779                         | 771       | 0.19                          | 575,676            | 753       | 0.26                          |
| Customer time deposits  | 660,882                         | 6,068     | 1.23                          | 562,435            | 3,338     | 0.79                          |
| Total interest-bearing customer deposits                            | 3,625,681                       | 15,781    | 0.58                          | 3,374,687          | 8,849     | 0.35                          |
| Brokered certificates of deposit                                    | 297,339                         | 3,804     | 1.71                          | 194,275            | 1,429     | 0.98                          |
| Total interest-bearing deposits                                     | 3,923,020                       | 19,585    | 0.67                          | 3,568,962          | 10,278    | 0.39                          |
| FHLB of Pittsburgh advances   | 498,809                         | 7,096     | 1.90                          | 744,939            | 6,057     | 1.09                          |
| Trust preferred borrowings  | 67,011                          | 1,871     | 3.73                          | 67,011             | 1,418     | 2.83                          |
| Senior debt   | 98,247                          | 3,538     | 4.80                          | 146,267            | 6,049     | 5.51                          |
| Other borrowed funds <sup>(4)</sup>                                 | 132,362                         | 1,289     | 1.30                          | 133,863            | 822       | 0.82                          |
| Total interest-bearing liabilities                                  | 4,719,449                       | 33,379    | 0.95 %                        | 4,661,042          | 24,624    | 0.71 %                        |
| Noninterest-bearing demand deposits                                 | 1,426,830                       |           |                               | 1,331,417          |           |                               |
| Other noninterest-bearing liabilities                               | 83,281                          |           |                               | 75,744             |           |                               |
| Stockholders' equity  | 755,283                         |           |                               | 716,938            |           |                               |
| Total liabilities and stockholders' equity                          | \$6,984,843                     |           |                               | \$6,785,141        |           |                               |
| Excess of interest-earning assets over interest-bearing liabilities | \$1,281,064                     |           |                               | \$981,850          |           |                               |
| Net interest and dividend income                                    |                                 | \$181,800 |                               |                    | \$163,546 |                               |
| Interest rate spread  |                                 |           | 3.87 %                        |                    |           | 3.80 %                        |
| Net interest margin   |                                 |           | 4.07 %                        |                    |           | 3.93 %                        |

- (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.

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During the three months ended September 30, 2018, net interest income increased \$7.0 million, or 12% from the three months ended September 30, 2017. Net interest margin was 4.11% for the third quarter of 2018, a 16 basis points increase compared to 3.95% for the third quarter of 2017. The increase in net interest margin was the result of being well-positioned for the higher short-term interest rate environment in 2018, the redemption of \$55.0 million of our 2012 senior notes late in the third quarter of 2017, and changes in balance sheet growth and mix.

During the nine months ended September 30, 2018, net interest income increased \$18.3 million, or 11% from the nine months ended September 30, 2017. Net interest margin was 4.07% for the first nine months of 2018, a 14 basis points increase compared to 3.93% for the first nine months of 2017. The increase in net interest margin includes the positive effects of the overall higher short-term interest rate environment in 2018, the redemption of \$55.0 million of the 2012 senior notes late in the third quarter of 2017, and changes in balance sheet growth and mix.

**Provision/Allowance for Loan Losses**

We maintain an allowance for loan losses at an appropriate level based on our assessment of estimable and probable losses in the loan portfolio. Our allowance for loan losses is based on the inherent risk of our loans and various other factors including but not limited to, collateral values, trends in asset quality, level of delinquent loans and concentrations. In addition, regional economic conditions are taken into consideration. Our evaluation is based on a review of the portfolio and requires significant, complex and difficult judgments.

For the three months ended September 30, 2018 and 2017, we recorded a provision for loan losses of \$3.7 million and \$2.9 million, respectively. For the nine months ended September 30, 2018 and 2017, we recorded a provision for loan losses of \$9.9 million and \$6.9 million, respectively. Provision for the three and nine months ended September 30, 2018 increased \$0.8 million and \$3.0 million, respectively, from the same periods in 2017, primarily due to loan portfolio growth and the deterioration of three large relationships more than offsetting the generally favorable portfolio migration.

The allowance for loan losses was \$41.8 million at September 30, 2018 and \$40.6 million at December 31, 2017. The ratio of allowance for loan losses to total gross loans was 0.85% at September 30, 2018 and 0.84% at December 31, 2017. Excluding the impact of all purchased loans, this ratio would have been 0.95% and 0.97% at September 30, 2018 and December 31, 2017, respectively. The ratio of net charge-offs to average gross loans net of unearned income, which excludes loans held for sale and reverse mortgages, was 0.24% and 0.22% (annualized) at September 30, 2018 and December 31, 2017, respectively. See Note 6 to the unaudited Consolidated Financial Statements for further information.

