

WSFS FINANCIAL CORP  
Form 10-Q  
November 12, 2013  
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**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, 2013

OR

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

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

Commission File Number 0-16668

**WSFS FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**22-2866913**  
(I.R.S. Employer

Incorporation or organization)

Identification Number)

**WSFS Bank Center, 500 Delaware**

**Avenue, Wilmington, Delaware**  
(Address of principal executive offices)

**(302) 792-6000**

**19801**  
(Zip Code)

Registrant's telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 1, 2013

**Common Stock, par value \$.01 per share**  
(Title of Class)

**8,850,368**  
(Shares Outstanding)

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**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Three Months Ended September 30, 2013  
2012  
2013  
2012  
(Unaudited)

(In Thousands, Except Per Share Data)

	2013	2012	2013	2012
<b>Interest income:</b>				
Interest and fees on loans	\$ 32,708	\$ 32,003	\$ 96,268	\$ 98,185
Interest on mortgage-backed securities	3,527	4,344	10,726	14,953
Interest on reverse mortgages	248	35	462	(41)
Interest and dividends on investment securities	546	123	999	376
Other interest income	87	9	134	27
	<b>37,116</b>	<b>36,514</b>	<b>108,589</b>	<b>113,500</b>
<b>Interest expense:</b>				
Interest on deposits	1,673	3,237	5,513	10,652
Interest on Federal Home Loan Bank advances	482	1,403	1,376	4,985
Interest on federal funds purchased and securities sold under agreements to repurchase	244	253	738	765
Interest on trust preferred borrowings	339	369	1,005	1,114
Interest on senior debt	943	353	2,830	353
Interest on other borrowings	29	6	85	130
	<b>3,710</b>	<b>5,621</b>	<b>11,547</b>	<b>17,999</b>
Net interest income	<b>33,406</b>	<b>30,893</b>	<b>97,042</b>	<b>95,501</b>
Provision for loan losses	<b>1,969</b>	<b>3,751</b>	<b>5,880</b>	<b>28,379</b>
Net interest income after provision for loan losses	<b>31,437</b>	<b>27,142</b>	<b>91,162</b>	<b>67,122</b>
<b>Noninterest income:</b>				
Credit/debit card and ATM income	6,374	5,738	18,231	17,031
Deposit service charges	4,407	4,360	12,637	12,673
Investment management and fiduciary revenue	3,836	3,258	11,623	9,716
Reverse mortgage consolidation gain	3,801		3,801	
Mortgage banking activities, net	907	914	2,837	1,882
Loan fee income	419	706	1,401	1,803
Security gains, net	306	2,451	2,856	17,797
Bank owned life insurance income	74	1,126	162	1,447
Other income	2,618	1,195	6,807	3,149
	<b>22,742</b>	<b>19,748</b>	<b>60,355</b>	<b>65,498</b>
<b>Noninterest expenses:</b>				
Salaries, benefits and other compensation	17,648	16,942	53,086	49,840
Occupancy expense	3,385	3,235	10,169	9,697
Equipment expense	2,044	1,701	5,990	5,403
Data processing and operations expenses	1,548	1,402	4,291	4,190
FDIC expenses	959	1,384	3,067	4,262
Professional fees	866	671	2,712	2,917

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Marketing expense	643	379	1,768	1,976
Loan workout and OREO expenses	492	2,115	1,432	4,902
Other operating expense	5,224	4,324	15,816	12,972
	32,809	32,153	98,331	96,159
Income before taxes	21,370	14,737	53,186	36,461
Income tax provision	7,210	4,758	18,378	12,708
<b>Net income</b>	<b>14,160</b>	<b>9,979</b>	<b>34,808</b>	<b>23,753</b>
Dividends on preferred stock and accretion of discount	332	693	1,633	2,077
<b>Net income allocable to common stockholders</b>	<b>\$ 13,828</b>	<b>\$ 9,286</b>	<b>\$ 33,175</b>	<b>\$ 21,676</b>
<b>Earnings per share:</b>				
Basic	\$ 1.57	\$ 1.07	\$ 3.77	\$ 2.49
Diluted	\$ 1.54	\$ 1.06	\$ 3.72	\$ 2.47

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

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## WSFS FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30, <b>2013</b> 2012 (Unaudited) (In Thousands)		Nine Months Ended September 30, <b>2013</b> 2012 (Unaudited) (In Thousands)	
Net Income	<b>\$ 14,160</b>	\$ 9,979	<b>\$ 34,808</b>	\$ 23,753
Other comprehensive (loss) income:				
Unrealized (losses) gains on securities available-for-sale	<b>(4,901)</b>	15,341	<b>(43,781)</b>	27,605
Tax benefit (expense)	<b>1,795</b>	(5,783)	<b>16,532</b>	(10,440)
Net of tax amount	<b>(3,106)</b>	9,558	<b>(27,249)</b>	17,165
Reclassification adjustment for gains included in net income	<b>(306)</b>	(2,451)	<b>(2,856)</b>	(17,797)
Tax expense	<b>116</b>	931	<b>1,085</b>	6,763
Net of tax amount	<b>(190)</b>	(1,520)	(1,771)	(11,034)
Total other comprehensive (loss) income	<b>(3,296)</b>	8,038	<b>(29,020)</b>	6,131
Total comprehensive income	<b>\$ 10,864</b>	\$ 18,017	<b>\$ 5,788</b>	\$ 29,884

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

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**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CONDITION**

	September 30, 2013	December 31, 2012
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
<b>Assets</b>		
Cash and due from banks	\$ 96,021	\$ 93,629
Cash in non-owned ATMs	406,227	406,627
Interest-bearing deposits in other banks	197	631
<b>Total cash and cash equivalents</b>	<b>502,445</b>	500,887
Investment securities, available-for-sale	806,926	907,955
Investment securities, trading		12,590
Loans held-for-sale	12,608	12,758
Loans, net of allowance for loan losses of \$41,431 at September 30, 2013 and \$43,922 at December 31, 2012	2,829,992	2,723,916
Reverse mortgage loans	40,095	(457)
Bank-owned life insurance	63,077	62,915
Stock in Federal Home Loan Bank of Pittsburgh, at cost	33,876	31,165
Assets acquired through foreclosure	7,163	4,622
Accrued interest receivable	9,833	9,652
Premises and equipment	36,001	38,257
Goodwill	32,395	28,146
Intangible assets	7,146	5,174
Other assets	61,099	37,568
<b>Total assets</b>	<b>\$ 4,442,656</b>	<b>\$ 4,375,148</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing demand	\$ 609,115	\$ 631,026
Interest-bearing demand	669,173	538,195
Money market	780,753	933,901
Savings	378,397	389,977
Time	256,397	316,986
Jumbo certificates of deposit - customer	251,764	294,237
<b>Total customer deposits</b>	<b>2,945,599</b>	<b>3,104,322</b>
Brokered deposits	175,599	170,641
<b>Total deposits</b>	<b>3,121,198</b>	<b>3,274,963</b>
Federal funds purchased and securities sold under agreements to repurchase	114,000	110,000
Federal Home Loan Bank advances	600,435	376,310
Trust preferred borrowings	67,011	67,011
Senior debt	55,000	55,000
Other borrowed funds	38,169	28,945
Bonds payable	26,340	
Accrued interest payable	3,254	1,099
Other liabilities	43,298	40,766

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<b>Total liabilities</b>	<b>4,068,705</b>	3,954,094
<b>Stockholders Equity:</b>		
Serial preferred stock \$0.01 par value, 7,500,000 shares authorized; issued 0 at September 30, 2013 and 52,625 issued at December 31, 2012	\$	\$ 1
Common stock \$0.01 par value, 20,000,000 shares authorized; issued 18,425,025 at September 30, 2013 and 18,354,055 at December 31, 2012	<b>184</b>	184
Capital in excess of par value	<b>175,176</b>	222,978
Accumulated other comprehensive (loss) / income	<b>(16,077)</b>	12,943
Retained earnings	<b>462,948</b>	433,228
Treasury stock at cost, 9,580,569 shares at September 30, 2013 and December 31, 2012	<b>(248,280)</b>	(248,280)
<b>Total stockholders equity</b>	<b>373,951</b>	421,054
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,442,656</b>	\$ 4,375,148

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



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**WSFS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,	
	2013	2012
	(Unaudited)	
	(In Thousands)	
<b>Operating activities:</b>		
Net Income	\$ 34,808	\$ 23,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,880	28,379
Depreciation of premises and equipment	4,329	3,803
Amortization, net	8,575	8,123
(Increase) decrease in accrued interest receivable	(181)	1,451
(Decrease) increase in other assets	(6,126)	8,726
Origination of loans held-for-sale	(178,819)	(137,298)
Proceeds from sales of loans held-for-sale	191,831	142,535
Gain on mortgage banking activities, net	(2,837)	(1,882)
Gain on mark-to-market adjustment on trading securities	125	
Security gains, net	(2,981)	(17,797)
Reverse mortgage consolidation gain	(3,801)	
Stock-based compensation expense	2,294	1,600
Excess tax benefits from share-based payment arrangements	(266)	(99)
Increase in accrued interest payable	2,155	4,425
Decrease in other liabilities	(9,488)	(3,432)
Loss on sale of assets acquired through foreclosure and valuation adjustments, net	203	2,891
Increase in value of bank-owned life insurance	(162)	(1,447)
Decrease in capitalized interest, net	(802)	(478)
<b>Net cash provided by operating activities</b>	<b>\$ 44,737</b>	<b>\$ 63,253</b>
<b>Investing activities:</b>		
Maturities of investment securities	510	5,039
Sale of investment securities available for sale	239,383	616,254
Purchase of investment securities available-for-sale	(255,277)	(751,363)
Repayments of investment securities available-for-sale	64,369	101,729
Disbursements for reverse mortgages	(40)	(94)
Proceeds from loan disposition		31,307
Net increase in loans	(121,589)	(38,190)
Cash received in consolidation of reverse mortgage securitization trust	5,833	
Payment of bank-owned life insurance		2,021
Acquisition of Array/Arrow, net of cash acquired	(4,189)	
Net (increase) decrease in stock of Federal Home Loan Bank of Pittsburgh	(2,711)	5,585
Sales of assets acquired through foreclosure, net	4,682	11,789
Investment in premises and equipment, net	(1,948)	(5,747)
<b>Net cash (used for) provided by investing activities</b>	<b>\$ (70,977)</b>	<b>\$ (21,670)</b>
<b>Financing activities:</b>		
Net (decrease) increase in demand and saving deposits	(46,072)	101,059
Decrease in time deposits	(103,062)	(58,991)

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Increase (decrease) in brokered deposits	4,958	(25,717)
Receipts from FHLB advances	29,071,254	27,299,083
Repayments of FHLB advances	(28,847,129)	(27,444,895)
Receipts from federal funds purchased and securities sold under agreement to repurchase	15,682,425	14,135,000
Repayments of federal funds purchased and securities sold under agreement to repurchase	(15,678,425)	(14,085,000)
Repayment of unsecured debt		(30,000)
Issuance of Senior Debt		52,691
Dividends paid	(6,017)	(5,115)
Issuance of common stock and exercise of common stock options	2,223	1,086
Repurchase of common stock warrants		(1,800)
Redemption of preferred stock	(52,623)	
Excess tax benefits from share-based payment arrangements	266	99
<b>Net cash provided by (used for) financing activities</b>	<b>\$ 27,798</b>	<b>\$ (62,500)</b>
Increase (decrease) in cash and cash equivalents	1,558	(20,917)
Cash and cash equivalents at beginning of period	500,887	468,017
Cash and cash equivalents at end of period	<b>\$ 502,445</b>	<b>\$ 447,100</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest during the period	\$ 9,392	\$ 13,574
Cash paid for income taxes, net	15,822	8,379
Loans transferred to assets acquired through foreclosure	7,427	9,290
Net change in other comprehensive income	(29,021)	6,131
Fair value of assets acquired	12,817	
Fair value of liabilities assumed	10,127	
Fair value of assets consolidated	41,397	
Fair value of liabilities consolidated	26,339	

The accompanying notes are an integral part of these 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, 2013**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

Our Consolidated Financial Statements include the accounts of WSFS Financial Corporation ( the Company , our Company , we , our or us ), Wilmington Savings Fund Society, FSB ( WSFS Bank or the Bank ) and Montchanin Capital Management, Inc. ( Montchanin ). We also have one unconsolidated affiliate, WSFS Capital Trust III ( the Trust ). WSFS Bank has two fully-owned subsidiaries, WSFS Investment Group, Inc. ( WIG ) and Monarch Entity Services LLC ( Monarch ) and Montchanin has one wholly owned subsidiary, Cypress Capital Management, LLC ( Cypress ). In addition to the subsidiaries listed above, we also have one consolidated variable interest entity, SASCO 2002-RM1 ( SASCO ), which is a reverse mortgage securitization trust.

Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our Wealth Management division. Lending activities are funded primarily with customer deposits and borrowings. The Federal Deposit Insurance Corporation ( FDIC ) insures our customers' deposits to their legal maximums. We serve our customers primarily from our 51 offices located in Delaware (41), Pennsylvania (8), 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.

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

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of the Securities and Exchange Commission ( SEC ) Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC.

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(In Thousands, Except Per Share Data)			
<b><u>Numerator:</u></b>				
Net income allocable to common stockholders	\$ 13,828	\$ 9,286	\$ 33,175	\$ 21,676
<b><u>Denominator:</u></b>				
Denominator for basic earnings per share weighted average shares	8,828	8,712	8,804	8,702
Effect of dilutive employee stock options and warrants	148	83	106	77
Denominator for diluted earnings per share adjusted weighted average shares and assumed exercise	8,976	8,795	8,910	8,779
<b>Earnings per share:</b>				
<b>Basic:</b>				
Net income allocable to common stockholders	\$ 1.57	\$ 1.07	\$ 3.77	\$ 2.49
<b>Diluted:</b>				
Net income allocable to common stockholders	\$ 1.54	\$ 1.06	\$ 3.72	\$ 2.47
Outstanding common stock equivalents having no dilutive effect	402	338	557	361

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The following tables detail the amortized cost and the estimated fair value of our investment securities available-for-sale and trading securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<b>Available-for-sale securities:</b>				
<b>September 30, 2013:</b>				
State and political subdivisions	\$ 87,987	\$ 224	\$ (4,879)	\$ 83,332
U.S. Government and government sponsored enterprises ( GSE )	41,670	131	(3)	41,798
Federal National Mortgage Association ( FNMA ) Mortgage-Backed Securities ( MBS )	379,721	518	(11,990)	368,249
Collateralized Mortgage Obligation ( CMO ) (1)	112,887	169	(4,585)	108,471
Federal Home Loan Mortgage Corporation ( FHLMC ) MBS	109,482	38	(3,397)	106,123
Government National Mortgage Association ( GNMA ) MBS	100,349	1,134	(2,530)	98,953
	<b>\$ 832,096</b>	<b>\$ 2,214</b>	<b>\$ (27,384)</b>	<b>\$ 806,926</b>
<b>December 31, 2012</b>				
State and political subdivisions	3,120	89		3,209
GSE	46,726	266	(2)	46,990
FNMA	396,910	9,588	(243)	406,255
CMO (1)	251,848	7,849	(301)	259,396
FHLMC	58,596	1,171	(117)	59,650
GNMA	129,288	3,221	(54)	132,455
	<b>\$ 886,488</b>	<b>\$ 22,184</b>	<b>\$ (717)</b>	<b>\$ 907,955</b>
<b>Trading securities</b>				
<b>September 30, 2013:</b>				
CMO	\$	\$	\$	\$
<b>December 31, 2012</b>				
CMO	\$ 12,590	\$	\$	\$ 12,590

(1) Includes agency CMO securities classified as available-for-sale

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The scheduled maturities of investment securities available-for-sale at September 30, 2013 and December 31, 2012 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
<b>September 30, 2013</b>		
Within one year	\$ 22,860	\$ 22,932
After one year but within five years	32,661	32,465
After five years but within ten years	312,070	298,900
After ten years	464,505	452,629
	<b>\$ 832,096</b>	<b>\$ 806,926</b>
<b>December 31, 2012</b>		
Within one year	\$ 19,001	\$ 19,115
After one year but within five years	28,855	29,034
After five years but within ten years	321,103	329,580
After ten years	517,529	530,226
	<b>\$ 886,488</b>	<b>\$ 907,955</b>

The portfolio of available-for-sale MBS includes 134 securities all of which are GSE securities with an amortized cost of \$702.4 million. All securities were AAA-rated at the time of purchase. All securities were re-evaluated for OTTI at September 30, 2013. The result of this evaluation showed no OTTI for the third quarter of 2013. The weighted average duration of MBS was 5.8 years at September 30, 2013.

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

At September 30, 2013, investment securities with market values aggregating \$513.0 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations. From time to time, investment securities are also pledged as collateral for FHLB borrowings. There were no FHLB pledged investment securities at September 30, 2013.

During the first nine months of 2013, we sold \$239.9 million of investment securities categorized as available-for-sale for net gains of \$3.0 million. In the first nine months of 2012, proceeds from the sale of investment securities available-for-sale were \$616.3 million and resulted in net gains of \$17.7 million. The cost basis of all investment securities sales is based on the specific identification method.

As of September 30, 2013, our investment securities portfolio had remaining unamortized premiums of \$25.1 million and \$90,000 of unaccreted discounts.

At September 30, 2013, we owned investment securities totaling \$678.9 million in which the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$27.4 million at September 30, 2013. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Our investment portfolio is reviewed each quarter for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the 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 any anticipated recovery in the market. We evaluate our intent and ability to hold securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

During the first nine months of 2013, we purchased \$77.7 million of municipal bonds. The purpose was to improve return, diversify our investment portfolio and reduce our effective tax rate.



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For these investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at September 30, 2013.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In Thousands)						
<b>Available-for-sale</b>						
State and political subdivisions	\$ 59,470	\$ 4,879	\$	\$	\$ 59,470	\$ 4,879
U.S Government and agencies			2,003	3	2,003	3
FNMA	331,949	11,840	4,060	150	336,009	11,990
CMO	99,464	4,584	1,339	1	100,803	4,585
FHLMC	105,539	3,397			105,539	3,397
GNMA	75,096	2,530			75,096	2,530
<b>Total temporarily impaired investments</b>	<b>\$ 671,518</b>	<b>\$ 27,230</b>	<b>\$ 7,402</b>	<b>\$ 154</b>	<b>\$ 678,920</b>	<b>\$ 27,384</b>

The table below shows our investment securities gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2012.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In Thousands)						
<b>Available-for-sale</b>						
State and political subdivisions	\$	\$	\$	\$	\$	\$
U.S Government and agencies	2,008	2			2,008	2
FNMA	43,696	243			43,696	243
CMO	40,358	268	1,364	33	41,722	301
FHLMC	13,884	117			13,884	117
GNMA	10,029	54			10,029	54
<b>Total temporarily impaired investments</b>	<b>\$ 109,975</b>	<b>\$ 684</b>	<b>\$ 1,364</b>	<b>\$ 33</b>	<b>\$ 111,339</b>	<b>\$ 717</b>



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**4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY INFORMATION**

**Allowance for Loan Losses**

We maintain an allowance for loan losses and charge losses to this allowance when such losses are realized. We established our allowance for loan losses in accordance with guidance provided in the SEC's Staff Accounting Bulletin 102 (SAB 102). The determination of the allowance for loan losses requires significant judgment reflecting our best estimate of impairment related to specifically identified impaired loans as well as probable loan losses in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios. The following are included in our allowance for loan losses:

Specific reserves for impaired loans

Allowances for pools of homogenous loans based on historical loss experience

Adjustments for qualitative and environmental factors

Allowance for model estimation and complexity risk

Specific reserves are established for impaired loans where we have identified significant conditions or circumstances related to specific credits that indicate losses are probable. Unless loans are well-secured and collection is imminent, all loans that are 90 days past due are deemed impaired. Reserves for impaired loans are generally charged-off within 90 days of impairment recognition. Estimated losses are based on collateral values, estimates of future cash flows, or market valuations.

