

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1996

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

Delaware
(State or other jurisdiction of incorporation or organization)

22-2866913
(I.R.S. Employer Identification Number)

838 Market Street, Wilmington, Delaware
Address of principal executive offices)

19899
(Zip Code)

Registrant's telephone number, including area code (302) 792-6000

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing prices of the registrant's common stock as quoted on the National Association of Securities Dealers Automated Quotation System as of March 14, 1997 was \$109,270,617. For purposes of this calculation only, affiliates are deemed to be directors, executive officers and certain beneficial owners.

As of March 14, 1997, there were issued and outstanding 12,529,639 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 24, 1997 are incorporated by reference in Part III hereof.

WSFS FINANCIAL CORPORATION
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PART I

Item 1. Business

GENERAL

WSFS Financial Corporation ("Company" or "Corporation") is a thrift holding company whose principal subsidiary is Wilmington Savings Fund Society, FSB (the "Bank" or "WSFS") which operates 16 branches in New Castle and Kent Counties, Delaware. Founded in 1832, the Bank is the largest thrift institution headquartered in Delaware. Reflecting its long history, the Bank estimates that it has customer relationships with almost 51,000 households, or 24%, in its principal market area of New Castle County, Delaware.

The Company has no business operations independent of WSFS and its subsidiaries. Through WSFS and its subsidiaries, the Company is currently engaged in a variety of lending services, including residential, consumer and commercial lending primarily in Delaware. The principal business of the Bank consist of the solicitation of deposits through its branch networks to provide funds for lending and investment activities. In connection with its conversion to a federal savings bank in 1983, the Bank retained its then-authorized powers as a Delaware-chartered mutual savings bank. Under the Office of Thrift Supervision ("OTS") regulations, the Bank may exercise any authority it was allowed to exercise as a mutual savings bank under state laws and regulations at the time of its conversion to a federal savings bank. In exercising such "grandfathered" powers, the Bank may continue to comply with applicable state laws and regulations in effect at the time of its conversion to a federal charter except as otherwise determined by the OTS. The Bank, however, may not use its grandfathered powers to engage in activities to a greater degree than would be allowed under the most liberal construction of either state or federal law or regulation. The Bank's grandfathered powers could be assumed by any other institution that acquires the Bank by consolidation or merger. The Bank has previously used its grandfathered powers to authorize investments above otherwise applicable limits in subsidiaries engaged in activities such as real estate and insurance brokerage. The Bank has divested certain of these subsidiaries in order to focus on the traditional savings bank businesses of lending to consumers and small businesses in its primary market area.

As a federally chartered savings institution, the Bank is subject to extensive regulation by the OTS. The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OTS periodically examines the Bank for compliance with various regulatory requirements. The Federal Deposit Insurance Corporation ("FDIC") also has the authority to conduct special examinations of the Bank as insurer of its deposits. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of depositors. See "Regulation" for a further discussion of certain of these regulatory requirements.

During the 1980's, the Bank pursued an aggressive growth and diversification strategy acquiring the largest real estate brokerage business in Delaware, B. Gary Scott, Inc. in 1985, a Maryland automobile fleet leasing company, Anderson Leasing, Inc. in 1988 and Fidelity Federal Savings and Loan Association ("Fidelity Federal" or "Association") in 1990. In addition, the Bank significantly increased its exposure to commercial real estate, both as a lender and as an equity participant through its real estate development subsidiary. As a result of operating losses related to deterioration in the Company's loan portfolios, real estate investments and acquisitions, the Bank failed to meet certain regulatory capital requirements and the Board of Directors reorganized management by terminating several executive officers and appointing a new chairman of the board who was directed to head a search committee for new management. The Company took a number of steps to address the asset quality and capital problems that resulted from this previous business strategy.

Consistent with these goals, the Company undertook an extensive restructuring during 1991. This included the sales of loans, investment securities, mortgage servicing rights, certain real estate, subsidiary operations and the deposit accounts of eight branches. These nonrecurring sales combined with expense reduction initiatives resulted in net earnings of \$11.3 million in 1991, the highest in the Company's history at the time. During 1992 and 1993, the Company's earnings stabilized as the economy began to improve and interest rates decreased. In 1992, the Company completed an offering of convertible preferred stock which increased capital by \$11.8 million. Such funds were utilized to recapitalize the Bank. In December 1993, the Company completed a private placement of \$32.0 million in 11% Senior Notes to provide funds for an additional capital infusion into the Bank. As a result of this capital infusion, the Bank was in compliance with all currently applicable capital requirements and it was released from the Capital Directive on December 29, 1993. The Bank's improved capital position has also allowed the Company to undertake an expansion of its business activities. During 1994, the Bank formed a new consumer finance subsidiary specializing in second mortgage lending and acquired Providential Home Income Plan, Inc. an originator of reverse annuity mortgages. During 1994, the Corporation reported operating income of \$8.1 million, which was at that time the highest operating earnings in the Corporation's history. Rising interest rates combined with investment growth strategies contributed significantly to earnings during 1994.