**Noninterest (Fee) Income**

Three months ended September 30, 2018: During the third quarter of 2018, the Company earned noninterest income of \$41.9 million, an increase of \$9.5 million, or 29%, compared to \$32.4 million in the third quarter of 2017. The increase included a \$3.8 million realized gain from the sale of a portion of our investment in Visa Class B shares and a \$3.2 million unrealized gain on our remaining investment in Visa Class B shares. The remaining increase resulted from growth across most of our businesses, including an increase of \$1.9 million in credit/debit card and ATM income, due to growth resulting from expanded revenue sources in our Cash Connect® business, and an increase of \$1.2 million in investment management and fiduciary income, due to growth in several of our Wealth business lines.

Nine months ended September 30, 2018: For the nine months ended September 30, 2018, the Company earned noninterest income of \$124.4 million, an increase of \$32.1 million, or 35%, compared to \$92.2 million for the nine months ended September 30, 2017. Included in this increase is an unrealized gain of \$18.6 million related to our adoption of ASU 2016-01 in the first quarter of 2018 and its impact on the valuation of our equity investment in Visa Class B shares and a \$3.8 million realized gain from the sale of a portion of our investment in Visa Class B shares. The remaining increase resulted from growth across most of our businesses, including an increase of \$5.3 million in credit/debit card and ATM income, reflecting growth due to expanded revenue sources in our Cash Connect® business and an increase of \$3.8 million in investment management and fiduciary income due to growth in several of our Wealth business lines. See Notes 1 and 10 to the unaudited Consolidated Financial Statements for further information about our adoption of ASU 2016-01.



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## Noninterest Expense

Three months ended September 30, 2018: Noninterest expense for the third quarter of 2018 was \$52.5 million, a decrease of \$1.7 million, or 3%, from \$54.2 million in the third quarter of 2017, primarily reflecting an insurance recovery of \$7.9 million related to a previously disclosed legal settlement payment and a decrease of \$0.5 million in loan workout and OREO expenses, due primarily to higher gains on OREO sales during the quarter. These favorable items were partially offset by an increase of \$3.6 million in corporate development expenses related to our pending merger with Beneficial, an increase of \$1.5 million in compensation and benefits expenses driven by overall franchise growth and higher variable incentive compensation expenses due to our positive operating results, an increase of \$1.1 million in variable costs to support Cash Connect® revenue growth, and a \$0.8 million increase in marketing costs primarily to support brand and growth initiatives in the southeastern Pennsylvania market.

Nine months ended September 30, 2018: For the nine months ended September 30, 2018, noninterest expense was \$163.7 million, an increase of \$5.3 million, or 3.3% from \$158.4 million for the nine months ended September 30, 2017. The increase was primarily due to an increase \$5.2 million of higher compensation and related costs due to overall franchise growth, an increase of \$3.4 million in corporate development expenses related to our pending merger with Beneficial, and an increase of \$1.1 million in marketing costs, primarily related to our initiatives in southeastern Pennsylvania. These increases were partially offset by an insurance recovery of \$7.9 million related to a previously disclosed legal settlement payment and a \$1.7 million recovery related to a previously disclosed fraud loss. The remaining increase was due to expenses to support overall franchise growth.

## Income Taxes

We and our subsidiaries file a consolidated federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded income tax expense of \$9.9 million and \$27.6 million during the three and nine months ended September 30, 2018 compared to income tax expense of \$10.9 million and \$30.4 million for the same periods in 2017.

Our effective tax rate was 20.3% and 20.8% for the three and nine months ended September 30, 2018 compared to 34.7% and 33.6% during the same periods in 2017. The effective tax rate for the three and nine months ended September 30, 2018 decreased primarily due to the reduction in the statutory federal corporate rate from 35% to 21% effective for 2018. Further, the tax benefit related to stock-based compensation activity during the year pursuant to ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, Compensation - Stock Compensation (Topic 718), increased as compared to the prior year even though the corporate tax rate declined. This increase is due to greater transaction volume and increases in the Company's stock price. The tax benefits recognized during the three and nine months ended September 30, 2018 were \$1.2 million and \$3.3 million, respectively, compared to \$0.3 million and \$1.9 million for the comparable periods in 2017. Finally, we also recorded a \$0.9 million tax benefit during the three and nine months ended September 30, 2018 related to the filing of our 2017 income tax returns as more fully discussed in Note 9 - Income Taxes.

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

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

## Contractual Obligations

Our contractual obligations at September 30, 2018 did not significantly change from our contractual obligations at December 31, 2017, which are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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## RECONCILIATION OF NON-GAAP MEASURE TO GAAP MEASURE

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

| (Dollars and share amounts in thousands, except per share amounts) | September<br>30, 2018 | December<br>31, 2017 |
|--|-----------------------|----------------------|
| Stockholders' equity   | \$ 798,822            | \$ 724,345           |
| Less: Goodwill and other intangible assets                         | 186,584               | 188,444              |
| Tangible common equity (numerator)                                 | \$ 612,238            | \$ 535,901           |
| Shares of common stock outstanding (denominator)                   | 31,852                | 31,418               |
| Book value per share of common stock                               | \$ 25.08              | \$ 23.06             |
| Goodwill and other intangible assets                               | 5.86                  | 6.00                 |
| Tangible book value per share of common stock                      | \$ 19.22              | \$ 17.06             |

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited Consolidated Financial Statements in accordance with U.S. GAAP requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those used to determine the allowance for loan losses, deferred taxes, fair value measurements, goodwill and other intangible assets. We base our estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Although our current estimates contemplate current economic conditions and how we expect them to change in the future, for the remainder of 2018, it is possible that actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Actual results may differ from these estimates under different assumptions or conditions.