Allowances for pooled homogeneous loans, that are not deemed impaired, are based on historical loss experience. Estimated losses for pooled portfolios are determined differently for commercial loan pools and retail loan pools. Commercial loans are pooled into the following segments: Business Loans (Commercial and Industrial Loans), Commercial Real Estate Owner-Occupied, Commercial Real Estate Investor, and Construction Loans. Each pool is further segmented by internally assessed risk ratings. Loan losses for commercial loans are estimated by determining the probability of default and expected loss severity upon default. Probability of default is calculated based on the historical rate of migration to impaired status during the last fourteen quarters. This was an increase of one quarter over the previous period's analysis. This adjustment provides a more representative period and accurate estimation of the allowance at the current point in this credit cycle. Loss severity is calculated as the actual loan losses (net of recoveries) on impaired loans in the respective pool during the same time frame. Retail loans are pooled into the following segments: residential mortgage loans, home equity secured loans, and all other consumer loans. Pooled reserves for retail loans are calculated based solely on the previous three year average loss rate.

Qualitative and environmental adjustment factors are taken into consideration when determining the above reserve estimates or core reserves. These adjustment factors are based upon our evaluation of various current internal and external conditions including:

Assessment of current underwriting policies, staff, and portfolio mix

Internal trends of delinquency, nonaccrual and criticized loans by segment

Assessment of risk rating accuracy, control and regulatory assessments/environment

General economic conditions locally and nationally

Market trends impacting collateral values

Competitive environment as it could impact loan structure and underwriting

The above factors are based on their relative standing compared to the period which historic losses are used in core reserve estimates and current directional trends. Each individual qualitative and environmental factor in our model can add or subtract to core reserves.

The final component of our allowance for loan losses is a reserve for model estimation and complexity risk. The calculation of reserves is generally quantitative; however, qualitative estimates of valuations and risk assessment are necessary. We increased our calculated reserves by 2% to account for model estimation and complexity risk as of September 30, 2013 and December 31, 2012.

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 and loan review consultants periodically review our loan ratings and allowance for loan losses.

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The following tables provide the activity of our allowance for loan losses and loan balances for three and nine months ended September 30, 2013 and 2012:

	Commercial	Owner - Occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk (1)	Total
	(in thousands)							
<b>Three months ended September 30, 2013</b>								
Allowance for loan losses								
Beginning balance	\$ 12,967	\$ 8,049	\$ 6,345	\$ 3,952	\$ 3,230	\$ 6,137	\$ 814	\$ 41,494
Charge-offs	(1,172)	(31)	(103)	(4)	(290)	(1,343)		(2,943)
Recoveries	273	55	333	21	10	219		911
Provision (credit)	594	(23)	345	(380)	364	1,071	(2)	1,969
Ending balance	\$ 12,662	\$ 8,050	\$ 6,920	\$ 3,589	\$ 3,314	\$ 6,084	\$ 812	\$ 41,431
<b>Nine months ended September 30, 2013</b>								
Allowance for loan losses								
Beginning balance	\$ 13,663	\$ 6,108	\$ 8,079	\$ 6,456	\$ 3,124	\$ 5,631	\$ 861	\$ 43,922
Charge-offs	(2,311)	(68)	(1,824)	(1,344)	(985)	(4,153)		\$ (10,685)
Recoveries	900	100	442	106	51	715		\$ 2,314
Provision (credit)	410	1,910	223	(1,629)	1,124	3,891	(49)	\$ 5,880
Ending balance	\$ 12,662	\$ 8,050	\$ 6,920	\$ 3,589	\$ 3,314	\$ 6,084	\$ 812	\$ 41,431
<b>Period-end allowance allocated to:</b>								
Loans individually evaluated for impairment	\$ 2,004	\$ 945	\$ 1,995	\$	\$ 995	\$ 12	\$	\$ 5,951
Loans collectively evaluated for impairment	10,658	7,105	4,925	3,589	2,319	6,072	812	35,480
Ending balance	\$ 12,662	\$ 8,050	\$ 6,920	\$ 3,589	\$ 3,314	\$ 6,084	\$ 812	\$ 41,431
<b>Period-end loan balances evaluated for:</b>								
Loans individually evaluated for impairment	\$ 5,833	\$ 12,568	\$ 8,894	\$ 274	\$ 17,360	\$ 4,400	\$	\$ 49,329(2)
Loans collectively evaluated for impairment	748,106	777,297	704,895	102,347	211,595	283,645		\$ 2,827,885
Ending balance	\$ 753,939	\$ 789,865	\$ 713,789	\$ 102,621	\$ 228,955	\$ 288,045	\$	\$ 2,877,214

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

(2) The difference between this amount and nonaccruing loans at September 30, 2013 represents accruing troubled debt restructured loans.

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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, 2012:

	Commercial	Owner Occupied Commercial	Commercial Mortgages	Construction	Residential	Consumer	Complexity Risk (1)	Total
	(In Thousands)							
<b>Three months ended</b>								
<b>September 30, 2012</b>								
Allowance for loan losses								
Beginning balance	\$ 9,891	\$ 4,091	\$ 9,618	\$ 5,307	\$ 6,265	\$ 10,341	\$ 916	\$ 46,429
Charge-offs	(1,281)	(926)	(709)	(676)	(705)	(2,573)		(6,870)
Recoveries	455	184	18	1,314	113	204		2,288
Provision	(127)	(4)	(2,281)	(810)	2,690	4,300	(17)	3,751
Ending balance	\$ 8,938	\$ 3,345	\$ 6,646	\$ 5,135	\$ 8,363	\$ 12,272	\$ 899	\$ 45,598
<b>Nine months ended</b>								
<b>September 30, 2012</b>								
Allowance for loan losses								
Beginning balance	\$ 15,067	\$ 9,235	\$ 7,556	\$ 4,074	\$ 6,544	\$ 10,604	\$	\$ 53,080
Charge-offs	(11,316)	(3,614)	(5,600)	(10,680)	(3,344)	(5,494)		(40,048)
Recoveries	1,305	190	382	1,642	171	497		4,187
Provision	3,882	(2,466)	4,308	10,099	4,992	6,665	899	28,379
Ending balance	\$ 8,938	\$ 3,345	\$ 6,646	\$ 5,135	\$ 8,363	\$ 12,272	\$ 899	\$ 45,598
<b>Period-end allowance</b>								
<b>allocated to:</b>								
Loans individually evaluated for impairment	\$ 1,244	\$ 222	\$ 90	\$ 94	\$ 1,199	\$ 24	\$	\$ 2,873
Loans collectively evaluated for impairment	7,694	3,123	6,556	5,041	7,164	12,248	899	42,725
Ending balance	\$ 8,938	\$ 3,345	\$ 6,646	\$ 5,135	\$ 8,363	\$ 12,272	\$ 899	\$ 45,598
<b>Period-end loan balances</b>								
<b>evaluated for:</b>								
Loans individually evaluated for impairment	\$ 3,579	\$ 13,324	\$ 5,875	\$ 2,620	\$ 18,072	\$ 6,694	\$	\$ 50,164(2)
Loans collectively evaluated for impairment	694,626	737,670	598,681	111,557	232,270	276,791		2,651,595
Ending balance	\$ 698,205	\$ 750,994	\$ 604,556	\$ 114,177	\$ 250,342	\$ 283,485	\$	\$ 2,701,759

- (1) Represents the portion of the allowance for loan losses established to account for the inherent complexity and uncertainty of estimates.  
(2) The difference between this amount and nonaccruing loans at September 30, 2012, represents accruing troubled debt restructured loans.

**Table of Contents****Nonaccrual and Past Due Loans**

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

September 30, 2013 (In Thousands)	Greater Than			Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing				
<b>Commercial</b>	\$ 13,212	\$	\$	\$ 13,212	\$ 735,077	\$ 5,650	\$ 753,939
<b>Owner-Occupied commercial</b>	6,474			6,474	770,823	12,568	789,865
<b>Commercial mortgages</b>	22			22	705,077	8,690	713,789
<b>Construction</b>					102,347	274	102,621
<b>Residential</b>	3,672	1,073	658	5,403	215,113	8,439	228,955
<b>Consumer</b>	1,138	468		1,606	283,890	2,549	288,045
<b>Total</b>	\$ 24,518	\$ 1,541	\$ 658	\$ 26,717	\$ 2,812,327	\$ 38,170	\$ 2,877,214
<b>% of Total Loans</b>	<b>0.85%</b>	<b>0.06%</b>	<b>0.02%</b>	<b>0.93%</b>	<b>97.74%</b>	<b>1.33%</b>	<b>100%</b>

December 31, 2012 (In Thousands)	Greater Than			Total Past Due And Still Accruing	Accruing Current Balances	Nonaccrual Loans	Total Loans
	30 59 Days Past Due and Still Accruing	60 89 Days Past Due and Still Accruing	90 Days Past Due and Still Accruing				
<b>Commercial</b>	\$ 1,214	\$	\$	\$ 1,214	\$ 698,416	\$ 4,861	\$ 704,491
<b>Owner-Occupied commercial</b>	1,264			1,264	755,316	14,001	770,581
<b>Commercial mortgages</b>					618,731	12,634	631,365
<b>Construction</b>	269	70		339	131,489	1,547	133,375
<b>Residential</b>	5,383	606	786	6,775	226,863	9,989	243,627
<b>Consumer</b>	971	526		1,497	282,776	4,728	289,001
<b>Total</b>	\$ 9,101	\$ 1,202	\$ 786	\$ 11,089	\$ 2,713,591	\$ 47,760	\$ 2,772,440
<b>% of Total Loans</b>	<b>0.33%</b>	<b>0.04%</b>	<b>0.03%</b>	<b>0.40%</b>	<b>97.88%</b>	<b>1.72%</b>	<b>100%</b>

**Table of Contents****Impaired Loans**

The following tables provide an analysis of our impaired loans at September 30, 2013 and December 31, 2012:

September 30, 2013	Ending Loan Balances	Loans with No Specific Reserve (1)	Loans with Specific Reserve	Related Specific Reserve	Contractual Principal Balances	Average Loan Balances
(In Thousands)						
<b>Commercial</b>	<b>\$ 5,833</b>	<b>\$ 2,288</b>	<b>\$ 3,545</b>	<b>\$ 2,004</b>	<b>\$ 13,728</b>	<b>\$ 5,062</b>
Owner-Occupied commercial	12,568	5,723	6,845	945	14,911	13,167
Commercial mortgages	8,894	2,896	5,998	1,995	19,494	9,887
Construction	274	274			16,012	1,261
Residential	17,360	9,680	7,680	995	19,726	18,091
Consumer	4,400	4,272	128	12	5,091	5,712
<b>Total</b>	<b>\$ 49,329</b>	<b>\$ 25,133</b>	<b>\$ 24,196</b>	<b>\$ 5,951</b>	<b>\$ 88,962</b>	<b>\$ 53,180</b>

December 31, 2012	Ending Loan Balances	Loans with No Specific Reserve (1)	Loans with Specific Reserve	Related Specific Reserve	Contractual Principal Balances	Average Loan Balances
(In Thousands)						
<b>Commercial</b>	<b>\$ 4,861</b>	<b>\$ 1,598</b>	<b>\$ 3,263</b>	<b>\$ 2,100</b>	<b>\$ 12,060</b>	<b>\$ 4,993</b>
Owner-Occupied commercial	14,001	13,827	174	1	18,658	16,856
Commercial mortgages	12,634	5,422	7,212	1,887	22,192	10,233
Construction	1,547	1,172	375	28	17,711	11,239
Residential	18,483	11,053	7,430	919	20,771	16,917
Consumer	6,329	5,635	694	16	7,265	4,514
<b>Total</b>	<b>\$ 57,855</b>	<b>\$ 38,707</b>	<b>\$ 19,148</b>	<b>\$ 4,951</b>	<b>\$ 98,657</b>	<b>\$ 64,752</b>

(1) Reflects loan balances at their remaining book balance.

Interest income of \$234,000 and \$706,000 was recognized on impaired loans during the three and nine months ended September 30, 2013, respectively.

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### **Credit Quality Indicators**

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

*Pass.* These borrowers presently show no current 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. The distinct possibility exists that the Bank will sustain some loss if the deficiencies are not corrected.

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

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

### **Residential and Consumer Loans**

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

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The following tables provide an analysis of problem loans, by credit risk profile using internally assigned risk ratings, as of September 30, 2013 and December 31, 2012

	Commercial		Owner-Occupied Commercial		Commercial Mortgages		Construction		Total Commercial			
	Sept. 30 2013	Dec. 31 2012	Sept. 30 2013	Dec. 31 2012	Sept. 30 2013	Dec. 31 2012	Sept. 30 2013	Dec. 31 2012	September 30, 2013 Amount	%	December 31, 2012 Amount	%
<b>Risk Rating:</b>												
Special mention	\$ 17,148	\$ 14,611	\$ 15,433	\$ 27,398	\$ 9,239	\$ 29,267	\$ 1,567	\$ 2,453	\$ 43,387		\$ 73,729	
Substandard:												
Accrual	58,944	63,074	38,792	44,899	6,156	6,222	2,907	5,755	106,930		119,950	
Nonaccrual	2,105	1,598	5,723	13,827	2,896	5,422	274	1,172	10,902		22,019	
Doubtful / Nonaccrual	3,545	3,263	6,845	174	5,998	7,212		375	16,280		11,024	
<b>Total Special Mention, Substandard and Doubtful</b>	<b>81,742</b>	<b>82,546</b>	<b>66,793</b>	<b>86,298</b>	<b>24,289</b>	<b>48,123</b>	<b>4,748</b>	<b>9,755</b>	<b>177,499</b>	<b>8%</b>	<b>226,722</b>	<b>10%</b>
<b>Pass</b>	<b>672,197</b>	<b>621,945</b>	<b>723,072</b>	<b>684,283</b>	<b>689,500</b>	<b>583,242</b>	<b>97,873</b>	<b>123,620</b>	<b>2,182,715</b>	<b>92%</b>	<b>2,013,090</b>	<b>90%</b>
<b>Total Commercial Loans</b>	<b>\$ 753,939</b>	<b>\$ 704,491</b>	<b>\$ 789,865</b>	<b>\$ 770,581</b>	<b>\$ 713,789</b>	<b>\$ 631,365</b>	<b>\$ 102,621</b>	<b>\$ 133,375</b>	<b>\$ 2,360,214</b>	<b>100%</b>	<b>\$ 2,239,812</b>	<b>100%</b>

Consumer credit exposure credit risk profile based on payment activity (dollars in thousands):

	Residential		Consumer		Total Residential and Consumer			
	Sept. 30 2013	Dec. 31 2012	Sept. 30 2013	Dec. 31 2012	September 30, 2013		December 31, 2012	
	Amount	Amount	Amount	Amount	Amount	Percent	Amount	Percent
Nonperforming (1)	\$ 17,360	\$ 18,483	\$ 4,401	\$ 6,329	\$ 21,761	4%	\$ 24,812	5%
Performing	211,595	225,144	283,644	282,672	495,239	96%	507,816	95%
<b>Total</b>	<b>\$ 228,955</b>	<b>\$ 243,627</b>	<b>\$ 288,045</b>	<b>\$ 289,001</b>	<b>\$ 517,000</b>	<b>100%</b>	<b>\$ 532,628</b>	<b>100%</b>

(1) Includes \$10.8 million as of September 30, 2013 and 10.1 million as of December 31, 2012 of troubled debt restructured mortgages and home equity installment loans that are performing in accordance with modified terms and are accruing interest.



**Table of Contents****Troubled Debt Restructurings (TDR)**

The balance of TDRs at September 30, 2013 and December 31, 2012 was \$26.6 million and \$22.0 million, respectively. The balance at September 30, 2013 included approximately \$15.5 million in nonaccrual status and \$11.1 million in accrual status compared to \$11.9 million in nonaccrual status and \$10.1 million in accrual status at December 31, 2012. Approximately \$1.0 million and \$936,000 in related reserves have been established for these loans at September 30, 2013 and December 31, 2012, respectively.

During the nine months ended September 30, 2013, the terms of 21 loans were modified in TDRs, 5 of which were commercial loans that had already been placed on nonaccrual. The remaining loans represented residential and consumer loans. Our concessions on restructured loans consisted mainly of forbearance agreements, reduction in interest rates or extensions of maturities. Principal balances are generally not forgiven by us when a loan is modified as a TDR. Nonaccruing restructured loans remain in nonaccrual status until there has been a period of sustained repayment performance, typically six months.

The following table presents loans identified as TDRs during the three and nine months ended September 30, 2013 and 2012:

(In Thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
<b>Commercial</b>	\$ 6,800	\$ 710	\$ 6,824	\$ 9,986
<b>Commercial mortgages</b>	108		1,169	
<b>Construction</b>				378
<b>Residential</b>	207	2,779	806	4,170
<b>Consumer</b>	256	2,165	973	2,312
<b>Total</b>	\$ 7,371	\$ 5,654	\$ 9,772	\$ 16,846

The TDRs described in the table above increased our allowance for loan losses by \$37,000 through allocation of a related reserve, and resulted in charge-offs of \$363,000 during the nine months ended September 30, 2013, compared to increased reserves of \$357,000 and charge-offs of \$8.1 million for the same period of 2012.

There was one residential TDR in the amount of \$130,000 which defaulted (defined as past due 90 days) during the three and nine months ended September 30, 2013, that was restructured within the last twelve months prior to September 30, 2013.

**Table of Contents****5. REVERSE MORTGAGE LOANS AND RELATED ASSETS AND LIABILITIES**

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

In 1993, we acquired a pool of reverse mortgages from the FDIC and another lender. In 1994, we purchased Providential Home Income Plan, Inc., a California-based reverse mortgage lender. In November 2002, substantially the entire WSFS reverse mortgage portfolio was sold. In addition to cash payment for the loans, we received \$10 million in BBB rated mortgage-backed securities (Class B) which we classified as trading and an option to acquire up to 49.9% of the Class O certificates issued in connection with mortgage-backed securities by SASCO 2002 RM-1 (SASCO). These mortgage-backed securities were part of a larger issuance of securities backed, in part, by the sold reverse mortgages. Subsequently we negotiated to purchase 100% of the SASCO Class O certificates for \$2.5 million. This transaction closed in July, 2011.

During the third quarter of 2013, we obtained the right to execute a clean-up call on the underlying collateral. This event triggered us to consolidate the assets and liabilities of the securitization trust, SASCO on our balance sheet in accordance with ASC 810, *Consolidation*. As a result, we consolidated \$40.5 million of reverse mortgage loans, \$5.8 million of cash, \$885,000 of MBS and \$38.8 million of debt all at fair value. Our existing investment in reverse mortgages was combined with the consolidated reverse mortgage loans for a total of \$40.1 million at September 30, 2013. The average loan-to-value for these loans is approximately 45%, the average age of the borrowers is 92 years old and there is, in the view of management, significant overcollateralization in the portfolio.