During 1995, the Corporation's subsidiary, Fidelity Federal, completed the sale of its deposits and certain real estate of four branches which allowed the Corporation to further focus on its primary market area and continue to enhance capital. As a result, the Bank recognized a gain of \$12.4 million, net of taxes and a supplemental contribution to the Corporation's 401(k) Plan. The Association's remaining operations were merged into the Bank in November 1995. The Corporation recorded total earnings of \$27.0 million in 1995 of which \$14.6 million was from operations. Both amounts represented new record earnings levels in the Corporation's 164-year history.

Earnings for the year end December 31, 1996 were \$16.4 million. Net income for each of the years in the five-year period ended December 31, 1996 included the recognition of tax benefits. Excluding the one-time net gain on the sale of the Association's deposits, income before taxes increased from \$12.2 million in 1995 to \$19.5 million in 1996, a \$7.3 million or 60% increase.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

Condensed average balance sheets for each of the last three years and analyses of net interest income and changes in net interest income due to changes in volume and rate are presented in "Results of Operations" included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MDA"), incorporated herein by reference.

INVESTMENT ACTIVITIES

The Bank is able to invest in various securities, including U.S. Treasury obligations, short-term money market instruments and preferred stock. The primary purposes of the Company's short-term investment portfolio are to provide collateral for borrowings and to meet liquidity requirements. Book values of investment securities and short-term investments by category, stated in dollar amounts and as a percent of total assets, follow:

| | December 31, | | | | | |
|---|--------------|---------|----------|---------|----------|---------|
| | 1996 | | 1995 | | 1994 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars In Thousands) | | | | | | |
| Held-to-Maturity: | | | | | | |
| Corporate bonds | \$15,038 | 1.1% | \$16,748 | 1.4% | \$19,077 | 1.6% |
| U.S. Government and agencies | | | | | 10,000 | 0.9 |
| State and political subdivisions | 2,642 | 0.2 | 5,542 | 0.4 | 6,075 | 0.5 |
| Other investments | | | 88 | | | |
| | ----- | --- | ----- | --- | ----- | --- |
| | 17,680 | 1.3 | 22,378 | 1.8 | 35,152 | 3.0 |
| | ----- | --- | ----- | --- | ----- | --- |
| Available-for-Sale: | | | | | | |
| U.S. Government and agencies | | | | | 23,028 | 1.9 |
| State and political subdivisions | 1,253 | 0.1 | 891 | 0.1 | 761 | 0.1 |
| Other investments | | | 5,503 | 0.4 | 5,203 | 0.4 |
| | ----- | --- | ----- | --- | ----- | --- |
| | 1,253 | 0.1 | 6,394 | 0.5 | 28,992 | 2.4 |
| | ----- | --- | ----- | --- | ----- | --- |
| Short-term investments: | | | | | | |
| Federal funds sold and securities purchased under agreements to resell | 25,400 | 1.9 | 31,500 | 2.6 | 23,098 | 1.9 |
| Interest-bearing deposits in other banks (1) | 5,702 | 0.4 | 4,568 | 0.4 | 9,536 | 0.8 |
| | ----- | --- | ----- | --- | ----- | --- |
| | 31,102 | 2.3 | 36,068 | 3.0 | 32,634 | 2.7 |
| | ----- | --- | ----- | --- | ----- | --- |
| | \$50,035 | 3.7% | \$64,840 | 5.3% | \$96,778 | 8.1% |
| | ===== | === | ===== | === | ===== | === |

(1) Interest-bearing deposits in other banks does not include deposits with a maturity greater than one year.

During the 1980's, the Bank began restructuring its balance sheet to reduce sensitivity to interest-rate fluctuations. Consequently, long-term investment securities have gradually been reduced. In 1996, the Bank purchased and sold \$55 million in U.S. Government securities, and other investments classified as available-for-sale were sold in the amount of \$6 million. The reduction of corporate and political subdivision bonds were primarily due to maturities and calls. In 1995, U.S. Government securities available-for-sale were sold, and an FHLB step-up bond (held-to-maturity) was called. During 1994, the same FHLB step-up bond was purchased in the amount of \$10 million and U.S. Government securities were purchased in the amount of \$15 million. As in 1996, the reduction of corporate and state and political subdivision bonds was primarily the result of maturities and calls.