For further discussion of our critical accounting estimates, see the "Management's Discussion and Analysis - Critical Accounting Estimates" section of our Annual Report on Form 10-K for the year ended December 31, 2017.

## RECENT REGULATORY DEVELOPMENTS

## General

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

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Basel III

In 2013, the Federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision capital guidelines for U.S. banking organizations. Under the final rules as of January 2015, minimum requirements increased for both the quantity and quality of capital maintained by the Company and the Bank. The rules included a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raised the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, required a minimum ratio of total capital to risk-weighted assets of 10.0%, and required a minimum Tier 1 leverage ratio of 4.0%. The final rule also established a new capital conservation buffer, comprised of common equity Tier 1 capital, above the regulatory minimum capital requirements. The phase-in of the capital conservation buffer began on January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.50% on January 1, 2019. For 2017, the capital conservation buffer is 1.25%. The final rules also revised the standards for an insured depository institution to be “well-capitalized” under the banking agencies’ prompt corrective action framework, requiring a common equity Tier 1 capital ratio of 6.5%, Tier 1 capital ratio of 8.0% and total capital ratio of 10.0%, while leaving unchanged the existing 5.0% leverage ratio requirement. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules. Newly issued trust preferred securities and cumulative perpetual preferred stock may no longer be included in Tier 1 capital. However, for depository institution holding companies of less than \$15 billion in total consolidated assets, such as the Company, most outstanding trust preferred securities and other non-qualifying securities issued prior to May 19, 2010 are permanently grandfathered to be included in Tier 1 capital (up to a limit of 25% of Tier 1 capital, excluding non-qualifying capital instruments). As of September 30, 2018, we had approximately \$67.0 million of trust preferred securities outstanding, all of which are counted as Tier 1 capital.

The phase-in period for the final rules began for us on January 1, 2015. Full compliance with all of the final rule’s requirements phased in over a multi-year schedule is required by January 1, 2019. As of September 30, 2018, the Company and the Bank met the applicable standards, and the Bank was “well-capitalized” under the prompt corrective action rules.

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

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 a 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, 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 on April 2, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Incorporated herein by reference from Item 2 Part I (Interest Rate Sensitivity) of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934), our principal executive



officer and principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in internal control over financial reporting. During the three months ended September 30, 2018, there was (b)no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## Part II. OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

There have not been any material changes to the risk factors previously disclosed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, previously filed with the Securities and Exchange Commission.

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

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended September 30, 2018.

|           | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | Maximum<br>Number<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(1)</sup> |
|-----------|---|---------------------------------------|--|---|
| 2018      |   |                                       |  |   |
| July      | 21,000                                    | \$ 54.81                              | 21,000   | 558,194   |
| August    | 6,000                                     | 55.66                                 | 6,000  | 552,194   |
| September | 20,000                                    | 48.30                                 | 20,000   | 532,194   |
| Total     | 47,000                                    | \$ 52.15                              | 47,000   |   |

During the fourth quarter of 2015, the Board of Directors of the Company approved a stock buyback program of up to 5% of then-outstanding shares of common stock. Under the program, purchases may be made from time to time <sup>(1)</sup> in the open market or through negotiated transactions, subject to market conditions and other factors, and in accordance with applicable securities laws. There is no fixed termination date for the repurchase program, and the repurchase program may be suspended or discontinued at any time.

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Item 3. Defaults upon Senior Securities  
None.

Item 4. Mine Safety Disclosures  
Not applicable.

Item 5. Other Information  
None.

Item 6. Exhibits

- Exhibit 2.01 - Agreement and Plan of Reorganization, dated August 7, 2018, by and between WSFS Financial Corporation and Beneficial Bancorp, Inc. (incorporated herein by reference to Exhibit 2.01 of the Registrant's Form 8-K filed with the SEC on August 8, 2018).
- (a) Exhibit 10.01 - 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).
- (b) Exhibit 10.02 - 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).
- (c) Exhibit 31.1 – Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (d) Exhibit 31.2 – Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (e) Exhibit 32 – Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (f) Exhibit 101.INS – XBRL Instance Document
- (g) Exhibit 101.SCH – XBRL Schema Document
- (h) Exhibit 101.CAL – XBRL Calculation Linkbase Document
- (i) Exhibit 101.LAB – XBRL Labels Linkbase Document
- (j) Exhibit 101.PRE – XBRL Presentation Linkbase Document
- (k) Exhibit 101.DEF – XBRL Definition Linkbase Document
- (l)

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SIGNATURES

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

WSFS FINANCIAL CORPORATION

Date: November 8, 2018 /s/ Mark A. Turner  
Mark A. Turner  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 8, 2018 /s/ Dominic C. Canuso  
Dominic C. Canuso  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)