The value of the reverse mortgages is calculated by a third party model that uses the income approach as described in ASC 820-10-35-32. The model is a present value cash flow model, consistent with ASC 820-10-55-5 which describes the components of a present value measurement. The model incorporates the projected cash flows of the notes (including payouts and collections) and then discounts these cash flows using a rate that is commensurate with the risk adjusted rate. The inputs to the model reflect our expectations of what other market participants would use in pricing this asset in a current transaction and therefore is consistent with ASC 820 that requires an exit price methodology for determining fair value.

To value these securities as of September 30, 2013 we used a proprietary model and actual cash flow information to estimate future cash flows. There are three main drivers of cash flows: 1) Prepayments; 2) House Price Appreciation (HPA) forecasts and 3) Interest Rates.

- 1) **Prepayments** — one year look-back comparing the actual cash flows to the forecasted cash flows based on the assumptions used. The base case prepayment represents the average payoff rates for proprietary reverse mortgages by borrower age, using approximately ten years of historical data. We have used 50% of the base case forecasted cash flows to reflect recent prepayment activity.
- 2) **House Price Appreciation** — Consistent with other reverse mortgage analyses from various market sources, we forecast a 2% decline in housing prices in the next year and a 2% recovery in the following year. We believe this forecast continues to be appropriate given the nature of reverse mortgage collateral and historical under-performance to the broad housing market.
- 3) **Interest Rates** — As of September 30, 2013 the forward rates on one month LIBOR are consistent with the assumptions used for future interest rates (one month LIBOR ramping up to 3% over ten years).

The net present value of the projected cash flow depends on the discount rate used. We use a discount rate of 18.7% in valuing expected net cash flows. If the discount rate was decreased by 1%, the net present value would increase by \$890,000. If the discount rate was increased by 1%, the net present value would decrease by \$850,000.

The fair values listed above are estimates that are subject to adjustments. However, while they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected, retroactively, as of the date of the transaction.

**6. TAXES ON INCOME**

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We account for income taxes in accordance with FASB ASC 740, *Income Taxes* ( ASC 740 ) (Formerly SFAS No. 109, *Accounting for Income Taxes* and FASB Interpretation No. 48, *Accounting for Uncertainty In Income Taxes, an Interpretation of FASB Statement 109*). ASC 740 requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

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As a result of the consolidation for accounting purposes of the SASCO reverse mortgage securitization trust during the third quarter of 2013, a deferred tax asset ( DTA ) of approximately \$6.7 million was recorded. However, because SASCO is not consolidated for income tax purposes, a full valuation allowance was also recorded on this DTA due to the uncertainty of its realization, as realization is dependent on future taxable income, which is anticipated upon consolidation for income tax purposes. We are taking steps to unwind the SASCO tax structure which will permit tax consolidation, at which point the uncertainty surrounding the realization of the DTA will be eliminated. Accordingly, if and when we complete this restructuring, we expect to remove the \$6.7 million valuation allowance which will result in an income tax benefit through earnings.

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

There were no unrecognized tax benefits as of December 31, 2012. We record interest and penalties on potential income tax deficiencies as income tax expense. Our federal and state tax returns for the 2009 through 2012 tax years are subject to examination as of September 30, 2013. During the current quarter, the audit of our 2010 federal tax return was completed by the Internal Revenue Service. We recorded a \$200,000 tax benefit as a result of settling this audit. No state income tax return examinations are currently in process.

## **7. SEGMENT INFORMATION**

In accordance with FASB ASC 280, *Segment Reporting* ( ASC 280 ) (Formerly SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*) we discuss our business in three segments. There is one segment for each of WSFS Bank, Cash Connect, (the ATM division of WSFS Bank), and Trust and Wealth Management.

The WSFS Bank segment provides financial products to commercial and retail customers through its 51 offices located in Delaware (41), Pennsylvania (8) and Virginia (1) and Nevada (1). Retail and Commercial Banking, Commercial Real Estate Lending and other banking business units are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Bank. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment in accordance with ASC 280.

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

The Wealth Management division provides a broad array of fiduciary, investment management, credit and deposit products to clients through four businesses. WSFS Investment Group, Inc. provides insurance and brokerage products primarily to our retail banking clients. Cypress Capital Management, LLC is a registered investment advisor with over \$609 million in assets under management. Cypress primary market segment is high net worth individuals, offering a balanced investment style focused on preservation of capital and current income. Christiana Trust, with \$8.1 billion in assets under administration, provides fiduciary and investment services to personal trust clients, and trustee, agency, custodial and commercial domicile services to corporate and institutional clients. WSFS Private Banking serves high net worth clients by delivering credit and deposit products and partnering with Cypress, Christiana and WSFS Investment Group to deliver investment management and fiduciary products and services.

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An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the three and nine months ended September 30, 2013 and 2012 follows:

**For the three months ended September 30, 2013**

Statement of Operations	WSFS Bank	Cash Connect	Trust & Wealth Management (In Thousands)	Total
<b>External customer revenues:</b>				
Interest income	\$ 35,171	\$	\$ 1,945	\$ 37,116
Noninterest income	12,449	6,360	3,933	22,742
Total external customer revenues	47,620	6,360	5,878	59,858
<b>Inter-segment revenues:</b>				
Interest income	906		1,477	2,383
Noninterest income	1,689	222	28	1,939
Total inter-segment revenues	2,595	222	1,505	4,322
<b>Total revenue</b>	<b>50,215</b>	<b>6,582</b>	<b>7,383</b>	<b>64,180</b>
<b>External customer expenses:</b>				
Interest expense	3,587		123	3,710
Noninterest expenses	26,510	3,470	2,829	32,809
Provision for loan loss	2,263		(294)	1,969
Total external customer expenses	32,360	3,470	2,658	38,488
<b>Inter-segment expenses</b>				
Interest expense	1,477	400	506	2,383
Noninterest expenses	250	561	1,128	1,939
Total inter-segment expenses	1,727	961	1,634	4,322
<b>Total expenses</b>	<b>34,087</b>	<b>4,431</b>	<b>4,292</b>	<b>42,810</b>
Income before taxes	\$ 16,128	\$ 2,151	\$ 3,091	\$ 21,370
Provision for income taxes				7,210
Consolidated net income				\$ 14,160
Capital expenditures	\$ 460	\$ 131	\$	\$ 591
<b>As of September 30, 2013</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 76,785	\$ 422,544	\$ 3,116	\$ 502,445
Other segment assets	3,756,277	1,995	181,939	3,940,211

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Total segment assets	\$ 3,833,062	\$ 424,539	\$ 185,055	\$ 4,442,656
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For the three months ended September 30, 2012

Statement of Operations	WSFS Bank	Cash Connect	Trust & Wealth Management (In Thousands)	Total
<b>External customer revenues:</b>				
Interest income	\$ 34,475	\$	\$ 2,039	\$ 36,514
Noninterest income	11,686	4,707	3,355	19,748
Total external customer revenues	46,161	4,707	5,394	56,262
<b>Inter-segment revenues:</b>				
Interest income	944		1,358	2,302
Noninterest income	2,122	148	24	2,294
Total inter-segment revenues	3,066	148	1,382	4,596
<b>Total revenue</b>	<b>49,227</b>	<b>4,855</b>	<b>6,776</b>	<b>60,858</b>
<b>External customer expenses:</b>				
Interest expense	5,377		244	5,621
Noninterest expenses	27,300	2,113	2,740	32,153
Provision for loan loss	2,997		754	3,751
Total external customer expenses	35,674	2,113	3,738	41,525
<b>Inter-segment expenses</b>				
Interest expense	1,358	338	606	2,302
Noninterest expenses	172	586	1,536	2,294
Total inter-segment expenses	1,530	924	2,142	4,596
<b>Total expenses</b>	<b>37,204</b>	<b>3,037</b>	<b>5,880</b>	<b>46,121</b>
Income (loss) before taxes	\$ 12,023	\$ 1,818	\$ 896	\$ 14,737
Provision for income taxes				4,758
Consolidated net income				\$ 9,979
Capital expenditures	\$ 1,289	\$ 311	\$ 3	\$ 1,603
<b>As of December 31, 2012</b>				
<b>Statement of Condition</b>				
Cash and cash equivalents	\$ 68,419	\$ 430,382	\$ 2,086	\$ 500,887
Other segment assets	3,683,073	1,605	189,583	3,874,261
Total segment assets	\$ 3,751,492	\$ 431,987	\$ 191,669	\$ 4,375,148

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For the nine months ended September 30, 2013

Statement of Operations	WSFS Bank	Cash Connect	Trust & Wealth Management (In Thousands)	Total
External customer revenues:				
Interest income	\$ 102,732	\$	\$ 5,857	\$ 108,589
Noninterest income	31,009	17,412	11,934	60,355
Total external customer revenues	133,741	17,412	17,791	168,944
Inter-segment revenues:				
Interest income	2,723		4,276	6,999
Noninterest income	5,040	645	82	5,767
Total inter-segment revenues	7,763	645	4,358	12,766
Total revenue	141,504	18,057	22,149	181,710
External customer expenses:				
Interest expense	11,120		427	11,547
Noninterest expenses	79,671	9,629	9,031	98,331
Provision for loan loss	6,044		(164)	5,880
Total external customer expenses	96,835	9,629	9,294	115,758
Inter-segment expenses				
Interest expense	4,276	1,176	1,547	6,999
Noninterest expenses	727	1,649	3,391	5,767
Total inter-segment expenses	5,003	2,825	4,938	12,766
Total expenses	101,838	12,454	14,232	128,524
Income (loss) before taxes	\$ 39,666	\$ 5,603	\$ 7,917	\$ 53,186
Provision for income taxes				18,378
Consolidated net income				\$ 34,808
Capital expenditures	\$ 1,505	\$ 591	\$	\$ 2,096



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For the nine months ended September 30, 2012

Statement of Operations	WSFS Bank	Cash Connect	Trust & Wealth Management	Total
	(In Thousands)			
<b>External customer revenues:</b>				
Interest income	\$ 107,199	\$	\$ 6,301	\$ 113,500
Noninterest income	42,238	13,254	10,006	65,498
Total external customer revenues	149,437	13,254	16,307	178,998
<b>Inter-segment revenues:</b>				
Interest income	3,099		4,344	7,443
Noninterest income	6,368	568	79	7,015
Total inter-segment revenues	9,467	568	4,423	14,458
<b>Total revenue</b>	<b>158,904</b>	<b>13,822</b>	<b>20,730</b>	<b>193,456</b>
<b>External customer expenses:</b>				
Interest expense	17,330		669	17,999
Noninterest expenses	81,267	6,628	8,264	96,159
Provision for loan loss	26,786		1,593	28,379
Total external customer expenses	125,383	6,628	10,526	142,537
<b>Inter-segment expenses</b>				
Interest expense	4,344	1,008	2,091	7,443
Noninterest expenses	647	1,711	4,657	7,015
Total inter-segment expenses	4,991	2,719	6,748	14,458
<b>Total expenses</b>	<b>130,374</b>	<b>9,347</b>	<b>17,274</b>	<b>156,995</b>
Income (loss) before taxes	\$ 28,530	\$ 4,475	\$ 3,456	\$ 36,461
Provision for income taxes				12,708
Consolidated net income				\$ 23,753
Capital expenditures	\$ 5,406	\$ 321	\$ 20	\$ 5,747

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

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

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

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

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

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A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The table below presents the balances of assets measured at fair value as of September 30, 2013 (there were no material liabilities measured at fair value):

Description	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in Thousands)			
<b>Assets Measured at Fair Value on a Recurring Basis</b>				
Available-for-sale securities:				
Collateralized mortgage obligations	\$	\$ 108,470	\$	\$ 108,470
FNMA		368,249		368,249
FHLMC		106,123		106,123
GNMA		98,954		98,954
U.S. Government and agencies		41,798		41,798
State and political subdivisions		83,332		83,332
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$</b>	<b>\$ 806,926</b>	<b>\$</b>	<b>\$ 806,926</b>
<b>Liabilities Measured at Fair Value on a nonrecurring Basis</b>				
Bonds payable	\$	\$ 26,340	\$	\$ 26,340
<b>Assets Measured at Fair Value on a Nonrecurring Basis</b>				
Other real estate owned	\$	\$	\$ 7,163	\$ 7,163
Reverse mortgage loans			40,095	40,095
Impaired loans (collateral dependent)			43,379	43,379
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$</b>	<b>\$</b>	<b>\$ 90,637</b>	<b>\$ 90,637</b>

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The table below presents the balances of assets measured at fair value as of December 31, 2012 (there are no material liabilities measured at fair value):

Description	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
(in Thousands)				
<b>Assets Measured at Fair Value on a Recurring Basis</b>				
Available-for-sale securities:				
Collateralized mortgage obligations	\$	\$ 252,300	\$ 7,096	\$ 259,396
FNMA		406,255		406,255
FHLMC		59,650		59,650
GNMA		132,455		132,455
U.S. Government and agencies		46,990		46,990
State and political subdivisions		3,209		3,209
Reverse mortgage loans			(457)	(457)
Trading Securities			12,590	12,590
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$</b>	<b>\$ 900,859</b>	<b>\$ 19,229</b>	<b>\$ 920,088</b>
<b>Assets Measured at Fair Value on a Nonrecurring Basis</b>				
Other real estate owned	\$	\$	\$ 4,622	\$ 4,622
Impaired loans			52,904	52,904
<b>Total assets measured at fair value on a nonrecurring basis</b>	<b>\$</b>	<b>\$</b>	<b>\$ 57,526</b>	<b>\$ 57,526</b>

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

*Available-for-sale securities.* As of September 30, 2013, securities classified as available-for-sale were reported at fair value using both Level 2 and Level 3 inputs. Included in the Level 2 total were approximately \$41.8 million in Federal Agency debentures, \$681.8 million in Federal Agency MBS, and \$83.3 million in municipal bonds. Agency and MBS securities were predominately AAA-rated. We believe that this Level 2 designation is appropriate for these securities under FASB ASC 820-10 as, with almost all fixed income securities, none are exchange traded, and all are priced by correlation to observable 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. Included in the Level 3 total at December 31, 2012, was a small equity tranche of a reverse mortgage security purchased on July 15, 2011. This security was Level 3 because there was no active market for this security and no observable inputs that reflected quoted prices for identical assets in active markets (Level 1) or inputs other than quoted prices that were observable for the asset through corroboration with observable market data (Level 2). In order to establish the fair value for a Level 3 asset a mark-to-model was developed using the income approach described in FASB ASC 820-10-35-32 and was similar to the methodology used to value our trading securities described below. As of September 30, 2013, we consolidated the assets and liabilities of the securitization trust which resulted in these securities are being eliminated in consolidation. For additional information regarding these transactions, see Note 5, Reverse Mortgages and Related Assets and the discussion of reverse mortgages in this section.

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*Trading securities.* The amount included in the trading securities category at December 31, 2012 represented the fair value of a BBB-rated tranche of a reverse mortgage security. There was never an active market for these securities. As such, we classified these trading securities as Level 3 under FASB ASC 820-10. As prescribed by FASB ASC 820-10 management used various observable and unobservable inputs to develop a range of likely fair value prices where this security would be exchanged in an orderly transaction between market participants at the measurement date. The unobservable inputs reflected management's assumptions about the assumptions that market participants would use in pricing this asset. Included in these inputs were the median of a selection of other BBB-rated securities as well as quoted market prices from higher rated tranches of this asset class. The unobservable inputs consisted of prepayments, house price appreciation and interest rates. Management completed a sensitivity analysis at December 31, 2012 which showed any increase or decrease in these inputs would not have had a significant impact on the fair value of these assets. As a result, the value assigned to this security was determined primarily through a discounted cash flow analysis. All of these assumptions required a significant degree of management judgment. As of September 30, 2013, we consolidated the assets and liabilities of the securitization trust which resulted in these securities being completely eliminated in consolidation. For additional information regarding these transactions, see Note 5, Reverse Mortgages and Related Assets and the discussion of reverse mortgages in this section.

*Reverse Mortgages.* Reverse mortgage loans are valued using a present value cash flow model that incorporates the projected cash flows of the notes (including payouts and collections) and then discounts these cash flows using a rate that is commensurate with the risk adjusted rate. The inputs to the model reflect our expectations of what other market participants would use in pricing these assets in a current transaction. Due to the significant amount of management judgment and the unobservable input calculations, these reverse mortgages have been classified as Level 3. For additional information regarding these transactions, see Note 5, Reverse Mortgages and Related Assets and the discussion of reverse mortgages in this section.

*The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:*

(In Thousands)	Trading Securities	Reverse Mortgages	Available- for-sale Securities	Total
<b>Balance at December 31, 2011</b>	\$ 12,432	\$ (646)	\$ 3,936	\$ 15,722
Total net income for the period included in net income	33	12		45
Purchases, sales, issuances, and settlements, net		177		177
Mark-to-market adjustment	125		3,160	3,285
<b>Balance at December 31, 2012</b>	\$ 12,590	\$ (457)	\$ 7,096	\$ 19,229
Mark-to-market adjustment	(125)			(125)
Reverse mortgage securitization trust consolidation	(12,465)	457	(7,096)	(19,104)
<b>Balance at September 30, 2013</b>	\$	\$	\$	\$

*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 as held for sale at the lower of the loan balance or fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically and the assets may be marked down further, reflecting a new cost basis. The fair value of our real estate owned was estimated using Level 3 inputs based on appraisals obtained from third parties.

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

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net amount of \$43.4 million and \$52.9 million at September 30, 2013 and December 31, 2012, respectively. The valuation allowance on impaired loans was \$6.0 million as of September 30, 2013 and \$5.0 million as of December 31, 2012.



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

*Investments and Mortgage-Backed Securities:* Since quoted market prices are not available, 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. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional discussion of our mortgage-backed securities-trading or our internally developed models, see Fair Value of Financial Assets in Note 7 to the Consolidated Financial Statements.

*Loans held-for-sale:* Loans held-for-sale are carried at the lower of cost or market of the aggregate, or in some cases, individual loans.

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

*Reverse Mortgages.* Reverse mortgage loans are valued using a present value cash flow model that incorporates the projected cash flows of the notes (including payouts and collections) and then discounts these cash flows using a rate that is commensurate with the risk adjusted rate. The inputs to the model reflect our expectations of what other market participants would use in pricing these assets in a current transaction. Due to the significant amount of management judgment and the unobservable inputs in the calculations, these reverse mortgages have been classified as Level 3. For additional information regarding these transactions, see Note 5, Reverse Mortgages and Related Assets and the discussion of reverse mortgages in this section.

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

*Demand Deposits, Savings Deposits and Time Deposits:* The fair value of demand deposits and savings deposits is determined by projecting future cash flows using an estimated economic life based on account characteristics. The resulting cash flow is discounted using rates available on alternative funding sources. The fair value of time deposits is estimated using the rate and maturity characteristics of the deposits to estimate their cash flow. The cash flow is discounted at rates for similar term wholesale funding.

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

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

*Bonds Payable:* The fair value of bonds payable approximates the carrying value as the interest rates are based on market interest rates.