The following table sets forth the terms to maturity and related weighted average yields of investment securities and short-term investments at December 31, 1996. Substantially all of the related interest and dividends represent taxable income. Yields on tax-exempt obligations are calculated on the basis of actual yields and not on a tax-equivalent basis.

| | At December 31, 1996 | |
|--|------------------------|-------|
| | Amount | Yield |
| | (Dollars in Thousands) | |
| Held-to-Maturity: | | |
| Corporate bonds: | | |
| Within one year..... | \$ 1,750 | 5.52% |
| After one but within five years..... | 3,724 | 6.91 |
| After five but within ten years..... | 4,789 | 7.21 |
| After ten years..... | 4,775 | 6.87 |
| | ----- | |
| | 15,038 | 6.83 |
| | ----- | |
| State and political subdivisions (1): | | |
| Within one year..... | 2,520 | 5.00 |
| After one but within five years..... | 65 | 5.05 |
| After ten years..... | 57 | 6.74 |
| | ----- | |
| | 2,642 | 5.04 |
| | ----- | |
| Total debt securities, held-to-maturity..... | 17,680 | 6.56 |
| | ----- | |
| Available-for-Sale: | | |
| State and political subdivisions (1): | | |
| After ten years..... | 1,253 | 7.70 |
| | ----- | |
| Short-term investments: | | |
| Deposits with other banks..... | 5,702 | 5.60 |
| Federal funds sold and securities purchased under agreements to resell..... | 25,400 | 6.00 |
| | ----- | |
| Total short-term investments..... | 31,102 | 5.93 |
| | ----- | |
| | \$50,035 | 6.20% |
| | ===== | |

(1) Yields on state and political subdivisions are not calculated on a tax-equivalent basis since substantially all bonds are taxable.

In addition to the foregoing investment securities, the Company has maintained an investment portfolio of mortgage-backed securities, which increased dramatically after 1993 as the Company implemented investment growth strategies during 1996 and 1994. Purchases of mortgage-backed securities in 1996 totalled \$175 million, of which \$39 million was classified as available-for-sale and \$136 million was classified as held-to-maturity. Reductions in the other categories, as well as the 1995 and 1994 balances, were due to principal repayments.

The following table sets forth the book values of mortgage-backed securities and their related weighted average stated rates at the end of the last three fiscal years.

| | December 31, | | | | | |
|-------------------------------------|------------------|-------|------------------|-------|------------------|--------|
| | 1996 | | 1995 | | 1994 | |
| | Stated Amount | Rate | Stated Amount | Rate | Stated Amount | Rate |
| (Dollars in Thousands) | | | | | | |
| Held-to-Maturity: | | | | | | |
| Collateralized mortgage obligations | \$165,516 | 7.38% | \$ 72,222 | 7.72% | \$ 78,847 | 7.82% |
| GNMA | 1,496 | 7.16 | 1,697 | 7.03 | 1,895 | 6.23 |
| FHLMC | 63,223 | 6.18 | 73,197 | 6.22 | 81,864 | 6.28 |
| FNMA | 62,754 | 6.26 | 72,590 | 6.30 | 81,513 | 6.34 |
| Other | 20,340 | 8.07 | 21 | 13.25 | 46 | 13.25 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| | \$313,329 | 6.96% | \$219,727 | 6.80% | \$244,165 | 6.80% |
| Available-for-Sale: | | | | | | |
| Collateralized mortgage obligations | \$ 37,482 | 7.44% | \$ | % | \$ | % |
| GNMA | 14,441 | 6.15 | 17,405 | 6.44 | 18,583 | 6.41 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$ 51,923 | 7.08% | \$ 17,405 | 6.44% | \$18,583 | 36.41% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

LENDING ACTIVITIES

Traditionally, the majority of a thrift institution's loan portfolio has consisted of first mortgage loans on residential properties. However, as a result of various legislative and regulatory changes since 1980, the commercial and consumer lending powers of the Bank increased substantially. Consequently, the Bank initiated a diversification strategy in fiscal year 1984 which included a significant increase in commercial real estate lending. Commercial real estate lending was discontinued in 1990 and only originations required by previous funding commitments were made. In 1994, however, the Bank began to originate small business commercial real estate loans in its primary market area. The Bank's current lending activity is concentrated on lending to consumers and small businesses in the Mid-Atlantic Region of the United States area.

The following table sets forth the composition of the Corporation's loan portfolio by type of loan at each of the dates indicated. Other than as disclosed below, the Company had no concentrations of loans exceeding 10% of total loans at December 31, 1996:

| | December 31, | | | | | | | | | |
|------------------------------|------------------------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|
| | 1996 | | 1995 | | 1994 | | 1993 | | 1992 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in Thousands) | | | | | | | | | |
| Residential real estate (1) | \$279,060 | 33.8% | \$276,926 | 35.0% | \$260,442 | 36.6% | \$235,213 | 34.2% | \$254,936 | 33.4% |
| Commercial real estate: | | | | | | | | | | |
| Commercial mortgage | 278,935 | 33.8 | 293,979 | 37.1 | 259,112 | 36.6 | 273,375 | 39.8 | 288,248 | 37.7 |
| Construction | 27,056 | 3.3 | 29,959 | 3.8 | 25,603 | 3.6 | 28,978 | 4.2 | 40,528 | 5.3 |
| Total commercial real estate | 305,991 | 37.1 | 323,938 | 40.9 | 284,715 | 40.2 | 302,353 | 44.0 | 328,776 | 43.0 |
| Commercial | 28,602 | 3.5 | 23,894 | 3.0 | 25,188 | 3.5 | 21,276 | 3.0 | 33,891 | 4.4 |
| Consumer | 135,552 | 16.4 | 114,265 | 14.4 | 91,182 | 12.8 | 93,845 | 13.7 | 123,924 | 16.2 |
| Lease financings | 121,970 | 14.8 | 98,840 | 12.5 | 89,095 | 12.5 | 72,941 | 10.6 | 61,750 | 8.1 |
| Gross loans | 871,175 | 105.6 | 837,863 | 105.8 | 750,622 | 105.6 | 725,628 | 105.5 | 803,277 | 105.1 |
| Less: | | | | | | | | | | |
| Unearned income | 21,552 | 2.6 | 21,512 | 2.7 | 18,146 | 2.6 | 14,523 | 2.1 | 13,215 | 1.7 |
| Allowance for loan losses | 24,740 | 3.0 | 24,167 | 3.1 | 21,700 | 3.0 | 23,613 | 3.4 | 26,263 | 3.4 |
| Net loans | \$824,883 | 100.0% | \$792,184 | 100.0% | \$710,776 | 100.0% | \$687,492 | 100.0% | \$763,799 | 100.0% |