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





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

(In Thousands)	Fair Value Measurement	September 30, 2013		December 31, 2012	
		Book Value	Fair Value	Book Value	Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	Level 1	\$ 502,445	\$ 502,445	\$ 500,887	\$ 500,887
Investment securities	See previous table	806,926	806,926	920,088	920,088
Loans held for sale	Level 3	12,608	12,608	12,758	12,758
Loans, net	Level 3	2,829,992	2,818,832	2,723,916	2,746,001
Reverse mortgage loans	Level 3	40,095	40,095	(457)	(457)
Stock in Federal Home Loan Bank of Pittsburgh	Level 2	33,876	33,876	31,165	31,165
Accrued interest receivable	Level 2	9,833	9,833	9,652	9,652
<b>Financial liabilities:</b>					
Deposits	Level 2	3,121,198	2,912,952	3,274,963	3,174,907
Borrowed funds	Level 2	874,615	874,534	637,266	638,375
Bonds Payable	Level 2	26,340	26,340		
Standby letters of credit	Level 3	135	135	224	224
Accrued interest payable	Level 2	3,254	3,254	1,099	1,099

**9. INDEMNIFICATIONS AND GUARANTEES**

**Secondary Market Loan Sales.** Given the current interest rate environment and current customer preference for long-term fixed rate mortgages, coupled with our desire not to hold these assets in our portfolio, we generally sell newly originated fixed rate conventional, 15 to 30 year loans in the secondary market to GSEs such as FHLMC or to wholesale lenders. Loans held-for-sale are carried at the lower cost or market value of the aggregate, or in some cases, individual loans. Gains and losses on sales of loans are recognized at the time of the sale. We sometimes retain the servicing rights on residential mortgage loans sold which results in monthly service fee income. Otherwise, we sell loans with servicing released on a nonrecourse basis. Rate-locked loan commitments we intend to sell in the secondary market are accounted for as derivatives under the guidance promulgated in FASB ASC Topic 815, *Derivatives and Hedging*.

We generally do not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances first payment defaults by borrowers. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. These indemnifications may require our repurchase of the loans. Repurchases and losses are rare, and no provision is made for the losses at the time of sale. There were no such repurchases for the three and nine months ended September 30, 2013.

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

At September 30, 2013 there were 104 variable-rate swap transactions between third party financial institutions and our customers, compared to 95 at December 31, 2012. The initial notional amount aggregated approximately \$416.8 million at September 30, 2013 compared to \$381.7 million at December 31, 2012. At September 30, 2013 maturities ranged from approximately six months to 11 years. The aggregate market value of these swaps to customers was a liability of \$24.2 million at September 30, 2013 and \$35.5 million at December 31, 2012.

**Table of Contents****10. ASSOCIATE (EMPLOYEE) BENEFIT PLANS****Postretirement Benefits**

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

We account for our obligations under the provisions of FASB ASC 715, *Compensation - Retirement Benefits* ( ASC 715 ). ASC 715 requires the costs of these benefits be recognized over an Associate's active working career. Disclosures are in accordance with ASC 715.

The following disclosures of the net periodic benefit cost components of postretirement benefits were measured at January 1, 2013 and 2012:

(In Thousands)	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Service cost	\$ 86	\$ 72	\$ 258	\$ 216
Interest cost	44	44	132	131
Amortization of transition obligation		15		45
Net loss recognition	20	17	60	51
Net periodic benefit cost	\$ 150	\$ 148	\$ 450	\$ 443

**Table of Contents****11. CHANGE IN ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

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

(in thousands)	Net unrealized gains on investment  securities available-for-sale	Net unrealized losses on defined benefit pension plan	Total
<b>Balance, June 30, 2013</b>	\$ (12,309)	\$ (472)	\$ (12,781)
Other comprehensive loss before reclassifications	(3,106)		(3,106)
Less: Amounts reclassified from accumulated other comprehensive loss	(190)		(190)
Net current-period other comprehensive loss	(3,296)		(3,296)
<b>Balance, September 30, 2013</b>	\$ (15,605)	\$ (472)	\$ (16,077)
<b>Balance, June 30, 2012</b>	\$ 9,767	\$ (472)	\$ 9,295
Other comprehensive income before reclassifications	9,558		9,558
Less: Amounts reclassified from accumulated other comprehensive loss	(1,520)		(1,520)
Net current-period other comprehensive loss	8,038		8,038
<b>Balance, September 30, 2012</b>	\$ 17,805	\$ (472)	\$ 17,333

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(in thousands)	Net unrealized gains on investment  securities available-for-sale	Net unrealized losses on defined benefit pension plan	Total
<b>Balance, December 31, 2012</b>	\$ 13,415	\$ (472)	\$ 12,943
Other comprehensive loss before reclassifications	(27,249)		(27,249)
Less: Amounts reclassified from accumulated other comprehensive loss	(1,771)		(1,771)
Net current-period other comprehensive loss	(29,020)		(29,020)
<b>Balance, September 30, 2013</b>	<b>\$ (15,605)</b>	<b>\$ (472)</b>	<b>\$ (16,077)</b>
<b>Balance, December 31, 2011</b>	\$ 11,674	\$ (472)	\$ 11,202
Other comprehensive income before reclassifications	17,165		17,165
Less: Amounts reclassified from accumulated other comprehensive loss	(11,034)		(11,034)
Net current-period other comprehensive income	6,131		6,131
<b>Balance, September 30, 2012</b>	<b>\$ 17,805</b>	<b>\$ (472)</b>	<b>\$ 17,333</b>

The statement of operations impacted by components of other comprehensive income are presented in the table below.

(in thousands)	Three Months Ended September 30,		Affected line item in
	2013	2012	Statements of Operations
<b>Securities available-for-sale:</b>			
Realized gains on securities transactions	\$ 306	\$ 2,451	Securities gains, net
Income taxes	(116)	(931)	Income tax provision
<b>Net of tax</b>	<b>\$ 190</b>	<b>\$ 1,520</b>	
	Nine Months Ended September 30,		Affected line item in
	2013	2012	Statements of Operations
<b>Securities available-for-sale:</b>			
Realized gains on securities transactions	\$ 2,856	\$ 17,797	Securities gains, net
Income taxes	(1,085)	(6,763)	Income tax provision
<b>Net of tax</b>	<b>\$ 1,771</b>	<b>\$ 11,034</b>	

**Table of Contents****12. GOODWILL AND INTANGIBLES**

Our goodwill and other intangible assets are accounted for in accordance with the accounting guidance in FASB ASC Topic 350 *Intangibles Goodwill and Other*.

At December 31, 2012, we completed the Step One test of the analysis to determine potential goodwill impairment of the WSFS Bank and Trust and Wealth Management reporting units. The valuation incorporated a market-based analysis and indicated the fair values of our WSFS Bank and Trust and Wealth Management reporting units were above their carrying amounts. Therefore, in accordance with FASB ASC 350-20-35-6, the Step Two analysis was not required at that time. During the nine months ended September 30, 2013 we determined there were no events or other indicators of impairment as it relates to goodwill or other intangibles.

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

During the third quarter of 2013, we completed the purchase of Array and Arrow. As a result of this transaction, we have recognized intangible assets of \$2.4 million and goodwill of \$4.2 million. The intangibles are mainly the result of the fair value of customer relationships and covenants not-to-compete. The fair values listed above are estimates and are subject to adjustment. However, while they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected, retroactively, as of the date of the transaction.

The following table summarizes other intangible assets:

	Gross Intangible Assets	Accumulated Amortization (In Thousands)	Net Intangible Assets
<b>September 30, 2013</b>			
Core deposits	\$ 4,370	\$ (2,458)	\$ 1,912
Other	7,104	(1,870)	5,234
<b>Total other intangible assets</b>	<b>\$ 11,474</b>	<b>\$ (4,328)</b>	<b>\$ 7,146</b>
<b>December 31, 2012</b>			
Core deposits	\$ 4,370	\$ (2,020)	\$ 2,350
Other	4,464	(1,640)	2,824
<b>Total other intangible assets</b>	<b>\$ 8,834</b>	<b>\$ (3,660)</b>	<b>\$ 5,174</b>

Core deposits are amortized over their expected lives using the present value of the benefit of the core deposits and straight-line methods of amortization. During the nine months ended September 30, 2013, we recognized amortization expense on other intangible assets of \$612,000.

The following presents the estimated amortization expense of intangibles:

(In Thousands)	Amortization of Intangibles
Remaining in 2013	\$ 370
2014	1,171
2015	1,139
2016	882
2017	735
Thereafter	2,849

Total	\$	7,146
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**Table of Contents****13. BUSINESS COMBINATIONS***Array Financial Group, Inc. and Arrow Land Transfer Company Acquisition*

On July 31, 2013, WSFS Bank successfully completed the purchase of Array Financial Group, Inc. (Array), a Delaware Valley mortgage banking company, specializing in a variety of residential mortgage and refinancing solutions, and Arrow Land Transfer Company (Arrow), an abstract and title company that is a related entity to Array. All Array and Arrow employees are now WSFS Associates.

These companies were acquired through an asset purchase transaction for the purchase price of \$8.1 million (including a \$1.4 million payment for the working capital of the two companies), \$4.0 million of which will be earned through a five-year earn out based on achieved earnings contribution targets, the fair value is \$2.8 million at September 30, 2013. Operating results of Array and Arrow are included in the consolidated financial statements since the date of acquisition.

The transaction was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill, which will not be amortizable for book purposes, however will be deductible for tax purposes. We allocated the total balance of goodwill to our WSFS Bank segment. We also recognized \$2.4 million in intangible assets which will be amortized over 7 years utilizing the straight-line method.

In connection with the acquisition, the following table summarizes the combined fair value of the assets and liabilities acquired:

<b>Consideration Paid:</b>	
Cash paid at closing	\$ 5,374
Fair value of contingent consideration	2,750
Value of consideration	8,124
<b>Assets acquired:</b>	
<i>(In Thousands)</i>	
Cash	1,185
Accounts receivable	220
Fixed assets	148
Loans-Held-For-Sale	10,096
Intangible assets	2,353
Total assets	14,002
<b>Liabilities assumed:</b>	
Warehouse line of credit	10,067
Accounts payable	60
Total Liabilities	10,127
<b>Net assets acquired</b>	<b>3,875</b>
<b>Goodwill resulting from acquisition of Array and Arrow</b>	<b>\$ 4,249</b>

The fair values listed above are estimates and are subject to adjustment. However, while they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected retroactively, as of the date of the transaction.

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**14. LEGAL PROCEEDINGS**

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

In July 2013, a complaint was filed against WSFS Bank and certain executives alleging that the Bank acted improperly in issuing, amending and/or collecting approximately \$18.0 million in outstanding loans. The matter has been captioned Bennett v. Wilmington Savings Fund Society, FSB, Case No. 2013-08738, in the Court of Common Pleas, Montgomery County, Pennsylvania. This complaint was filed in the context of suits filed by WSFS Bank to obtain repayment and other damages relating to these same loans. We have entered into a settlement agreement to resolve these actions.

Based upon available information we believe the estimate of the aggregate range of reasonably possible losses for all of these legal proceedings was from approximately \$250,000 to approximately \$5.0 million at September 30, 2013.

Except as noted above, there are no other significant pending legal proceedings involving us other than those arising out of routine operations. We do not anticipate that the ultimate liability, if any, arising out of such other proceedings will have a material effect on the Consolidated Financial Statements.



**Table of Contents****ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
GENERAL**

We are a thrift holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB, or WSFS Bank, one of the ten oldest banks continuously operating under the same name in the United States. As a federal savings bank, which was formerly chartered as a state mutual savings bank, we enjoy broad fiduciary powers. A fixture in the community, WSFS Bank has been in operation for more than 181 years. In addition to its focus on stellar customer service, WSFS Bank has continued to fuel growth and remain a leader in our community. We are a relationship-focused, locally-managed, community banking institution that has grown to become the largest thrift holding company in the State of Delaware, one of the top commercial lenders in the state and the third largest bank in terms of Delaware deposits. We state our mission simply: We Stand for Service. Our strategy of Engaged Associates delivering Stellar Service growing Customer Advocates and value for our Owners focuses on exceeding customer expectations, delivering stellar service and building customer advocacy through highly-trained, relationship-oriented, friendly, knowledgeable and empowered Associates.

Our core banking business is commercial lending funded by customer-generated deposits. We have built a \$2.4 billion commercial loan portfolio by recruiting the best seasoned commercial lenders in our markets and offering a 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. We service our customers primarily from our 51 offices located in Delaware (41), Pennsylvania (8), 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.

In July 2013 we added two new divisions to WSFS Bank with the purchase Array Financial Group, Inc., a mortgage banking company, and a related entity, Arrow Land Transfer Company, an abstract and title company.

Our Cash Connect division is a premier provider of ATM Vault Cash and related services in the United States. Cash Connect manages more than \$488 million in vault cash in nearly 15,000 ATMs nationwide and also provides online reporting and ATM cash management, predictive cash ordering, armored carrier management, ATM processing and equipment sales. Cash Connect also operates over 450 ATMs for WSFS Bank, which has, by far, the largest branded ATM network in Delaware.

As a leading provider of ATM Vault Cash to the U.S. ATM industry, Cash Connect is exposed to substantial operational risk, including theft of cash from ATMs, armored vehicles, or armored carrier terminals, as well as general risk of accounting errors or fraud. This risk is managed through a series of financial controls, automated tracking and settlement systems, contracts, and other risk mitigation strategies, including both loss prevention and loss recovery strategies. Throughout its 12-year history, Cash Connect periodically has been exposed to theft through theft from armored courier companies and consistently has been able to recover losses through its risk management strategies.

The Wealth Management division provides a broad array of fiduciary, investment management, credit and deposit products to clients through four businesses. WSFS Investment Group, Inc. provides insurance and brokerage products primarily to our retail banking clients. Cypress Capital Management, LLC is a registered investment advisor with over \$600 million in assets under management. Cypress primary market segment is high net worth individuals, offering a balanced investment style focused on preservation of capital and current income. Christiana Trust, with \$8.1 billion in assets under administration, provides fiduciary and investment services to personal trust clients, and trustee, agency, custodial and commercial domicile services to corporate and institutional clients. WSFS Private Banking serves high net worth clients by delivering credit and deposit products and partnering with Cypress, Christiana and WSFS Investment Group to deliver investment management and fiduciary products and services.

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc. or Montchanin. We also have one unconsolidated affiliate, WSFS Capital Trust III, or the Trust. WSFS Bank has two wholly-owned subsidiaries, WSFS Investment Group, Inc. and Monarch Entity Services LLC, or Monarch. Montchanin has one wholly-owned subsidiary, Cypress. In addition to the subsidiaries listed above, we also have one consolidated variable interest entity ( VIE ), SASCO 2002-RM1 ( SASCO ), which is a reverse mortgage securitization trust.

**Table of Contents****FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains estimates, predictions, opinions, projections and other forward-looking statements as that phrase is defined in the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, references to our financial goals, management's plans 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. Such forward-looking statements are based on various assumptions (some of which may be beyond our 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 the economic environment, particularly in the market areas in which we operate, including an increase in unemployment levels; our level of nonperforming assets; the volatility of the financial and securities markets, including changes with respect to the market value of financial assets; changes in market interest rates which may increase funding costs and reduce earning asset yields thus reducing margin; increases in benchmark rates would also increase debt service requirements for customers whose terms include a variable interest rate, which may negatively impact the ability of borrowers to pay as contractually obligated; changes in government regulation affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations being issued in accordance with this statute and potential expenses and elevated capital levels associated therewith; possible additional loan losses and impairment of the collectability of loans; possible changes in trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies, and similar organizations, may have an adverse effect on business; possible rules and regulations issued by the Consumer Financial Protection Bureau or other regulators which might adversely impact our business model or products and services; possible stresses in the real estate markets, including possible continued deterioration in property values that affect the collateral value underlying our real estate loans; our ability to expand into new markets, develop competitive new products and services in a timely manner, and to maintain profit margins in the face of competitive pressures; possible changes in consumer and business spending and saving habits could affect our ability to increase assets and to attract deposits; our ability to effectively manage credit risk, interest rate risk, market risk, operational risk, legal risk, liquidity risk, reputational risk, and regulatory and compliance risk; the effects of increased competition from both banks and non-banks; the effects of geopolitical instability and risks such as terrorist attacks; the effects of weather and natural disasters such as floods, droughts, wind, tornados and hurricanes, and the effects of man-made disasters; possible changes in the speed of loan prepayments by our customers and loan origination or sales volumes; possible acceleration of prepayments of mortgage-backed securities ( MBS ) due to low interest rates, and the related acceleration of premium amortization on prepayments on MBS due to low interest rates; and the costs associated with resolving any problem loans, litigation and other risks and uncertainties. Such risks and uncertainties are discussed herein, including under the heading Risk Factors, and in our Form 10-K for the year ended December 31, 2012 and other documents filed by us with the Securities and Exchange Commission ( SEC ) from time to time. Forward looking statements are as of the date they are made, and we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of us.

**CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with GAAP. The preparation of these Consolidated Financial Statements requires us to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those related to the allowance for loan losses, 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 2013, it is reasonably possible that actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Actual results may differ from these estimates under different assumptions or conditions.

The following are critical accounting policies that involve more significant judgments and estimates. See further discussion of these critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Allowance for Loan Losses**

We maintain an allowance for loan losses and charge losses to this allowance for loan losses when realized. We consider the determination of our allowance for loan losses to be critical because it requires significant judgment reflecting our best estimate of impairment related to specifically evaluated impaired loans as well as the inherent risk of loss for those in the remaining loan portfolio. Our evaluation is based upon a continuing review of the portfolio, with consideration given to evaluations resulting from examinations performed by regulatory authorities.

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**Table of Contents****Deferred Taxes**

We account for income taxes in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740, *Income Taxes* ( ASC 740 ), which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We consider our accounting policies on deferred taxes to be critical because we regularly assess the need for valuation allowances on deferred income tax assets that may result from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences. See Note 6, Taxes on Income to our Consolidated Financial Statements, for additional information on deferred taxes and related valuation allowance.

**Fair Value Measurements**

We adopted FASB ASC 820-10 *Fair Value Measurements and Disclosures* ( ASC 820 ), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. We consider our accounting policies related to fair value measurements to be critical because they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. See Note 8, Fair Value Disclosures of Financial Assets to our Consolidated Financial Statements.

**Goodwill and Other Intangible Assets**

Intangible assets resulting from acquisitions under the purchase method of accounting consist of goodwill and other intangible assets. Goodwill is not amortized and is subject to at least annual assessments for impairment by applying a fair value based test. We review goodwill annually and again at any quarter-end if a triggering event occurs during the quarter that may affect goodwill. This review evaluates potential impairment by determining if our fair value has fallen below carrying value.

Other intangible assets consist mainly of core deposits, covenants not to compete and customer relationships obtained through acquisitions and are amortized over their estimated lives using the present value of the benefit of the core deposits and straight-line methods of amortization. Core deposit intangibles are evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

**FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY****Financial Condition**

Our total assets increased \$67.5 million or 2% to \$4.4 billion during the nine months ended September 30, 2013. Included in this increase was a \$106.1 million, or 4%, increase in net loans, and a \$40.5 million increase in reverse mortgages resulting from the consolidation of a reverse mortgage securitization trust during the nine months ended September 30, 2013. See Note 5, Reverse Mortgage Loans and Related Assets and Liabilities to our Consolidated Financial Statements for more information. Partially offsetting these increases was a \$113.6 million decrease in investment securities.

Total liabilities increased \$114.6 million during the nine months ended September 30, 2013 to \$4.1 billion. This increase was primarily the result of increased Federal Home Loan Bank advances of \$224.1 million, or 60%. In addition, bonds payable increased by \$26.3 million due to the consolidation of the reverse mortgage securitization trust during the third quarter of 2013. Partially offsetting these increases was a \$153.8 million decrease in total deposits, mainly due to the expected decline in time and temporary trust deposits during the period, and a \$9.2 million decrease in other borrowed funds.

**Capital Resources**

Stockholders' equity decreased \$47.1 million between December 31, 2012 and September 30, 2013. This decrease was mainly due to the \$52.6 million redemption of preferred stock (formerly TARP), a \$29.0 million decrease in the value of our available-for-sale securities portfolio and the payment of dividends on our common stock and preferred stock of \$4.9 million during the nine months ended September 30, 2013. Partially offsetting this decrease was net income of \$34.8 million during the nine months ended September 30, 2013. Tangible common equity (a non-GAAP financial measure) increased \$5.7 million from \$335.3 million at December 31, 2012 to \$341.0 million at September 30, 2013.

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Tangible common book value per share of common stock (a non-GAAP financial measure) was \$38.55 at September 30, 2013, an increase of \$0.34, or less than 1%, from \$38.21 reported at December 31, 2012. Book value per share of common stock was \$42.27 at September 30, 2013, a decrease of \$5.72 from \$47.99 reported at December 31, 2012.

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Below is a table comparing WSFS Bank's consolidated capital position to the minimum regulatory requirements as of September 30, 2013:

(Dollars in thousands)	Consolidated Bank Capital		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	% of Assets	Amount	% of Assets	Amount	% of Assets
Total Capital (to Risk-Weighted Assets)	\$ 486,298	14.30 %	\$ 272,149	8.00 %	\$ 340,187	10.00 %
Core Capital (to Adjusted Total Assets)	443,839	10.17	174,525	4.00	218,156	5.00
Tangible Capital (to Tangible Assets)	443,839	10.17	65,447	1.50	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	443,839	13.05	136,075	4.00	204,112	6.00

Under guidelines issued by banking regulators, savings institutions such as WSFS Bank must maintain tangible capital equal to 1.5% of adjusted total assets, core capital equal to 4.0% of adjusted total assets, Tier 1 capital equal to 4.0% of risk weighted assets and total or risk-based capital (a combination of core and supplementary capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our bank's financial statements.

At September 30, 2013, WSFS Bank was in compliance with regulatory capital requirements and was considered a well-capitalized institution. WSFS Bank's core capital ratio of 10.17%, Tier 1 capital ratio of 13.05% and total risk based capital ratio of 14.30%, all remain substantially in excess of well-capitalized regulatory benchmarks, the highest regulatory capital rating. In addition, and not included in Bank capital, the holding company held \$17.9 million in cash to support potential dividends, acquisitions, strategic growth plans.

**Liquidity**

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

We have ready access to several sources to fund growth and meet its liquidity needs. Among these are: net income, retail deposit programs, loan repayments, borrowing from the FHLB, 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 MBS and government sponsored enterprises (GSE) notes that provide a near-continuous source of cash flow to meet current cash needs, or can be sold to meet larger discrete needs for cash. We believe these sources are sufficient to maintain required and prudent levels of liquidity.

During the nine months ended September 30, 2013, cash and cash equivalents increased \$1.6 million to \$502.4 million. This increase was primarily a result of the following: \$64.4 million from the repayments of MBS available-for-sale; \$47.4 million increase in cash provided by operations; and \$4.0 million increase in cash due to the increase in securities sold under agreement to repurchase. Offsetting these increases in cash were: \$224.1 million from the net repayments of FHLB Advances; \$149.1 million decrease in demand, savings and time deposits; \$121.4 million increase in net loans; and \$52.6 million from repurchase of preferred stock.

**NONPERFORMING ASSETS**

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



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	September 30, 2013	December 31, 2012
	(In Thousands)	
<b>Nonaccruing loans:</b>		
Commercial	\$ 5,650	\$ 4,861
Owner-occupied commercial	12,568	14,001
Consumer	2,549	4,728
Commercial mortgage	8,690	12,634
Residential mortgage	8,439	9,989
Construction	274	1,547
Total nonaccruing loans	38,170	47,760
Assets acquired through foreclosure	7,163	4,622
Troubled debt restructuring (accruing)	11,161	10,093
Total nonperforming assets	\$ 56,494	\$ 62,475
<b>Past due loans (1):</b>		
Residential mortgages	658	786
Total past due loans	\$ 658	\$ 786
<b>Ratios:</b>		
Allowance for loan losses to total loans (2)	1.44 %	1.58 %
Nonperforming assets to total assets	1.27	1.43
Nonaccruing loans to total loans (2)	1.33	1.73
Loan loss allowance to nonaccruing loans	108.54	91.96
Loan loss allowance to total nonperforming assets	73.34	70.30

(1) Past due loans are accruing loans which are contractually past due 90 days or more as to principal or interest. These loans are well secured and in the process of collection.

(2) Total loans exclude loans held for sale.

Nonperforming assets decreased \$6.0 million between December 31, 2012 and September 30, 2013. As a result, non-performing assets as a percentage of total assets decreased from 1.43% at December 31, 2012 to 1.27% at September 30, 2013. Nonperforming loans improved from 1.73% of total loans at December 31, 2012 to 1.33% at September 30, 2013 as new migration continued to be outpaced by charge-offs, pay downs and assets being moved to Other Real Estate Owned (OREO). OREO increased by net \$2.5 million to \$7.2 million from \$4.6 million at December 31, 2012.

As of September 30, 2013 we had \$106.9 million of loans which, although performing at that date, required increased supervision and review. They may, depending on the economic environment and other factors, become nonperforming assets in future periods. The amount of such loans at December 31, 2012 was \$120.0 million. The majority of these loans are secured by commercial real estate, with others being secured by residential real estate, inventory and receivables.

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

	<b>For the nine months ended September 30, 2013</b>	For the year ended December 31, 2012
	(In Thousands)	
Beginning balance	\$ 62,475	\$ 91,675
Additions	21,594	73,170
Collections	(16,290)	(46,514)
Collections from loan dispositions		(14,305)
Transfers to accrual	(1,055)	(552)
Charge-offs / write-downs, net	(10,230)	(40,999)
Ending balance	\$ 56,494	\$ 62,475

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

**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 established by the Board of Directors. At September 30, 2013, interest-earning liabilities exceeded interest-bearing assets that mature or reprice within one year (interest-sensitive gap) by \$69.8 million. Our interest-sensitive liabilities as a percentage of interest-sensitive assets within the one-year window decreased from 98.09% at December 31, 2012 to 97.06% at September 30, 2013. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to -1.57% at September 30, 2013 from -1.02% at December 31, 2012. The low level of sensitivity reflects our continuing efforts to effectively manage interest rate risk.

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in our lending, investing, and funding activities. To that end, we actively monitor and manage our interest rate risk exposure. One measure, required to be performed by federal regulation, measures the impact of an immediate change in interest rates in 100 basis point increments on the economic value of equity ratio. The economic value of 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 table below 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, 2013 and December 31, 2012:



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% Change in Interest Rate (Basis Points)	September 30, 2013		December 31, 2012	
	% Change in Net Interest Margin (1)	Economic Value of Equity (2)	% Change in Net Interest Margin (1)	Economic Value of Equity (2)
+300	3%	12.71%	4%	12.49%
+200	0%	12.80%	1%	12.62%
+100	-2%	12.66%	-3%	12.54%
-	0%	12.54%	0%	12.31%
-100	-1%	11.97%	1%	11.56%
-200 (3)	NMF	NMF	NMF	NMF
-300 (3)	NMF	NMF	NMF	NMF

- (1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.
- (2) The economic value of equity ratio of the Company in a stable interest rate environment and the economic value of equity ratio as projected under the various rate change environments.
- (3) Sensitivity indicated by a decrease of 200 or 300 basis points is not deemed meaningful at September 30, 2013 given the low absolute level of interest rates at that time.

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

**COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013****Results of Operations**

We recorded net income of \$14.2 million for the quarter ended September 30, 2013, a 42% increase over \$10.0 million for the quarter ended September 30, 2012. Income allocable to common stockholders (after preferred stock dividends) was \$13.8 million, or \$1.54 per diluted share of common stock, for the quarter ended September 30, 2013 (a 45% increase in diluted earnings per share, or EPS). During the third quarter of 2013 we realized \$3.8 million in gains related to the consolidation of the 2002 reverse mortgage securitization which more than offset a decrease of \$2.6 million in securities gains. Investment management and fiduciary revenue, credit/debit card and ATM fees (largely related to our ATM division), and traditional banking business all increased during the third quarter of 2013 reflecting fundamental momentum in these businesses. Noninterest expenses for the third quarter of 2013 totaled \$32.8 million compared to \$32.2 million for the third quarter of 2012. The increase of \$656,000, or 2%, was mainly due to increased salaries, benefits, and other compensation due to the improved performance, and a change in billing methodology by Cash Connect division, offset by a decrease in loan workout and OREO costs and regulatory expenses. Net interest margin increased \$2.5 million due to several initiatives undertaken by us in late 2012 and into 2013.

Net income for the nine months of 2013 was \$34.8 million as compared to \$23.8 million for the nine months of 2012. Net income allocable to common stockholders was \$33.2 million, or \$3.72 per diluted share of common stock, compared to net income allocable to common stockholders of \$21.7 million, or \$2.47 per diluted share of common stock, for the nine months ended September 30, 2012, a 51% increase. Consistent with the quarterly results, the nine months of 2013 were impacted by improvements in investment management and fiduciary revenue and credit/debit card and ATM income and decreases in loan workout and OREO costs and regulatory expenses which also helped partially offset the \$15.0 million decrease in security gains.

**Table of Contents****Net Interest Income**

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

	Three Months Ended September 30, 2013					
	2013			2012		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans (2) (3):						
Commercial real estate loans	\$ 818,361	\$ 9,877	4.83 %	\$ 718,046	\$ 8,803	4.90 %
Residential real estate loans (7)	249,476	2,455	3.94	276,681	2,980	4.31
Commercial loans	1,525,053	17,023	4.40	1,435,514	16,848	4.61
Consumer loans	287,555	3,353	4.63	283,704	3,372	4.73
Total loans	2,880,445	32,708	4.56	2,713,945	32,003	4.73
Mortgage-backed securities (4) (6)	711,659	3,527	1.98	829,930	4,344	2.09
Reverse mortgages and Investment securities (4) (5) (6)	112,237	794	3.66	53,392	158	1.27
Other interest-earning assets	38,054	87	0.91	31,187	9	0.11
Total interest-earning assets	3,742,395	37,116	4.01	3,628,454	36,514	4.03
Allowance for loan losses	(42,315)			(46,808)		
Cash and due from banks	80,586			70,366		
Cash in non-owned ATMs	424,125			362,332		
Bank-owned life insurance	63,030			63,315		
Other noninterest-earning assets	131,780			118,330		
Total assets	\$ 4,399,601			\$ 4,195,989		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 563,409	\$ 121	0.09 %	\$ 404,185	\$ 53	0.05 %
Money market	764,973	238	0.12	759,944	431	0.23
Savings	388,132	50	0.05	390,275	83	0.08
Customer time deposits	512,689	1,123	0.87	716,676	2,365	1.31
Total interest-bearing customer deposits	2,229,203	1,532	0.27	2,271,080	2,932	0.51
Brokered certificates of deposit	174,690	141	0.32	283,345	305	0.43
Total interest-bearing deposits	2,403,893	1,673	0.28	2,554,425	3,237	0.50
FHLB of Pittsburgh advances	651,993	482	0.29	389,745	1,403	1.41
Trust preferred borrowings	67,011	339	1.98	67,011	369	2.15
Senior Debt	55,000	943	6.86	20,924	353	6.60
Other borrowed funds (8)	133,077	273	0.82	129,293	259	0.80
Total interest-bearing liabilities	3,310,974	3,710	0.45	3,161,398	5,621	0.71
Noninterest-bearing demand deposits	669,807			590,133		
Other noninterest-bearing liabilities	32,756			33,757		

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Stockholders' equity	<b>386,064</b>	410,701
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,399,601</b>	<b>\$ 4,195,989</b>
Excess of interest-earning assets over interest-bearing liabilities	<b>\$ 431,421</b>	\$ 467,056
<b>Net interest and dividend income</b>	<b>\$ 33,406</b>	<b>\$ 30,893</b>
Interest rate spread	<b>3.56 %</b>	3.32 %
<b>Net interest margin</b>	<b>3.61 %</b>	<b>3.41 %</b>

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.
- (6) Average Balances and related yield are calculated using the fair value of available-for-sale securities.
- (7) Includes residential mortgage loans HFS
- (8) Includes bonds payable related to the reverse mortgage securitization trust consolidation

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	Nine Months Ended September 30,					
	2013			2012		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
(Dollars In Thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Loans (2) (3):						
Commercial real estate loans	\$ 791,222	\$ 28,143	4.74 %	\$ 729,599	\$ 26,717	4.88 %
Residential real estate loans (8)	254,154	7,631	4.00	276,400	9,211	4.44
Commercial loans	1,506,616	50,467	4.45	1,459,698	51,891	4.73
Consumer loans	285,772	10,027	4.69	285,701	10,244	4.79
Loans held for sale (7)				7,113	122	2.29
<b>Total loans</b>	<b>2,837,764</b>	<b>96,268</b>	<b>4.52</b>	<b>2,758,511</b>	<b>98,185</b>	<b>4.76</b>
Mortgage-backed securities (4) (6)	744,812	10,726	1.92	817,253	14,953	2.44
Reverse mortgages and investment securities (4) (5) (6)	84,001	1,461	2.91	50,152	335	0.99
Other interest-earning assets	34,924	134	0.51	33,208	27	0.11
<b>Total interest-earning assets</b>	<b>3,701,501</b>	<b>108,589</b>	<b>3.94</b>	<b>3,659,124</b>	<b>113,500</b>	<b>4.16</b>
Allowance for loan losses	(43,417)			(49,140)		
Cash and due from banks	78,444			90,969		
Cash in non-owned ATMs	421,573			363,497		
Bank-owned life insurance	62,978			63,465		
Other noninterest-earning assets	122,792			123,228		
<b>Total assets</b>	<b>\$ 4,343,871</b>			<b>\$ 4,251,143</b>		
<b>Liabilities and Stockholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand	\$ 544,125	\$ 369	0.09 %	\$ 395,081	\$ 157	0.05 %
Money market	775,121	832	0.14	754,942	1,357	0.24
Savings	393,544	161	0.05	388,894	361	0.12
Customer time deposits	547,126	3,692	0.90	739,073	7,886	1.43
<b>Total interest-bearing customer deposits</b>	<b>2,259,916</b>	<b>5,054</b>	<b>0.30</b>	<b>2,277,990</b>	<b>9,761</b>	<b>0.57</b>
Brokered certificates of deposit	178,522	459	0.34	283,169	891	0.42
<b>Total interest-bearing deposits</b>	<b>2,438,438</b>	<b>5,513</b>	<b>0.30</b>	<b>2,561,159</b>	<b>10,652</b>	<b>0.56</b>
FHLB of Pittsburgh advances	561,357	1,376	0.32	466,266	4,985	1.40
Trust preferred borrowings	67,011	1,005	1.98	67,011	1,114	2.18
Senior Debt	55,000	2,830	6.86	7,026	353	6.60
Other borrowed funds (9)	141,719	823	0.77	136,282	895	0.88
<b>Total interest-bearing liabilities</b>	<b>3,263,525</b>	<b>11,547</b>	<b>0.47</b>	<b>3,237,744</b>	<b>17,999</b>	<b>0.74</b>
Noninterest-bearing demand deposits	638,289			574,708		
Other noninterest-bearing liabilities	30,763			33,922		
Stockholders equity	411,294			404,769		
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,343,871</b>			<b>\$ 4,251,143</b>		
<b>Excess of interest-earning assets over interest-bearing liabilities</b>	<b>\$ 437,976</b>			<b>\$ 421,380</b>		

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Net interest income	\$ 97,042	\$ 95,501
Interest rate spread	3.47 %	3.42 %
Net interest margin	3.52 %	3.49 %

- (1) Weighted average yields have been computed on a tax-equivalent basis using a 35% effective tax rate.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.
- (6) Average Balances and related yield are calculated using fair value of available-for-sale securities.
- (7) Represents loans held for sale in conjunction with asset disposition strategies.
- (8) Includes residential mortgage loans HFS.
- (9) Includes bonds payable related to the reverse mortgage securitization trust consolidation.

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The net interest margin for the third quarter of 2013 was 3.61%, a 20 basis point increase compared to 3.41% for the third quarter of 2012. The increase in net interest margin from the third quarter of 2012 included one-time net adjustments totaling \$446,000, largely related to prepayment and other fees on two loan relationships that were paid off at the end of the quarter. In addition, the net interest margin increased as a result of securities portfolio yield improvement, prudent deposit and loan pricing and improved balance sheet mix. This included several initiatives undertaken in late 2012 and into 2013, including mortgage-banking securities deleveraging strategy; the prepayment of higher rate Federal Home Loan Bank ( FHLB ) borrowing; and the intentional reduction in higher-cost CDs.

The interest margin for the nine months ended September 30, 2013 was 3.52% compared to the 3.49% for the same period in 2012. Similar to the quarterly discussion above, the margin increased due to one-time net adjustments, securities portfolio yield improvement, prudent deposit and loan pricing and favorable balance sheet mix based on several initiatives we had taken. Partially offsetting these increases were higher interest expenses due to the issuance of \$55 million of Senior Notes in August 2012 to provide liquidity and capital flexibility at the holding company level, a decrease in our residential loans due to our strategy of reselling these loans, and a decline in our MBS portfolio.

**Provision for Loan Losses**

Our provision for loan losses is based on the inherent risk of our loans and considers various factors including collateral values, trends in asset quality, level of delinquent loans and concentrations. In addition, regional economic conditions are also taken into consideration. The provision for loan losses was \$2.0 million and \$5.9 million, respectively, for the three and nine months ended September 30, 2013, compared to \$3.8 and \$28.4 for the same period in 2012.

Our allowance for loan losses of \$41.4 million at September 30, 2013 decreased \$2.5 million from \$43.9 million at December 31, 2012. In addition, the ratio of allowance to loan losses to total gross loans was 1.44% at September 30, 2013, compared to 1.58% at December 31, 2012. These decreases reflect that overall credit quality continued to improve over 2012 results:

Net charge-offs were \$8.4 million for the nine months ended September 30, 2013 compared to \$44.2 million for the nine months ended September 30, 2012.

Total problem loans (all criticized, classified, and non-performing loans) improved to 40.5% of Tier 1 Capital plus allowance for loan losses, compared to 52.5% at December 31, 2012 and 59.7% at September 30, 2012.

Nonperforming loans decreased to \$38.2 million as of September 30, 2013 compared to \$62.5 million as of December 31, 2012.

Total loan delinquency increased to 1.84% as of September 30, 2013, compared to 1.62% as of December 31, 2012 as a result of one \$19.0 million relationship with a highly seasonal business. This relationship is evaluated monthly for accrual status.