(1) Includes \$773, \$4,401, \$257, \$1,965, and \$2,994 of residential mortgage loans held-for-sale at December 31, 1996, 1995, 1994, 1993 and 1992, respectively.

The following table sets forth information as of December 31, 1996 regarding the dollar amount of loans maturing in the Company's loan portfolio, including scheduled repayments of principal, based on contractual terms to maturity. In addition, the table sets forth the dollar amount of loans maturing during the indicated periods, based on whether the loan has a fixed- or adjustable-rate. Loans having no stated maturity or repayment schedule are reported in the one year or less category.

| | Less than One Year ----- | One to Five Years ----- | Over Five Years ----- | Total ----- |
|----------------------------|--------------------------------|-------------------------------|-----------------------------|----------------|
| (In Thousands) | | | | |
| Real estate loans (1)..... | \$ 83,108 | \$ 183,036 | \$ 291,078 | \$ 557,222 |
| Construction loans..... | 8,554 | 18,491 | 11 | 27,056 |
| Commercial loans..... | 14,232 | 12,773 | 1,597 | 28,602 |
| Consumer loans..... | 53,883 | 54,290 | 27,379 | 135,552 |
| Lease financings | 27,883 | 94,087 | | 121,970 |
| | ----- | ----- | ----- | ----- |
| | \$ 187,660 | \$ 362,677 | \$ 320,065 | \$ 870,402 |
| | ===== | ===== | ===== | ===== |
| Rate sensitivity: | | | | |
| Fixed..... | \$ 82,880 | \$ 207,864 | \$ 106,897 | \$ 397,641 |
| Adjustable..... | 104,780 | 154,813 | 213,168 | 472,761 |
| | ----- | ----- | ----- | ----- |
| | \$ 187,660 | \$ 362,677 | \$ 320,065 | \$ 870,402 |
| | ===== | ===== | ===== | ===== |

(1) Includes commercial mortgage loans.

The above schedule does not include any prepayment assumptions. Although prepayments tend to be highly dependent upon the current interest rate environment, management believes that the actual repricing and maturity of the loan portfolio is significantly shorter as a result of prepayments than is reflected in the above table.

Residential Real Estate Lending. WSFS originates residential mortgage loans with loan-to-value ratios up to 95%; however, the Bank generally requires private mortgage insurance for up to 30% of the mortgage amount on mortgage loans whose loan-to-value ratio exceeds 80%. The Bank does not have any significant concentrations of such insurance with any one insurer. On a limited basis, the Bank originates loans with loan-to-value ratios exceeding 80% without a private mortgage insurance requirement. At December 31, 1996, the balance of all such loans was approximately \$15.6 million of which \$6.1 million related to lending intended to satisfy the requirements of the Community Reinvestment Act. Generally, residential mortgage loans originated or purchased are underwritten and documented in accordance with standard underwriting criteria published by FNMA and/or FHLMC to assure maximum eligibility for subsequent sale in the secondary market; however, unless loans are specifically designated for sale, the Company holds newly originated loans in portfolio for long-term investment. Among other things, the institution requires title insurance, insuring the priority of its lien and fire and extended coverage casualty insurance for the properties securing the residential loans. All properties securing residential loans made by the Bank are appraised by independent appraisers selected by the Bank and subject to review in accordance with Bank standards.

The majority of adjustable-rate loans currently originated have interest rates that adjust every year, with the change in rate limited to two percent at any adjustment date. The adjustments are generally based upon a margin (currently 2.75 percent) over the weekly average yield on U.S. Treasury securities adjusted to a constant maturity, as published by the Federal Reserve Board. Generally, the maximum rate on these loans is up to six percent above the initial interest rate. The Bank generally underwrites adjustable-rate loans under standards consistent with private mortgage insurance and secondary market criteria. The Bank does not originate adjustable-rate mortgages with payment limitations that could produce negative amortization. Consistent with industry practice in its market area, the Bank has originated adjustable-rate mortgage loans with initially discounted interest rates. All such loans are underwritten at the fully-indexed rate.