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	<b>For the Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	(Dollars in Thousands)	
Beginning balance	<b>\$ 43,922</b>	\$ 53,080
Provision for loan losses	<b>5,880</b>	28,379
Charge-offs:		
Residential real estate	<b>985</b>	3,343
Commercial real estate	<b>1,824</b>	5,600
Construction	<b>1,344</b>	10,680
Commercial	<b>2,311</b>	11,920
Owner-occupied commercial	<b>68</b>	3,012
Overdrafts	<b>734</b>	813
Consumer	<b>3,419</b>	4,680
<b>Total charge-offs</b>	<b>10,685</b>	40,048
Recoveries:		
Residential real estate	<b>51</b>	171
Commercial real estate	<b>442</b>	382
Construction	<b>106</b>	1,642
Commercial	<b>900</b>	1,482
Owner-occupied commercial	<b>100</b>	13
Overdrafts	<b>315</b>	297
Consumer	<b>400</b>	200
<b>Total recoveries</b>	<b>2,314</b>	4,187
<b>Net charge-offs</b>	<b>8,371</b>	35,861
Ending balance	<b>\$ 41,431</b>	\$ 45,598
<b>Net charge-offs to average gross loans outstanding, net of unearned income (1)</b>	<b>0.39 %</b>	1.75 %

(1) Ratios for the nine months ended September 30, 2013 and 2012 annualized.

**Noninterest Income**

Noninterest income increased \$3.0 million during the third quarter of 2013 from the same period a year ago. Excluding securities gains in both periods, the reverse mortgage consolidation gain in 2013, the unanticipated BOLI income in 2012 and the impact from a Cash Connect billing change, noninterest income increased by \$1.4 million, or 8% from the same period in 2012. This increase was primarily the result of growth in credit/debit card and fees (largely related to the ATM division), which increased \$636,000, or 11%, and investment management and fiduciary revenue, which increased \$578,000, or 18%, reflecting continued fundamental momentum in these businesses. The increase in noninterest income also reflected continued growth and success in the traditional banking franchise.

For the nine months ended September 30, 2013 noninterest income decreased \$5.1 million to \$60.4 million compared to the same period in 2012. Excluding the same items described in the paragraph above, noninterest income increased by \$7.0 million. This increase was primarily the result of growth in investment management and fiduciary revenue of \$1.9 million and a \$1.2 million increase in credit/debit card and ATM fees (largely related to our ATM division) reflecting growth in all business lines. In addition, a billing methodology change related to our Cash Connect division increased noninterest income by \$3.1 million in 2013 (which also increased noninterest expenses by a similar amount).

**Table of Contents****Noninterest Expense**

Noninterest expense for the third quarter of 2013 increased \$656,000, or 2% from the same period in 2012. Excluding the impact of a change in the method of billing by Cash Connect (\$900,000, net), noninterest expenses decreased by \$335,000 below the same period in the prior year. This decrease was mainly due to a \$1.6 million reduction in loan workout and OREO costs, which were partially offset by a \$706,000 increase in salaries, benefits and other compensation.

For the nine months ended September 30, 2013, noninterest expense increased \$2.2 million, or 2% compared to the same period in 2012. Excluding the \$2.8 million impact from the billing change at Cash Connect, noninterest expense decreased by \$667,000. This was mainly due to a \$3.5 million decrease in loan workout and OREO costs and a \$1.2 million decrease in regulatory costs. These decreases were partially offset by a \$2.5 million increase in salaries, benefits and other compensation costs related to our growth and increased incentives related to our improved performance.

**Income Taxes**

We and our subsidiaries file a consolidated federal income tax return and separate state income tax returns. Income taxes are accounted for in accordance with ASC 740, which requires the recording of deferred income taxes for tax consequences of temporary differences. We recorded an income tax expense of \$7.2 million and \$18.4 million during the three and nine months ended September 30, 2013, respectively, compared to an income tax expense of \$4.8 million and \$12.7 million for the same periods in 2012.

The third quarter of 2013 included the recognition of \$200,000 of tax benefits related to the completion of an IRS audit of our 2010 tax return. The third quarter of 2012 included the recognition of tax benefits related to \$1.0 million of tax-free income from life insurance proceeds received from our BOLI investment. Our effective tax rate was 33.7% and 34.6% for the three and nine months ended September 30, 2013, respectively, compared to 32.3% and 34.9% during the same periods in 2012. Excluding the IRS audit impact and tax-free BOLI proceeds, our effective tax rates were 34.7% and 34.9% for the three and nine months ended September 30, 2013, respectively, compared to 34.7% and 35.8% during the same periods in 2012.

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

**RECONCILIATION OF NON-GAAP MEASUREMENT TO GAAP**

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

	September 30, 2013	December 31, 2012
	(In Thousands)	
<b><u>Tangible Common Book Value per Share of Common Stock</u></b>		
End of period balance sheet data:		
<b>Stockholders' equity</b>	<b>\$ 373,951</b>	\$ 421,054
Goodwill and other intangible assets	<b>(32,939)</b>	(33,320)
Preferred equity, net of discount		(52,474)
<b>Tangible common equity (numerator)</b>	<b>\$ 341,012</b>	\$ 335,260
<b>Shares of common stock outstanding (denominator)</b>	<b>8,844</b>	8,773
<b>Book value per share of common stock</b>	<b>\$ 42.28</b>	\$ 47.99



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Goodwill and other intangible assets	(3.72)	(3.80)
Preferred equity, net of discount		(5.98)
<b>Tangible book value per share of common stock</b>	<b>\$ 38.56</b>	<b>\$ 38.21</b>

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In December 2011, the FASB issued Accounting Standards Update or ASU No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*. This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions. We adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01 effective January 1, 2013. The provisions of ASU No. 2011-11 and ASU No. 2013-01 only impacted the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial position, the adoption of this amendment did not have a material effect on our Consolidated Financial Statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* which allows an entity testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. This update also addresses circumstances that a company should consider in interim periods, but does not remove the requirement for testing of indefinite-lived intangible assets for impairment annually and between annual tests if there is a change in events and circumstances. The provisions of ASU No. 2012-02 became effective for the interim reporting period ended March 31, 2013 and did not have a material effect on our Consolidated Financial Statements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting these reclassifications. ASU No. 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also requires that entities present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities) and the income statement line item affected by the reclassification (e.g., realized gains (losses) on sales of investment securities). If a component is not required to be reclassified to net income in its entirety (e.g., amortization of defined benefit plan items), entities would instead cross reference to the related note to the financial statements for additional information (e.g., pension note). We adopted the provisions of ASU No. 2013-02 prospectively for reporting periods ending after December 15, 2012. The adoption of this amendment did not have a material effect on our Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. These amendments allow the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the current benchmark rates of UST (the rate on direct Treasury obligations of the U.S. government) and LIBOR (the London Interbank Offered Rate on swaps). The amendments were effective on a prospective basis for new or redesignated hedging relationships on July 17, 2013. The adoption of this amendment did not have material effect on our Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, to clarify the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption is not expected to have a material effect on our Consolidated Financial Statements.



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**RECENT LEGISLATION**

In July 2013, the Board of Governors of the Federal Reserve System, FDIC and the OCC approved final rules (the Final Capital Rules ) implementing revised capital rules to reflect the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) and the Basel III international capital standards. Among other things, the Final Capital Rules establish a new capital ratio of common equity Tier 1 capital of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets; increase the minimum ratio of Tier 1 capital ratio from 4% to 6% and include a minimum leverage ratio of 4%; place an emphasis on common equity Tier 1 capital and implement the Dodd-Frank Act phase-out of certain instruments from Tier 1 capital; and change the risk weights assigned to certain instruments. Failure to meet these standards would result in limitations on capital distributions as well as executive bonuses. The Final Capital Rules will be applicable to us on January 1, 2015 with conservation buffers phasing in over the subsequent 5 years.

While it is still too early to fully analyze the impact of all aspects of the new regulatory guidance, we currently have strong capital levels and are significantly above well capitalized levels under the current guidelines.

On July 31, 2013, a Federal District Court judge ruled that the Federal Reserve inflated debit interchange fees when implementing the Durbin amendment of the Dodd-Frank Act in 2011. The judge ruled that the Federal Reserve erred in using criteria outside of the scope Congress intended to determine the fee cap, which the Federal Reserve set at 21 cents per transaction. The judge also ruled that the network options for both signature and PIN transactions were not set appropriately in accordance with the Dodd-Frank Act. The judge has stayed this decision to give the Federal Reserve time to adopt interim standards and has scheduled a conference with the parties on August 14, 2013. If not overturned on appeal, this ruling could significantly affect debit fees for the banking industry and for us. However, these developments are preliminary and the impact on us is not determinable at this time.

The many provisions of the Dodd-Frank Act are so extensive that implementation by regulators is still ongoing. Several of the key regulations included in the original law have been delayed since the law s passing, making an assessment of the Dodd Frank Act s full effect on us not possible at this time.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Incorporated herein by reference from Item 2, 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, as amended (the Exchange Act )), our principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.
- (b) **Changes in internal control over financial reporting.** During the quarter ended September 30, 2013, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Incorporated herein by reference to Note 12 Legal Proceedings to the Consolidated Financial Statements

**Item 1A. Risk Factors**

Our management does not believe there have been any material changes to the risk factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended December 31, 2012, previously filed with the SEC.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following tables represent information with respect to repurchases preferred stock made by us during the three months ended September 30, 2013.

**Preferred**  
2013

Total Number of  
Shares Purchased

The Board also may adjust the number of shares subject to outstanding Awards and the exercise or purchase price and the terms of outstanding Awards to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Board that such adjustment is appropriate in order to prevent dilution or expansion of the rights of Participants, provided that no such adjustment shall be made in the case of an Incentive Stock Option, without the consent of the Participant, if such adjustment would constitute a modification, extension or renewal of the Option within the meaning of Section 424(h) of the Code. Notwithstanding anything to the contrary in this Article V, the Company shall not engage in any re-pricing of any Options granted under this Plan without approval by the Company's stockholders who are eligible to vote at a meeting of stockholders. For purposes of this Article V, the term "re-pricing" shall mean the following:

(i) lowering the exercise price of an Option to take into account a

decrease in the Fair Market Value of the Company's Common Stock below the Option's stated exercise price, or (ii) canceling an Option at a time when its exercise price exceeds the Fair Market Value of the underlying Common Stock in exchange for another Award under the Plan.

No shares shall be the subject of more than one Award at any time, but if an Award as to any shares is surrendered before exercise, or expires or terminates for any reason without having been exercised in full, or for any other reason ceases to be exercisable, the number of shares covered thereby shall again become available for grant under the Plan as if no Awards had been previously granted with respect to such shares.

**ARTICLE VI  
PARTICIPATION;  
AWARD  
AGREEMENT**

The Committee shall, in its discretion, determine from time to time which Employees, Officers, directors, consultants or independent contractors will participate in the Plan and receive Awards under the Plan. In making all such determinations, there shall be taken into account the duties, responsibilities and performance of each respective Employee, Officer, director, consultant or independent contractor, his or her present and

potential contributions to the growth and success of the Company, his or her cash compensation and such other factors as the Committee shall deem relevant to accomplishing the purposes of the Plan.

Awards may be granted individually or in tandem with other Awards. All Awards are subject to the terms, conditions, restrictions and privileges of the Plan in addition to the terms, conditions, restrictions and privileges for an Award contained in the Award Agreement. No Award under this Plan

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shall be effective unless memorialized in writing by the Committee in an Award Agreement delivered to and signed by the Participant.

Notwithstanding any provision of the Plan and subject to adjustment as provided in Article V, the maximum aggregate number of shares of Common Stock with respect to one or more Awards that may be granted to any one person during any one calendar year shall be 200,000 shares or 15,000 shares in the case of non-employee Directors. The maximum dollar amount payable to any individual for any one calendar year with respect to cash awards under the Plan that are intended to satisfy the conditions for deductibility under Section 162(m) of the Internal Revenue Code as "performance-based compensation" is \$2,000,000.

**ARTICLE VII  
AWARDS**

**7.01 Stock Options.** The Committee may from time to time grant to eligible Participants Awards of Incentive Stock Options or Non-Qualified Stock Options; provided however that Awards of Incentive Stock Options shall be limited to Employees of the Company. Awards of Incentive and Non-Qualified Stock Options must have an

exercise price at least equal to the Fair Market Value of a share of Common Stock at the time of grant, except as provided in Section 8.07.

The exercise price applicable to a particular Award shall be set forth in each individual Award Agreement.

**7.02 Restricted Stock.** The Committee may from time to time grant to eligible Participants Awards of Restricted Stock in such amounts, on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law, as it shall determine. A Restricted Stock Award represents shares of Common Stock that are issued subject to such restrictions on transfer and other incidents of ownership and such forfeiture conditions as the Committee may determine. The Committee may, in connection with any Restricted Stock Award, require the payment of a specified purchase price.

**7.03 Restricted Stock Unit.** The Committee may from time to time grant to eligible Participants Awards of Restricted Stock Units in such amounts, on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law, as it shall determine. A Restricted Stock Unit Award represents a hypothetical unit equivalent in value

to a share of Common Stock which entitles the Participant to a payment in cash or Common Stock upon the expiration of the restricted period. A Participant has no voting rights with respect to Restricted Stock Units. The Committee may, in connection with any Restricted Stock Unit Award, require the payment of a specified purchase price.

**7.04 Stock Appreciation**

**Rights.** The Committee may from time to time grant to eligible Participants Awards of Stock Appreciation Rights ("SARs") in such amounts, on such terms and conditions, as it shall determine. A SAR gives to a Participant the right to receive upon exercise, an amount equal to the excess of (1) the Fair Market Value of one share of Common Stock on the date of exercise over (2) the exercise price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Committee may determine, provided it is no less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such SAR), times the number of shares of Common Stock covered by such SAR Award.

**7.05 Cash Bonus Awards.** The Committee has the authority to make an

Award of a cash  
incentive to any  
Participant.

**7.06 Performance  
Compensation  
Awards.** The  
Committee has the  
authority, at the time of  
grant of any Award  
described in the Plan,  
other than stock options  
or SARs granted with an  
exercise

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price equal to or greater than Fair Market Value of the Common Stock on the date of grant to designate such Award as a Performance Compensation Award.

**ARTICLE VIII  
OPTION AWARDS**

**8.01 Vesting  
of Options.**

(a) General  
Rules. Each  
Option  
granted  
under  
the  
Plan  
shall  
be  
evidenced  
by  
an  
Award  
Agreement  
and  
subject  
to  
such  
terms  
and  
conditions  
set  
forth  
in  
the  
Plan  
and  
in  
the  
Award  
Agreement.  
Incentive  
Stock  
Options  
and  
Non-Qualified  
Stock  
Options  
shall  
vest  
and  
be  
exercisable  
in

full  
on  
the  
third  
(3rd)  
anniversary  
of  
the  
date  
of  
grant,  
unless  
otherwise  
determined  
in  
the  
sole  
discretion  
of  
the  
Committee.  
Subject  
to  
the  
foregoing,  
no  
vesting  
shall  
occur  
on or  
after  
the  
date  
that  
a  
Participant's  
employment  
or  
personal  
services  
contract  
with  
the  
Company  
terminates  
for  
any  
reason,  
except  
as  
set  
forth  
herein  
and  
as  
may  
be  
set  
forth  
in an  
applicable  
Award

Agreement.

(b) Acceleration  
of  
Vesting  
Upon  
Death,  
Disability  
or  
Retirement. In  
the  
event  
a  
Participant  
dies  
while  
in  
the  
employ  
of  
the  
Company  
or  
terminates  
employment  
with  
the  
Company  
as a  
result  
of  
Disability,  
any  
Option(s)  
granted  
to  
such  
Participant  
under  
this  
Plan  
not  
yet  
vested  
on  
such  
date  
shall  
become  
100%  
vested  
as of  
such  
date  
and  
be  
exercisable  
either  
by  
the  
Participant  
or

the  
Participant's  
representative.

In  
the  
event  
of a  
Participant's  
Retirement,  
any  
Option(s)  
granted  
to  
such  
Participant  
under  
this  
Plan  
not  
yet  
vested  
on  
such  
date  
shall  
become  
100%  
vested  
as of  
such  
date  
and  
become  
exercisable  
only  
if the  
grant  
date  
of  
such  
Option(s)  
precedes  
the  
Participant's  
date  
of  
Retirement  
by  
two  
(2) or  
more  
years,  
except  
as  
determined  
in  
the  
sole  
discretion  
of  
the  
Committee



and  
set  
forth  
in an  
applicable  
Award  
Agreement.

(c) Accelerated  
Vesting  
Upon  
a  
Change  
in  
Control. Notwithstanding  
the  
general  
rule  
described  
in  
subsection (a)  
hereof,  
all of  
a  
Participant's  
Options  
shall  
become  
immediately  
vested  
and  
exercisable  
upon  
a  
Change  
in  
Control,  
provided  
that  
the  
Participant  
has  
been  
employed  
by  
(or  
rendered  
services  
to)  
the  
Company  
for a  
period  
of at  
least  
six  
(6) months  
as of  
the  
date  
of  
the

Change  
in  
Control,  
except  
as  
determined  
in  
the  
sole  
discretion  
of  
the  
Committee  
and  
set  
forth  
in an  
applicable  
Award  
Agreement.

(d) Accelerated  
Vesting  
Upon  
Certain  
Separations  
From  
Service. Notwithstanding  
the  
general  
rule  
described  
in  
subsection (a)  
hereof,  
all of  
a  
Participant's  
Options  
shall  
become  
immediately  
vested  
and  
exercisable  
upon  
the  
Participant's  
(i) termination  
without  
Cause,  
or  
(ii) resignation  
with  
Good  
Reason.  
If  
the  
Participant's  
employment  
or  
service

is terminated by the Company with Cause or if the Participant resigns for other than Good Reason, then the unvested portion of the Option will be forfeited at the close of business on such termination or resignation date, except as determined in the sole discretion of the Committee and set forth in an applicable Award Agreement.

**8.02 Duration of Options.** Subject to the terms of an applicable Award Agreement, each Option granted to a Participant shall be exercisable at

any time on or after it vests for a period of (i) ten (10) years from the date of grant (five years in the case of an Incentive Stock Option granted to an individual who, at the time such Incentive Stock Option is granted, owns, directly or indirectly, more than ten percent (10%) of the total combined voting power of all classes of stock issued to stockholders of the Company), or (ii) in the event of termination of employment for any reason except death or Disability, ninety (90) days from the date of termination.

**8.03 Exception for Termination Due to Death or Disability.** If a Participant dies while in the employ of the Company or terminates employment with the Company as a result of Disability without

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having fully exercised his Options, the Participant or his legal representative or guardian, or the executors, administrators, legatees or distributees of his estate shall have the right, during the twelve (12) month period following the earlier of his death or Disability, to exercise such Options to the extent vested on the date of such death or Disability. In no event, however, shall any Option be exercisable more than ten (10) years from the date it was granted.

**8.04 Notice of Disposition; Withholding;**

**Escrow.** A Participant shall immediately notify the Company in writing of any sale, transfer, assignment or other disposition (or action constituting a disqualifying disposition within the meaning of Section 421 of the Code) of any shares of Common Stock acquired through exercise of an Incentive Stock Option, within two (2) years after the grant of such Incentive Stock Option or within one (1) year after the acquisition of such shares, setting forth the date and manner of disposition, the number of shares disposed of and the price at which such shares were disposed. The Company shall be entitled to withhold from any compensation or other payments then or thereafter due to the Participant such amounts as may be necessary to satisfy any withholding requirements of federal

or state law or regulation and, further, to collect from the Participant any additional amounts which may be required for such purpose. The Board may, in its discretion, require shares of Common Stock acquired by a Participant upon exercise of an Incentive Stock Option to be held in an escrow arrangement for the purpose of enabling compliance with the provisions of this Section.