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

The original contractual loan payment period for residential loans originated is normally 10 to 30 years. Because borrowers may refinance or prepay their loans without penalty, such loans normally remain outstanding for a substantially shorter period of time. First mortgage loans customarily include "due-on-sale" clauses on adjustable- and fixed-rate loans, which are provisions giving the institutions the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. Due-on-sale clauses are an important means of adjusting the rate on existing fixed-rate mortgage loans to current market rates. The Bank enforces due-on-sale clauses through foreclosure and other legal proceedings to the extent available under applicable laws.

Commercial Real Estate and Commercial Lending. As a federal savings bank, the Bank is permitted to invest up to 400% of its consolidated capital in nonresidential real estate loans and up to 20% of its assets in commercial loans. Prior to 1994, the Bank had been operating under a Capital Plan and was subject to the terms and conditions of a Capital Directive. Consequently, WSFS had discontinued the origination of commercial real estate loans other than renewal of performing loans or funding outstanding commitments. Beginning in 1994, however, the Bank began to originate small business commercial real estate loans in its primary market area.

WSFS has offered commercial real estate mortgage loans on multi-family and other commercial real estate. Generally, loan-to-value ratios for such loans do not exceed 80% of appraised value. Due to softening of the commercial real estate market in the early 1990's; however, current loan-to-value ratios may effectively be in excess of 80%.

Prior to the restrictions noted above, the Bank offered commercial construction loans to developers. These loans were made as "construction/permanent" loans, which provided for disbursement of loan funds during construction and automatic conversion to permanent loans upon completion of construction. Such construction loans were made on a short-term basis, usually not exceeding two years, with interest rates indexed to the WSFS prime rate and adjusted periodically as the Bank's prime rate changed. The loan appraisal process includes the same criteria as required for permanent mortgage loans as well as completed plans, specifications, comparables and cost estimates. These items are used, prior to approval of the credit, as a basis to determine the appraised value of the subject property when completed. Policy requires that all appraisals are to be reviewed independent of the commercial lending area. Generally, the loan-to-value ratio for construction loans does not exceed 80%. The initial interest rate on the permanent portion of the financing is determined based upon the prevailing market rate at the time of conversion to the permanent loan. At December 31, 1996, \$38.0 million was committed for construction loans, of which \$27.1 million had been disbursed.

The Bank's commercial lending, excluding real estate loans, includes loans for the purpose of financing equipment acquisitions, expansion, working capital and other business purposes. These loans generally range in amounts up to approximately \$1.5 million, and their terms range from less than one year to ten years. The loans generally carry variable interest rates indexed to the Bank's prime rate at the time of closing. The Bank intends to continue originating commercial loans to small businesses in its market area.

Commercial, commercial mortgages and construction lending entails significant risk as compared with residential mortgage lending. These loans typically involve larger loan balances concentrated in single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the commercial real estate market or in the economy generally. The majority of the Bank's commercial and commercial real estate loans are concentrated in Delaware and surrounding areas. Construction loans involve risks attributable to the fact that loan funds are advanced upon the security of the project under construction, which, due to various factors, is of uncertain value prior to the completion of construction. Moreover, because of the uncertainties inherent in estimating construction costs, delays arising from labor problems, material shortages and other unpredictable contingencies, it is relatively difficult to accurately estimate the total loan funds required to complete a project and or determine the related loan-to-value ratios.

Federal law limits the extensions of credit to any one borrower to 15% of unimpaired capital surplus, or 25%, if the additional incremental 10% is secured by readily marketable collateral having a market value that can be determined by reliable and continually available pricing. Extensions of credit include outstanding loans as well as contractual commitments to advance funds, such as standby letters of credit, but do not include unfunded loan commitments. At December 31, 1996, no borrower had collective outstandings exceeding the above limits; however, an existing loan that exceeds these limits does not have to be

terminated or divested since the legality of a loan is determined when it is made and is not affected by subsequent legislative events.

Consumer Lending. Consumer loans (not including certain consumer loans such as home equity lines of credit and other residential real estate secured loans) may be made in an amount up to 35% of the Bank's assets. The Company intends to emphasize consumer lending in the future as a means of enhancing portfolio yields and capitalizing on existing customer relationships.

The primary consumer loan products, excluding lease financings, of the Company are equity secured installment loans and home equity lines of credit. With a home equity line of credit the borrower is granted a line of credit up to 75% of the appraised value (net of any senior mortgages) of the residence. This line of credit is secured by a mortgage on the borrower's property and can be drawn upon at any time. At December 31, 1996, the Bank had extended a total of \$86.8 million in home equity lines of credit, of which \$33.3 million had been drawn at the date. Home equity lines of credit offer federal income tax advantages (in certain circumstances, the interest paid on a home equity loan remains deductible) and the convenience of their checkbook access and revolving credit features. Over the past few years; however, home equity lines of credit have decreased as low interest rates offered on mortgage loans have enabled consumers to refinance their mortgages and consolidate debt. Although home equity lines of credit expose the Company to the risk that falling collateral values may leave it inadequately secured, the Company has not had any significant adverse experience to date.