**8.05 Manner of Exercise.** To the extent vested and exercisable, Options may be exercised in part or in whole from time to time by execution of a written notice directed to the Company, at the Company' principal place of business, accompanied by cash or a check in payment of the exercise price for the number of shares specified and paid for. The Committee may, in its discretion, permit a Participant to exercise vested and exercisable options awarded under this Plan by surrendering an amount of Common Stock already owned by the Participant equal to the Options' exercise price. Subject to any limitations set forth in the Award Agreement, for so long as the Common Stock is listed or admitted to trading on a national securities exchange, the Committee may, in its discretion, allow the Participant to make payment by arranging with a third party broker to sell a number of shares otherwise deliverable to the Participant and

attributable to the exercise of the Option in order to pay the exercise price of the Option and any applicable withholding and employment taxes due.

**8.06 \$100,000**

**Limitation.** Notwithstanding

any contrary provisions contained elsewhere in this Plan and as long as required by Section 422

of the Code, the aggregate Fair Market Value, determined as of the time an Incentive Stock Option is granted,

of the Common Stock with respect to which

Incentive Stock Options are exercisable for the

first time by the Participant during any

calendar year under this Plan and stock options

that satisfy the requirements of

Section 422 of the Code under any other stock

option plan or plans maintained by the

Company, shall not exceed \$100,000. To the

extent that the aggregate value of shares of

Common Stock to be received by the

Participant for the first time in any one year

pursuant to the exercise of an Incentive Stock

Option ("ISO Stock") exceeds \$100,000 based

on the fair market value of the Common Stock as

of the date of the Incentive Stock Option's

grant, such excess shall be treated as Common

Stock received pursuant to the exercise of a

Non-Qualified Stock Option ("NQSO Stock").

The Company shall designate which shares of Common Stock to be

received by the Participant will be

treated as ISO Stock and which shares of

Common Stock, if any, will be treated as NQSO Stock by issuing separate share certificates identifying in the Company's share transfer records which shares are ISO Stock.

**8.07 Limitation on Ten Percent Stockholders.** The price at which shares of Common Stock may be purchased upon exercise of an Incentive Stock Option granted to an individual who, at the time such Incentive Stock Option is granted, owns, directly or indirectly, more than ten percent (10%) of the total combined voting power of all classes of stock issued to stockholders of the Company, shall be no less than one hundred and ten percent (110%) of the Fair Market Value of a share of the Common Stock of the Company at the time of grant, and such Incentive Stock Option shall by its terms not be exercisable after the expiration of five (5) years from the date such Incentive Stock Option is granted.

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**ARTICLE IX  
RESTRICTED  
STOCK AWARDS**

**9.01 Vesting Requirements.** Each Restricted Stock Award granted under the Plan shall be evidenced by an Award Agreement and subject to such terms and conditions set forth in the Plan and in the Award Agreement. The restrictions imposed on shares granted under a Restricted Stock Award shall lapse in accordance with the vesting requirements specified by the Committee in an applicable Award Agreement, except as provided below. Such vesting requirements may be based on the continued employment of the Participant with the Company for a specified time period or periods, or upon the attainment of specified business goals or measures established by the Committee in its sole discretion, in either case as set forth in the Award Agreement.

A Participant's Restricted Stock Award shall immediately vest upon (i) a Change in Control, provided that the Participant has been employed by (or rendered services to) the Company for a period of at least six (6) months as of the date of the Change in Control, (ii) the Participant's death while in the employ of the Company, (iii) the Participant's termination of employment with the

Company as a result of Disability, (iv) the Participant's termination without Cause, or (v) the Participant's resignation with Good Reason, in each case except as determined in the sole discretion of the Committee and set forth in an applicable Award Agreement.

**9.02 Restrictions.** Shares granted under any Restricted Stock Award may not be transferred, assigned or subject to any encumbrance, pledge, or charge until all applicable restrictions are removed or have expired, unless otherwise allowed by the Committee. The Committee may require the Participant to enter into an escrow agreement providing that the certificates representing the shares granted or sold under a Restricted Stock Award will remain in the physical custody of an escrow holder until all restrictions are removed or have expired. Failure to satisfy any applicable restrictions shall result in the subject shares of the Restricted Stock Award being forfeited and returned to the Company, with any purchase price paid by the Participant to be refunded, unless otherwise provided by the Committee. The Committee may require that certificates representing the shares granted under a Restricted Stock Award bear a legend making appropriate reference to the restrictions imposed.

**9.03 Rights as Stockholder.** Subject

to the foregoing provisions of this Article IX and the applicable Award Agreement, the Participant will have all rights of a stockholder with respect to the shares granted to him under a Restricted Stock Award, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto, unless the Committee determines otherwise at the time the Restricted Stock Award is granted.

**9.04 Section 83(b)**

**Election.** The Committee may provide in a Stock Award Agreement that the Restricted Stock Award is conditioned upon the Participant's refraining from making an election with respect to the Award under section 83(b) of the Code. Irrespective of whether an Award is so conditioned, if a Participant makes an election pursuant to section 83(b) of the Code with respect to a Restricted Stock Award, the Participant shall be required to promptly file a copy of such election with the Company.

**ARTICLE X  
RESTRICTED  
STOCK UNIT  
AWARDS**

**10.01 Vesting Requirements.** Each Restricted Stock Unit Award granted under the Plan shall be evidenced by an Award Agreement and subject to such terms and conditions set forth

in the Plan and in the Award Agreement. The restrictions imposed on units granted under a Restricted Stock Unit Award shall lapse in accordance with the vesting requirements specified by the Committee in an applicable Award Agreement, except as provided below. Such vesting requirements may be based on the continued employment of the Participant with the Company for a specified time period or periods,

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or upon the attainment of specified business goals or measures established by the Committee in its sole discretion, in either case as set forth in the Award Agreement.

A Participant's Restricted Stock Unit Award shall immediately vest upon (i) a Change in Control, provided that the Participant has been employed by (or rendered services to) the Company for a period of at least six (6) months as of the date of the Change in Control, (ii) the Participant's death while in the employ of the Company, (iii) the Participant's termination of employment with the Company as a result of Disability, (iv) the Participant's termination without Cause, or (v) the Participant's resignation with Good Reason, in each case except as determined in the sole discretion of the Committee and set forth in an applicable Award Agreement.

**10.02 Restrictions.** Restricted Stock Units awarded to any Participant will be subject to forfeiture until the vesting requirements have been met. Restricted Stock Units granted under any Restricted Stock Unit Award may not be transferred, assigned or subject to any encumbrance, pledged, or charged until all applicable restrictions are removed or have expired, unless otherwise allowed by the Committee. Failure to satisfy any applicable restrictions shall result in

the subject units of the Restricted Stock Unit Award being forfeited and returned to the Company, with any purchase price paid by the Participant to be refunded, unless otherwise provided by the Committee.

**10.03 Rights**

**as Stockholder.** No shares of Common Stock shall be issued at the time Restricted Stock Units are awarded and the Company will not be required to set aside a fund for the payment of such Award. A Participant has no voting rights with respect to any Restricted Stock Units. At the discretion of the Committee, each Restricted Stock Unit (representing one share of Common Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Common Stock ("Dividend Equivalents"). If credited, Dividend Equivalents will be withheld by the Company for the Participant's account, without interest (unless otherwise provided in the Award Agreement). Dividend Equivalents credited to a Participant's account and attributable to any particular Restricted Stock Unit (and earnings thereon, if applicable) will be distributed in cash or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalents (and earnings, if applicable) rounded down to nearest whole share to the Participant

upon settlement of such Restricted Stock Unit and, if such Restricted Stock Unit is forfeited, the Participant will also forfeit the right to such Dividend Equivalents.

**10.04 Settlement of Restricted Stock Units.** Upon the expiration of the restricted Period with respect to any outstanding Restricted Stock Units, the Company will deliver to the Participant, or his or her beneficiary, without charge, one share of Common Stock for each such outstanding Restricted Stock Unit and cash equal to any Dividend Equivalents credited with respect to each such Vested Unit (and the interest thereon, if any) or, at the discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to such Dividend Equivalents (and the interest thereon, if any) rounded down to the nearest whole share; provided, however, that, if explicitly provided in the applicable Award Agreement, the Committee may, in its sole discretion, elect to pay cash or part cash and part Common Stock in lieu of delivering only shares of Common Stock for vested Restricted Stock Unit. If a cash payment is made in lieu of delivering shares of Common Stock, the amount of such payment will be equal to the Fair Market Value of the Common Stock as of the date on which the restricted period lapsed with respect to each vested Restricted Stock Unit.

**ARTICLE XI  
STOCK  
APPRECIATION  
RIGHTS AWARDS**

**11.01 Grant of SARs.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant SARs to Participants in such amounts as the Committee shall determine. A SAR shall represent a right to receive a payment in cash, shares of Common Stock, or a combination thereof, equal to the excess of the Fair Market Value of a specified number of shares

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of Common Stock on the date the SAR is exercised over an amount (the "SAR exercise price") which shall be no less than the Fair Market Value on the date the SAR was granted (or the Option exercise price for SARs granted in tandem with an Option), as set forth in the applicable Award Agreement.

**11.02 Award**

**Agreement.** Each SAR grant shall be evidenced by an Award Agreement that shall specify the SAR exercise price, the duration of the SAR, the number of Shares to which the SAR pertains, whether the SAR is granted in tandem with the grant of an Option or is freestanding, the form of payment of the SAR upon exercise, and such other provisions as the Committee shall determine. SARs granted under this Article XI shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve and which shall be set forth in the applicable Award Agreement, which need not be the same for each grant or for each Participant.

A Participant's SAR Award shall immediately vest upon (i) a Change in Control, provided that the Participant has been employed by (or rendered services to) the Company for a period of at least six (6) months as

of the date of the Change in Control, (ii) the Participant's death while in the employ of the Company, (iii) the Participant's termination of employment with the Company as a result of Disability, (iv) the Participant's termination without Cause, or (v) the Participant's resignation with Good Reason, in each case except as determined in the sole discretion of the Committee and set forth in an applicable Award Agreement. Each SAR may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The SAR may be subject to such other terms and conditions on the time or times when it may be exercised as the Committee may deem appropriate. The vesting provisions of individual SAR may vary. No SAR may be exercised for a fraction of a share of Common Stock. The Committee may, but shall not be required to, provide for an acceleration of vesting and exercisability in the terms of any SAR upon the occurrence of a specified event.

**11.03 Duration of SAR.** Each SAR granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no SAR shall be exercisable on or later than the tenth (10th) anniversary date of its grant.

**11.04 Exercise.** SARs shall be exercised by the delivery to the Company of written or other notice

of exercise acceptable to the Company, setting forth the number of Shares with respect to which the SAR is to be exercised. The date of exercise of the SAR shall be the date on which the Company shall have received notice from the Participant of the exercise of such SAR. SARs granted in tandem with the grant of an Option may be exercised for all or part of the shares of Common Stock subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. SARs granted in tandem with the grant of an Option may be exercised only with respect to the shares for which its related Option is then exercisable.

With respect to SARs granted in tandem with an Incentive Stock Option, (a) such SAR will expire no later than the expiration of the underlying Incentive Stock Option, (b) the value of the payout with respect to such SAR may be for no more than 100% of the difference between the Option exercise price of the underlying Incentive Stock Option and the Fair Market Value of the shares of Common Stock subject to the underlying Incentive Stock Option at the time such SAR is exercised, and (c) such SAR may be exercised only when the Fair Market Value of the shares of Common Stock subject to the underlying Incentive Stock Option exceeds the Option exercise price of the Incentive Stock Option.

SARs granted in tandem with an Incentive Stock Option granted to a Participant under the Plan shall be exercisable during the Participant's lifetime only by such Participant.

SARs granted independently from the grant of an Option may be exercised upon the terms and conditions contained in the applicable Award Agreement. In the event the SAR shall be payable in shares of Common Stock, a certificate for the shares of Common Stock acquired upon exercise of an SAR shall be issued in the name of the Participant, or the Company shall transfer the shares of Common Stock electronically from its transfer agent to the Participant, as soon as practicable following

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receipt of notice of exercise. No fractional Shares will be issuable upon exercise of the SAR and, unless provided in the applicable Award Agreement or otherwise determined by the Committee, the Participant will receive cash in lieu of fractional Shares.

**11.05 Exercise Upon Termination of Employment.** Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise a SAR following termination of the Participant's employment with the Company. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with the Participants, need not be uniform among all SARs issued pursuant to this Article XI, and may reflect distinctions based on the reasons for termination of employment.

**ARTICLE XII  
PERFORMANCE  
COMPENSATION  
AWARDS**

**12.01 Grant Requirement and Types of Performance Compensation Awards.** The Committee will, in its sole discretion, designate within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum

period allowed under Section 162(m) of the Code) which Participants will be eligible to receive Performance Compensation Awards in respect of such Performance Period. However, designation of a Participant eligible to receive an Award hereunder for a Performance Period shall not in any manner entitle the Participant to receive payment in respect of any Performance Compensation Award for such Performance Period. The determination as to whether or not such Participant becomes entitled to payment in respect of any Performance Compensation Award shall be decided solely in accordance with the provisions of this Article XII. Moreover, designation of a Participant eligible to receive an Award hereunder for a particular Performance Period shall not require designation of such Participant eligible to receive an Award hereunder in any subsequent Performance Period and designation of one person as a Participant eligible to receive an Award hereunder shall not require designation of any other person as a Participant eligible to receive an Award hereunder in such period or in any other period. Performance Compensation Awards may be in the form of Performance Shares, Performance Units or Cash Bonus Awards. Each Award Agreement evidencing a Performance

Compensation Award shall specify the number of Performance Shares, Performance Units or Cash Bonus Award opportunity subject thereto, the Performance Compensation Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award. The Committee has full discretion to select the length of the Performance Period provided any such performance period will not be less than one fiscal quarter in duration, the types of Performance Compensation Awards to be issued, the performance criteria used to establish Performance Goals, the kinds and/or levels of the Performance Goals that apply and the Performance Compensation Award Formula.

**12.02 Award Agreement.** Performance Compensation Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Compensation Award or purported Performance Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Compensation Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the terms and

conditions of this  
Article XII.

**12.03 Types  
of Performance  
Awards**

**Authorized.** Performance

Compensation Awards  
may be in the form of  
Performance Shares,  
Performance Units or  
Cash Bonus Awards.

Each Award Agreement  
evidencing a  
Performance

Compensation Award  
shall specify the number  
of Performance Shares,  
Performance Units or  
Cash Bonus Award

opportunity subject  
thereto, the Performance  
Compensation Award  
Formula, the

Performance Goal(s) and  
Performance Period  
applicable to the Award,  
and the other terms,  
conditions and  
restrictions of the  
Award.

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**12.04 Value of Performance Awards.**

The final value payable to the Participant in settlement of a Performance Compensation Award determined on the basis of the applicable Performance Compensation Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

**12.05 Establishment of Performance Period, Performance Goals and Performance Compensation Award Formula.**

In granting each Performance Compensation Award, the Committee shall establish in writing the applicable Performance Period, Performance Compensation Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Compensation Award Formula the final value of the Performance Award to be paid to the Participant. With respect to any Performance Compensation Award that the Committee designates as a Performance Compensation Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee shall establish the Performance Goal(s) and Performance

Compensation Award Formula applicable to each Performance Compensation Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Compensation Award Formula shall not be changed during the Performance Period.

The Company shall notify each Participant granted a Performance Compensation Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Compensation Award Formula.

**12.06 Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained ("Performance Targets") with respect to one or more measures of business or financial performance (each, a "Performance Measure"), subject to the following:

- (a) Performance Measures. Performance Measures shall have

the  
same  
meanings  
as  
used  
in  
the  
Company's  
financial  
statements,  
or, if  
such  
terms  
are  
not  
used  
in  
the  
Company's  
financial  
statements,  
they  
shall  
have  
the  
meaning  
applied  
pursuant  
to  
generally  
accepted  
accounting  
principles,  
or as  
used  
generally  
in  
the  
Company's  
industry.  
Performance  
Measures  
shall  
be  
calculated  
with  
respect  
to  
the  
Company  
and  
each  
Subsidiary  
consolidated  
therewith  
for  
financial  
reporting  
purposes  
or  
such  
division

or  
other  
business  
unit  
as  
may  
be  
selected  
by  
the  
Committee.

The  
Committee  
may  
determine  
Performance  
Measures  
to be  
one  
or  
more  
of  
the  
following:  
revenue;  
net  
interest  
income;  
non-interest  
income;  
net  
interest  
margin;  
operating  
income;  
earnings  
before  
taxes;  
earnings  
before  
interest  
taxes  
depreciation  
and  
amortization;  
earnings  
before  
interest  
and  
taxes;  
pre-tax  
income;  
net  
earnings,  
net  
income;  
market  
share;  
business  
unit  
volume;

capital;  
tangible  
book  
value;  
expense  
management;  
the  
market  
price  
of  
the  
Common  
Stock;  
total  
shareholder  
return;  
return  
on  
equity;  
return  
on  
capital;  
return  
on  
assets;  
return  
on  
tangible  
equity;  
return  
on  
tangible  
common  
equity;  
efficiency  
ratio;  
number  
of  
customers;  
number  
of  
accounts;  
assets;  
asset  
mix;  
deposits;  
non-interest  
bearing  
deposits;  
deposit  
mix;  
loans;  
loan  
mix;  
asset  
quality;  
credit  
quality;  
regulatory  
exam  
results;  
audit

results;  
customer  
satisfaction  
(determined  
based  
on  
objective  
criteria  
approved  
by  
the  
Committee);  
execution  
of  
strategic  
initiatives  
(determined  
based  
on  
objective  
criteria  
approved  
by  
the  
Committee);  
cost  
of  
funds;  
cost  
of  
deposits;  
and  
Texas  
ratio.  
A  
Performance  
Measure  
may  
be  
expressed  
in  
any  
form  
that  
the  
Committee  
determines,  
including,  
but  
not  
limited  
to:  
absolute  
value,  
ratio,  
average,  
percentage  
growth,  
absolute  
growth,  
cumulative  
growth,

performance  
in  
relation  
to an  
index,  
performance  
in  
relation  
to  
peer  
company  
performance,  
per  
share  
of  
common  
stock  
outstanding,  
or  
per  
full-time  
equivalent  
employee.

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Performance  
Measures  
applicable  
to a  
Performance  
Compensation  
Award  
may  
exclude  
the  
effect  
(whether  
positive  
or  
negative)  
of  
changes  
in  
tax  
law,  
generally  
accepted  
accounting  
principles  
or  
other  
such  
laws  
or  
provisions  
affecting  
reported  
financial  
results,  
including  
unforeseen  
and  
extraordinary  
changes  
in  
statutes  
and  
regulations  
that  
govern  
the  
company  
and  
its  
industry;  
accruals  
or  
charges  
relating  
to  
reorganization  
and  
restructuring  
programs;  
special



gains  
or  
losses  
or  
other  
financial  
impact  
in  
connection  
with  
mergers  
and  
acquisitions  
involving  
the  
Company  
or  
any  
of its  
significant  
subsidiaries,  
the  
purchase  
or  
sale  
of  
branches  
or  
significant  
portions  
of  
the  
Company  
or  
any  
of its  
significant  
subsidiaries,  
or  
the  
sale  
of  
securities  
and  
investments  
of  
the  
Company;  
write-downs  
or  
write-offs  
of  
assets,  
including  
intangible  
assets  
such  
as  
goodwill  
and  
valuation  
adjustments

related  
to  
the  
impact  
of  
hedging;  
litigation  
or  
claim  
matters;  
expenses  
relating  
to  
unplanned  
regulatory  
actions;  
any  
other  
significant  
items  
as  
discussed  
in  
Management's  
Discussion  
and  
Analysis  
of  
Financial  
Condition  
and  
Results  
of  
Operation  
appearing  
or  
incorporated  
by  
reference  
in  
the  
Annual  
Report  
on  
Form 10-K  
filed  
with  
the  
Securities  
and  
Exchange  
Commission;  
gains  
or  
losses  
on  
the  
early  
repayment  
of  
debt;  
or

any  
other  
unforeseen  
events  
of  
occurrences  
of a  
similar  
nature  
identified  
in  
the  
first  
90 days  
of a  
performance  
cycle.  
However  
no  
such  
adjustment  
will  
be  
made  
if the  
exercise  
of  
such  
authority  
by  
the  
Committee  
would  
constitute  
the  
exercise  
of  
"impermissible  
discretion,"  
would  
cause  
awards  
granted  
under  
the  
Plan  
that  
are  
intended  
to  
qualify  
as  
"performance-based  
compensation"  
under  
Section 162(m)  
of  
the  
Internal  
Revenue  
Code  
to

otherwise  
fail  
to  
qualify  
as  
"performance-based  
compensation"  
under  
Section 162(m).