The Company also originates leases through its subsidiary, WSFS Credit Corporation ("WCC"). These leases are secured by motor vehicles and originated through automobile dealerships. During 1996, WCC originated more than 1,900 leases which approximated \$50.0 million in new assets.

The table below sets forth consumer loans by type and lease financings outstanding, in dollar amounts and percentages, at the dates indicated.

| | December 31, | | | | | | | | | |
|--|------------------------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|
| | 1996 | | 1995 | | 1994 | | 1993 | | 1992 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in Thousands) | | | | | | | | | |
| Equity secured installment loans | \$ 63,803 | 24.7% | \$ 52,793 | 24.8% | \$ 34,088 | 18.9% | \$ 24,485 | 14.7% | \$ 46,715 | 25.1% |
| Home equity lines of credit.... | 33,267 | 12.9 | 36,817 | 17.3 | 40,727 | 22.6 | 47,060 | 28.2 | 58,104 | 31.3 |
| Automobile..... | 26,456 | 10.3 | 12,701 | 6.0 | 1,951 | 1.1 | 2,567 | 1.5 | 4,313 | 2.3 |
| Unsecured lines of credit..... | 7,448 | 2.9 | 7,017 | 3.3 | 3,683 | 2.0 | 4,070 | 2.5 | 4,409 | 2.4 |
| Other..... | 4,578 | 1.8 | 4,937 | 2.3 | 10,733 | 6.0 | 15,663 | 9.4 | 10,383 | 5.6 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | 135,552 | 52.6 | 114,265 | 53.7 | 91,182 | 50.6 | 93,845 | 56.3 | 123,924 | 66.7 |
| Lease financings..... | 121,970 | 47.4 | 98,840 | 46.3 | 89,095 | 49.4 | 72,941 | 43.7 | 61,750 | 33.3 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total consumer loans and lease financings..... | \$257,522 | 100.0% | \$213,105 | 100.0% | \$180,277 | 100.0% | \$166,786 | 100.0% | \$185,674 | 100.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Loan Originations, Purchase and Sales. WSFS has traditionally engaged in lending activities primarily in Delaware and contiguous areas of neighboring states although, as a federal savings bank, the Bank may originate, purchase and sell loans throughout the United States. WSFS has also purchased limited amounts of loans from outside its normal lending area when such purchases are deemed appropriate and consistent with the Bank's overall policies. The Bank originates fixed- and adjustable-rate residential real estate loans through banking offices. In addition, WSFS has established relationships with correspondent banks, mortgage brokers and real estate developers for loan referrals.

During 1996, WSFS originated \$88 million of residential real estate loans compared to 1995 originations of \$87 million. From time to time, the Bank has purchased whole loans and loan participations in accordance with its ongoing asset and liability management objectives. Purchases of residential real estate loans from correspondents and brokers primarily in the northeast region of the United States totalled \$13 million and \$14 million for the years ended December 31, 1996 and 1995, respectively. Residential real estate loan sales totaled \$38 million for both 1996 and 1995. While the Bank generally intends to hold loans for the foreseeable future, WSFS, beginning in 1989, has undertaken to sell newly originated fixed-rate mortgage loans in the secondary market to control the interest sensitivity of its balance sheet. During the second half of 1993 the Corporation began to hold for investment certain of its fixed-rate mortgage loans, with terms under 30 years, originated in accordance with current asset/liability management strategies.

The Bank serviced for others approximately \$196 million of residential loans at December 31, 1996 compared to \$229 million at December 31, 1995. The Company also services residential loans for its portfolio totaling \$247 million and \$187 million at December 31, 1996 and 1995.

The Bank originates commercial real estate and commercial loans through the Bank's commercial lending department. Commercial loans are made for the purpose of financing equipment acquisitions, expansion, working capital and other business purposes and also include business loans secured by nonresidential real estate. During 1996, the Bank originated \$50 million of commercial and commercial real estate loans compared to \$91 million in 1995. These amounts represent gross contract amounts and do not reflect amounts outstanding on such loans.

The Bank's consumer lending is conducted primarily through the branch offices and is supported by a consumer credit department credit investigation unit. WSFS originates a variety of consumer credit products, including home improvement loans, home equity lines of credit, automobile loans, unsecured lines of credit and other secured and unsecured personal installment loans. During 1996, such consumer loan originations aggregated \$146 million compared to \$72 million in 1995. See "Consumer Lending" for discussion regarding consumer loan originations.

All loans to one borrower exceeding \$750,000 in aggregate must be approved by a management loan committee. Minutes of the management loan committee meetings and individual loans exceeding \$3.0 million approved by the management loan committee are subsequently reviewed by the Executive Committee and Board of Directors of WSFS, with separate approval needed for all loans to any borrower who has direct or indirect outstanding commitments in excess of \$3.0 million or for any additional advances or extensions on loans previously classified by the Bank's regulatory authorities or the Bank's Asset Review Department. Officers of the Bank have authority to approve smaller loans in graduated amounts, depending upon their experience and management position.

Fee Income from Lending Activities. The Bank realizes interest and loan fee income from lending activities, including fees for originating loans and for servicing loans and loan participations sold. The institution also receive commitment fees for making commitments to originate construction, residential and commercial real estate loans. Additionally, loan fees related to existing loans are received, which include prepayment charges, late charges and assumption fees.

The Bank offers a range of loan commitments for which fees are charged depending on lengths of the commitment periods. As part of the loan application, the borrower also pays the Bank for out-of-pocket costs in reviewing the application, whether or not the loan is closed. The interest rate charged on the mortgage loan is normally the prevailing rate at the time the loan application is approved.

Loan fees that are considered adjustments of yield in accordance with generally accepted accounting principles are reflected in interest income and represented an immaterial amount of interest income during the three years ended December 31, 1996. Loan fees other than those considered adjustments of yield are reported as loan fee income, a component of other income.

LOAN LOSS EXPERIENCE, PROBLEM ASSETS AND DELINQUENCIES

The Company's results of operations can be negatively impacted by nonperforming assets, which include nonaccruing loans, nonperforming real estate investments and assets acquired through foreclosure. 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 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 ultimate collectibility of principal and interest.

The Company endeavors to manage its loan portfolio to identify problem loans as promptly as possible and take actions immediately which will minimize losses. To accomplish this, the Bank's Asset Review Department monitors the asset quality of the Company's loan and investment in real estate portfolios and reports such information to the Chief Financial Officer and the Executive Committee of the Board of Directors.

SUBSIDIARIES

During the 1980's, the Company sought to expand its sources of noninterest income and its market area primarily through its investments in subsidiaries. The Company's policy was to exercise the Bank's generally broad investment authority to invest in subsidiaries which were considered complementary to its traditional savings bank activities. As a result of the Bank's failure to comply with minimum regulatory capital requirements in 1990, it became subject to restrictions on asset growth, lending and capital distributions, among other things. Consequently, the Company consolidated and/or divested of certain subsidiary operations, thereby restructuring its balance sheet and focusing on its core banking businesses.

At December 31, 1996, WSFS had four wholly owned, first-tier subsidiaries which were engaged in leasing, consumer finance, insurance brokerage and real estate development. WSFS is the sole investor in and primary lender to its non-bank subsidiaries. At December 31, 1996, it had \$3.3 million invested in the equity of these companies and had lent them an additional \$150.2 million.

WSFS Credit Corporation ("WCC") which commenced operations in 1974, provides leasing for consumer and business motor vehicles and equipment as well as consumer loans. Prior to 1988, its business had been concentrated in the northern Delaware area, but in 1988 it began expanding its motor vehicle leasing base by originating direct financing leases through automobile dealerships in Pennsylvania, New Jersey and Maryland as well as Delaware. In 1996 WCC expanded its market area to parts of western Maryland and West Virginia. WCC underwrites all leases originated through automobile dealers in accordance with underwriting criteria generally consistent with those of the Bank and the leasing industry. WCC's total assets at December 31, 1996 and 1995 were \$129.9 million and \$96.0 million, respectively.

838 Investment Group, Inc. (formerly Star States Financial Services, Inc.) was formed in 1989. This subsidiary markets various insurance products, such as single-premium annuities and whole life policies, and mutual funds to Bank customers through the Bank's branch system.

Community Credit Corporation (CCC), a consumer finance subsidiary, was formed in June 1994 to provide fixed- and adjustable-rate consumer loans secured by first and second mortgages. Loans made by CCC are most often used by the borrower to consolidate debt, including an existing mortgage, or fund home improvements. The type of borrower targeted by CCC has a credit history that may limit their access to credit, given the relatively rigid lending guidelines used by most financial institutions. The first office of CCC was opened August 1994 in Delaware.

Star States Development Company was formed in March 1985 with the objective of engaging in residential real estate projects through either wholly owned subsidiaries or investments in joint ventures. Star States Development Company's investments in the projects were in the form of nonrecourse, first mortgage loans, in return for which Star States Development Company is entitled to receive repayment of principal and interest, and to share, at an agreed upon percentage, in the profits of the project. Star States Development Company is currently inactive with the exception of one remaining parcel of land which is being marketed for sale.

Providential Home Income Plan, Inc. ("Providential") was a San Francisco-based reverse mortgage lender. The Bank acquired Providential in November 1994 for approximately \$24.4 million. The acquisition was accounted for by the purchase method of accounting; accordingly, Providential's results are included in the Corporation's consolidated statement of operations for the period in which Providential was owned. The management and operations of Providential were merged into the Bank in November 1996.

On July 28, 1995, the Corporation's wholly-owned subsidiary, Fidelity Federal completed the sale of deposits and certain real estate at four of its branches to another institution. In November 1995, the remaining operations of Fidelity Federal and its holding company, Star States Pennsylvania, Inc. were merged into WSFS.