(b) Performance  
Targets.  
Performance  
Targets  
may  
include  
a  
minimum,  
maximum,  
target  
level  
and  
intermediate  
levels  
of  
performance,  
with  
the  
final  
value  
of a  
Performance  
Award  
determined  
under  
the  
applicable  
Performance  
Compensation  
Award  
Formula  
by  
the  
level  
attained  
during  
the  
applicable  
Performance  
Period.  
A  
Performance  
Target  
may  
be  
stated  
as an  
absolute  
value  
or as  
a  
value

determined  
relative  
to a  
standard  
selected  
by  
the  
Committee.

**12.07 Settlement  
of Performance  
Compensation  
Awards.**

(a) Determination  
of  
Final  
Value.  
As  
soon  
as  
practicable  
following  
the  
completion  
of  
the  
Performance  
Period  
applicable  
to an  
Award,  
the  
Committee  
shall  
certify  
in  
writing  
the  
extent  
to  
which  
the  
applicable  
Performance  
Goals  
have  
been  
attained  
and  
the  
resulting  
final  
value  
of  
the  
Award  
earned  
by  
the  
Participant  
and

to be  
paid  
upon  
its  
settlement  
in  
accordance  
with  
the  
applicable  
Performance  
Compensation  
Award  
Formula.

(b) Discretionary  
Adjustment  
of  
Award  
Formula.  
With  
respect  
to  
any  
Performance  
Compensation  
Award  
that  
the  
Committee  
designates  
as a  
Performance  
Compensation  
Award  
intended  
to  
qualify  
as  
"performance-based  
compensation"  
under  
Section 162(m)  
of  
the  
Code,  
the  
Committee,  
in its  
discretion,  
may,  
either  
at  
the  
time  
it  
grants  
a  
Performance  
Compensation  
Award  
or at

any  
time  
thereafter,  
provide  
for  
the  
negative  
adjustment  
of  
the  
Performance  
Compensation  
Award  
Formula  
applicable  
to  
such  
Performance  
Compensation  
Award  
to  
reflect  
such  
Participant's  
individual  
performance  
in  
his  
or  
her  
position  
with  
the  
Company  
or  
such  
other  
factors  
as  
the  
Committee  
may  
determine.  
If  
permitted  
under  
such  
Participant's  
Award  
Agreement,  
the  
Committee  
shall  
have  
the  
discretion,  
on  
the  
basis  
of  
such  
criteria

as  
may  
be  
established  
by  
the  
Committee,  
to  
reduce  
some  
or all  
of  
the  
value  
of  
the  
Performance  
Compensation  
Award  
that  
would  
otherwise  
be  
paid  
to  
such  
Participant  
upon  
its  
settlement  
notwithstanding  
the  
attainment  
of  
any  
Performance  
Goal  
and  
the  
resulting  
value  
of  
the  
Performance  
Compensation  
Award  
determined  
in  
accordance  
with  
the  
Performance  
Compensation  
Award  
Formula.  
No  
such  
reduction  
may  
result  
in an  
increase



in  
the  
amount  
payable  
upon  
settlement  
of  
another  
Participant's  
Performance  
Compensation  
Award.

With  
respect  
to  
any  
other  
Performance  
Compensation  
Award,  
the  
Committee,  
in its  
discretion,  
may,  
either  
at  
the  
time  
it  
grants  
a  
Performance  
Compensation  
Award  
or at  
any  
time

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thereafter,  
provide  
for  
the  
positive  
or  
negative  
adjustment  
of  
the  
Performance  
Compensation  
Award  
Formula  
applicable  
to  
such  
Performance  
Compensation  
Award  
to  
reflect  
such  
Participant's  
individual  
performance  
in  
his  
or  
her  
position  
with  
the  
Company  
or  
such  
other  
factors  
as  
the  
Committee  
may  
determine.

(c) Effect  
of  
Leaves  
of  
Absence.  
Unless  
otherwise  
required  
by  
law,  
payment  
of  
the  
final  
value,  
if

any,  
of a  
Performance  
Compensation  
Award  
held  
by a  
Participant  
who  
has  
taken  
in  
excess  
of  
thirty  
(30) days  
in  
leaves  
of  
absence  
during  
a  
Performance  
Period  
shall  
be  
prorated  
on  
the  
basis  
of  
the  
number  
of  
days  
of  
the  
Participant's  
Service  
during  
the  
Performance  
Period  
during  
which  
the  
Participant  
was  
not  
on a  
leave  
of  
absence.

(d) Notice  
to  
Participants.  
As  
soon  
as  
practicable  
following

the  
Committee's  
determination  
and  
certification  
in  
accordance  
with  
11.03(a)  
and  
(b),  
the  
Company  
shall  
notify  
each  
Participant  
of  
the  
determination  
of  
the  
Committee.

(e) Payment  
in  
Settlement  
of  
Performance  
Compensation  
Awards.  
As  
soon  
as  
practicable  
following  
the  
Committee's  
determination  
and  
certification  
in  
accordance  
with  
11.03 (a) and  
(b),  
payment  
shall  
be  
made  
to  
each  
eligible  
Participant  
(or  
such  
Participant's  
legal  
representative  
or  
other  
person

who  
acquired  
the  
right  
to  
receive  
such  
payment  
by  
reason  
of  
the  
Participant's  
death)  
of  
the  
final  
value  
of  
the  
Participant's  
Performance  
Compensation  
Award.  
Payment  
of  
such  
amount  
shall  
be  
made  
in  
cash,  
shares  
of  
Common  
Stock,  
or a  
combination  
thereof  
as  
determined  
by  
the  
Committee.  
Unless  
otherwise  
provided  
in  
the  
Award  
Agreement  
evidencing  
a  
Performance  
Compensation  
Award,  
payment  
shall  
be  
made  
in a

lump  
sum.  
In no  
event  
shall  
payment  
of a  
Performance  
Compensation  
Award  
be  
made  
later  
than  
the  
15th day  
of  
the  
third  
month  
following  
the  
taxable  
year  
of  
the  
Participant  
in  
which  
the  
Participant  
has a  
legally  
binding  
right  
to  
the  
Performance  
Compensation  
Award.

(f) Provisions  
Applicable  
to  
Payment  
in  
Shares.  
If  
payment  
is to  
be  
made  
in  
shares  
of  
Common  
Stock,  
the  
number  
of  
such  
shares

shall  
be  
determined  
by  
dividing  
the  
final  
value  
of  
the  
Performance  
Compensation  
Award  
by  
the  
Fair  
Market  
Value  
of a  
share  
of  
Common  
Stock.  
Shares  
of  
Common  
Stock  
issued  
in  
payment  
of  
any  
Performance  
Compensation  
Award  
may  
be  
fully  
vested  
and  
freely  
transferable  
shares  
or  
may  
be  
shares  
of  
Common  
Stock  
subject  
to  
vesting  
conditions  
established  
by  
the  
Committee  
as  
provided  
in  
9.01

or  
10.01.  
Any  
shares  
subject  
to  
Vesting  
Conditions  
shall  
be  
evidenced  
by  
an  
appropriate  
Award  
Agreement.

(g) Effect  
of  
Termination  
of  
Service.  
Unless  
otherwise  
provided  
by  
the  
Committee  
in  
the  
grant  
of a  
Performance  
Compensation  
Award  
and  
set  
forth  
in  
the  
Award  
Agreement,  
the  
effect  
of a  
Participant's  
termination  
of  
service  
on  
the  
Performance  
Compensation  
Award  
shall  
be as  
follows.  
If  
the  
Participant's  
service  
with



the  
Company  
terminates  
because  
of  
the  
death  
or  
Disability  
of  
the  
Participant  
before  
the  
completion  
of  
the  
Performance  
Period  
applicable  
to  
the  
Performance  
Compensation  
Award,  
the  
final  
value  
of  
the  
Participant's  
Performance  
Compensation  
Award  
shall  
be  
determined  
by  
the  
extent  
to  
which  
the  
applicable  
Performance  
Goals  
have  
been  
attained  
with  
respect  
to  
the  
entire  
Performance  
Period  
and  
shall  
be  
prorated  
based  
on

the  
number  
of  
months  
of  
the  
Participant's  
service  
to  
the  
Company  
during  
the  
Performance  
Period.  
Payment  
shall  
be  
made  
following  
the  
end  
of  
the  
Performance  
Period  
in  
any  
manner  
permitted  
by  
Section 12.07.  
If  
the  
Participant's  
service  
terminates  
for  
any  
reason  
except  
death  
or  
Disability  
before  
the  
completion  
of  
the  
Performance  
Period  
applicable  
to  
the  
Performance  
Compensation  
Award,  
such  
Award  
shall  
be  
forfeited

in its  
entirety.

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**ARTICLE XIII  
NONASSIGNABILITY;  
NONTRANSFERABILITY**

Unexercised or unsettled Awards shall not be transferable by a Participant except by will or the laws of descent or distribution and, during a Participant's lifetime, shall be exercisable only by such Participant or the Participant's guardian or legal representative.

**ARTICLE XIV  
AMENDMENT AND  
TERMINATION OF  
THE PLAN**

The Board may, by resolution, at any time terminate or amend the Plan with respect to any shares of Common Stock or Awards which have not been granted, but no such action shall adversely affect the rights under any outstanding Award without the holder's consent. If and to the extent necessary to ensure that Incentive Stock Options granted under the Plan remain qualified under Section 422 of the Code or for the Plan to comply with any law, regulation or stock exchange requirement, Plan amendments shall be subject to approval by the Company's stockholders who are eligible to vote at a meeting of stockholders.

**ARTICLE XV  
EMPLOYMENT  
RIGHTS**

Neither the Plan nor any Award hereunder shall create any right on the part of any Employee of the Company to continue in such capacity.

**ARTICLE XVI  
WITHHOLDING AND  
TAXES**

**16.01 Withholding.** The Company may withhold from any cash payment made under this Plan sufficient amounts to cover any applicable withholding and employment taxes, and if the amount of such cash payment is insufficient, the Company may require the Participant to pay to the Company the amount required to be withheld as a condition to delivering the shares acquired pursuant to an Award. The Company also may withhold or collect amounts with respect to a disqualifying disposition of shares of Common Stock acquired pursuant to exercise of an Incentive Stock Option, as provided in Section 8.02(c).

The Board is authorized to adopt rules, regulations or procedures which provide for the satisfaction of a Participant's tax withholding obligation by the retention of shares of Common Stock to which he otherwise would be entitled pursuant to an Award or by the Participant's delivery of previously-owned shares of Common Stock or other property. However, if the Company adopts rules, regulations or

procedures which permit withholding obligations to be met by the retention of Common Stock to which a Participant otherwise would be entitled pursuant to the exercise or settlement of an Award, the fair market value of the Common Stock retained for such purpose shall not exceed the minimum required Federal, state and local tax withholding due upon exercise or settlement of the Award.

**16.02 Section 409A.** The

Board intends that payments and benefits under the Plan comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and be administered to be in compliance therewith.

Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, any Participant shall not be considered to have terminated employment with the Company for purposes of the Plan and no payment that is payable upon termination of employment shall be due to the Participant under the Plan or any Award Agreement until the Participant would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. Any payments



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described in the Plan that are due within the "short term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise.

Notwithstanding anything to the contrary in the Plan, to the extent that any Awards are payable upon a separation from service and such payment would result in accelerated taxation and/or tax penalties under Section 409A of the Code, the settlement and payment of such portion of such Award shall instead be made on the first business day after the date that is six months following such separation from service (or the Participant's death, if earlier).

**ARTICLE XVII  
EFFECTIVE DATE  
OF THE PLAN;  
TERM**

**17.01 Effective Date of the Plan.** This Plan shall become effective on the Effective Date, and Awards may be granted hereunder as of or after the Effective Date and prior to the termination of the Plan, provided that no Incentive Stock Option issued pursuant to this Plan shall qualify as such unless this Plan is approved by the requisite vote of the holders of the outstanding voting shares of the Company at a meeting of stockholders of the Company or by a written



consent of such stockholders held or executed within twelve (12) months before or after the Effective Date.

**17.02 Term of Plan.** Unless sooner terminated, this Plan shall remain in effect for a period of ten (10) years ending on the tenth anniversary of the Effective Date. Termination of the Plan shall not affect any Awards previously granted and such Awards shall remain valid and in effect until they have been fully exercised or earned, are surrendered or by their terms expire or are forfeited.

**ARTICLE XVIII  
GOVERNING LAW**

This Plan shall be construed and interpreted in accordance with the internal laws of the State of Delaware (without regard to choice of law provisions).

[Signature page follows.]

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**IN WITNESS**

**WHEREOF, the**

Company has caused a duly authorized officer to execute this Pacific Premier Bancorp, Inc. Amended and Restated 2012 Long-Term Incentive Plan, and to apply the corporate seal hereto as of the 26th day of May 2015.

**PACIFIC PREMIER  
BANCORP, INC.**

By: /s/ STEVEN R.  
GARDNER

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Name: Steven R.  
Gardner

Title: President  
and Chief  
Executive  
Officer

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**Please mark your votes  
as indicated in this  
example ý**

**THIS PROXY WILL  
BE VOTED AS  
DIRECTED, OR IF  
NO DIRECTION IS  
INDICATED, WILL  
BE VOTED FOR THE  
PROPOSALS. THIS  
PROXY IS  
SOLICITED ON  
BEHALF OF THE  
BOARD OF  
DIRECTORS.**

**VOTE ON  
DIRECTORS**

**THE BOARD OF  
DIRECTORS  
RECOMMENDS A  
VOTE FOR EACH OF  
THE DIRECTOR  
NOMINEES  
IDENTIFIED  
BELOW:**

1. The election as directors of the nominees listed (except as marked to the contrary below)

John J. Carona, Ayad A. Fargo, Steven R. Gardner, Joseph L. Garrett, Jeff C. Jones, Simone F. Lagomarsino, Michael J. Morris, Michael E. Pfau, Zareh H. Sarrafian, and Cora M. Tellez.

FOR   
WITHHOLD   
FOR ALL  
EXCEPT \_\_\_\_\_

**Instructions:** To withhold authority to vote for any individual nominee(s), mark  For All Except  and write the nominee's name in the space provided below:

(Write that nominee's name in the space provided below.)

**VOTE ON  
PROPOSALS**

**THE BOARD OF  
DIRECTORS  
RECOMMENDS YOU  
VOTE FOR THE  
FOLLOWING  
PROPOSALS:**

2. To approve, on a non-binding advisory basis, the compensation of the Company's Named Executive Officers.

FOR  AGAINST  
 ABSTAIN

3. To approve an amendment to the Pacific Premier Bancorp, Inc. Amended and Restated 2012 Long-Term Incentive Plan to increase the number of shares available for grant under such plan.

FOR  AGAINST  
 ABSTAIN

4. To ratify the appointment of Crowe Horwath LLP as the Company's independent auditor for the fiscal year ending December 31, 2017.

FOR  AGAINST  
 ABSTAIN

Signature: Signature: Date:

(This proxy should be marked, dated, and signed by the stockholder(s) exactly as his or her name appears hereon, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate. If shares are held by joint tenants or

as community property,  
both should sign.)

FOLD AND DETACH  
HERE

---

**IMPORTANT  
NOTICE  
REGARDING THE  
AVAILABILITY OF  
PROXY MATERIALS  
FOR THE ANNUAL  
MEETING OF  
STOCKHOLDERS TO  
BE HELD ON  
MAY 31, 2017:**

The proxy materials for  
this Annual Meeting of  
Stockholders are  
available over the  
Internet at  
*www.voteproxy.com*.

**VOTE BY  
MAIL, INTERNET  
OR TELEPHONE (24  
hours a day, 7 days a  
week)**

**Your telephone vote  
authorizes the named  
proxies to vote your  
shares in the same  
manner  
as if you marked,  
signed and returned  
your proxy card.**

**MAIL**

If you received printed  
materials, mark, sign and  
date your proxy card and  
return it in the enclosed  
postage-paid envelope.  
If you did not receive a  
printed proxy card and  
wish to vote by mail,  
you may do so by  
requesting a paper copy  
of the proxy materials

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(as described in the Proxy Statement), which will include a proxy card.

or

**INTERNET**

Access [www.voteproxy.com](http://www.voteproxy.com) up until 11:59 p.m., Eastern Time, on May 30, 2017 and follow the on-screen instructions. Have your proxy card available when you access the web page.

or

**TELEPHONE**

1-800-PROXIES (1-800-776-9437) in the United States

Or

(1-718-921-8500) from foreign countries

Use any touch tone telephone to vote your proxy up until 11:59 p.m., Eastern Time, on May 30, 2017. Have your proxy card in hand when you call. You will be prompted to enter your control number, located in the box below, and then follow the directions given.



**If you vote by  
telephone or internet**

**you do NOT need to  
mail back your proxy  
card.**

**THANK YOU FOR  
VOTING**

**REVOCABLE  
PROXY**

**PACIFIC PREMIER  
BANCORP, INC.**

**THIS PROXY IS  
SOLICITED BY THE  
BOARD OF  
DIRECTORS**

**ANNUAL MEETING  
OF STOCKHOLDERS**

May 31, 2017

9:00 a.m., Pacific Time

The undersigned hereby appoints the official proxy committee of the Board of Directors of Pacific Premier Bancorp, Inc. (the Company), each with full power of substitution, to act as attorneys and proxies for the undersigned, and to vote all shares of common stock of the Company which the

undersigned is entitled to vote only at the Annual Meeting of Stockholders to be held on May 31, 2017 at 9:00 a.m., Pacific Time, at the Company's corporate headquarters located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614, and at any and all adjournments thereof, as indicated on the back of this proxy.

**This proxy is revocable and will be voted as directed, but if no instructions are specified, this proxy will be voted FOR the election of each of the nominees for director named on the reverse side and FOR Items 2, 3, and 4. If any other business is presented at the Annual Meeting of Stockholders, this proxy will be voted by the official proxy committee of the Board of Directors of the Company in their best judgment. At the present time, the Board of Directors knows of no other business to be presented at the Annual Meeting of Stockholders.**

The undersigned acknowledges receipt from the Company prior to the execution of this proxy of a Notice of Annual Meeting of Stockholders and of a Proxy Statement dated

April , 2017.

**(Continued on the  
other side important to  
mark, date and sign on  
the other side)**

Detach here from proxy  
voting card.

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