SOURCES OF FUNDS

The Bank funds operations through deposit growth and various borrowing services, including repurchase agreements, federal funds purchased and advances from the Federal Home Loan Bank ("FHLB") of Pittsburgh. Loan repayments and investment maturities also provide sources of funds. Loan repayments and investment maturities provide a relatively stable source of funds while certain deposit flows tend to be more susceptible to market conditions. Borrowings are used either for short-term funding of lending activities when loan demand exceeds projections or when deposit inflows or outflows are less than or greater than expected. On a long-term basis, borrowings may be used to match against specific loans or to ultimately support business expansion.

Deposits. The Bank offers various deposit programs to its customers, including savings accounts, demand deposits, interest-bearing demand deposits, money market deposit accounts and certificates of deposits. The Bank also offers Christmas clubs, Individual Retirement Accounts and Keogh Accounts. In addition, the Bank accepts negotiable rate certificates with balances in excess of \$100,000 from individuals, businesses and municipalities in Delaware.

The Bank is the second largest independent banking institution headquartered and operating in Delaware. It primarily attracts deposits through its system of 16 branches. Fifteen of these branches are located in northern Delaware's New Castle County, the Bank's primary market. These branches maintain approximately 145,000 total account relationships with approximately 51,000 total households, or 24% of all households in New Castle County, Delaware. The sixteenth branch is in the state capital, Dover, located in central Delaware's Kent County.

One of the most successful deposit related products developed by the Bank is the WSFS Plan Card, a debit card product. The WSFS Plan Card, initiated in 1972, allowed customers to charge purchases made within a proprietary network of merchants. These purchases were then debited to the customers' checking account and a cash rebate was earned on each purchase. In 1991, the Plan Card became a VISA(R) Check Card and as a result, WSFS depositors can now use the Plan Card at all 13 million acceptance locations in the worldwide VISA(R) network.

The following table sets forth the amount of certificates of deposit of \$100,000 or more by time remaining until maturity at the period indicated.

| Maturity Period ----- | December 31, 1996 ----- (In Thousands) |
|---------------------------------|---|
| Less than 3 months..... | \$11,400 |
| Over 3 months to 6 months..... | 11,275 |
| Over 6 months to 12 months..... | 10,246 |
| Over 12 months..... | 6,665 |
| | ----- |
| | \$39,586 |
| | ===== |

Borrowings. The Company utilizes several sources of borrowings to fund operations. As members of the FHLB of Pittsburgh, the Bank is authorized to apply for advances on the security of their capital stock in the FHLB and certain of their residential mortgages and other assets (principally securities which are obligations of or guaranteed by the United States Government) provided certain standards related to creditworthiness have been met. As a member institution, the Bank is required to hold capital stock in the FHLB of Pittsburgh in an amount at least equal to 1% of the aggregate unpaid principal of their home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 1/20th of their advances, whichever is greater.

The Bank also sells securities under agreements to repurchase with various brokers as an additional source of funding. When entering into these transactions, the Bank is required to pledge either government securities or mortgage-backed securities as collateral for the borrowings.

On December 29, 1993, the Company issued \$32.0 million in 11% Senior Notes due December 31, 2005 ("Notes") to certain institutional and accredited investors in a private placement. See Note 9 of the Consolidated Financial Statements for a further discussion of the Notes.

REGULATION

Regulation of the Company

General. The Company is a registered as savings and loan holding company and is subject to OTS regulation, examination, supervision and reporting requirements. As a subsidiary of a holding company, the Bank is subject to certain restrictions in its dealings with the Company and other affiliates.

Regulatory Capital Maintenance/Dividend Agreements. As a condition to obtaining regulatory approval of the acquisition of the Bank, the Company was required to execute agreements with the predecessor to the OTS with respect to the receipt of dividends from the Bank and the maintenance of its regulatory capital. Under the Regulatory Capital Maintenance/Dividend Agreement between the Company and the predecessors to the OTS, the Company agreed to cause the regulatory capital of the Bank to be maintained at a level at or above the Bank's regulatory capital requirement and to infuse sufficient capital to effect compliance with such requirement during the first quarter after which the Bank fails to meet its regulatory capital requirement. The Company further agreed that, without regulatory approval, it would not accept dividends in excess of 50% of the institution's net income for the fiscal year. The Company is permitted to accept dividends of up to 75% of net income if the Bank's ratio of regulatory capital to liabilities would equal 7% or more after payment of the dividend and may accept dividends equal to 100% of net income if such ratio would be 8% or more after the dividend payment. Dividends permitted under the agreement may be deferred and paid in a subsequent year provided that no dividend or repurchase of stock may reduce the Bank's regulatory capital below its regulatory capital requirement. After notice of default, the Company is

prohibited from conveying its ownership of the Bank by gift, sale, exchange or otherwise without regulatory approval. If a default is not cured within 90 days and not waived, the predecessor to the OTS was entitled to seek any available remedy and the Company must pay its attorney fees and other reasonable expenses.

Activities Restrictions. The Company currently operates as a unitary savings and loan holding company. There generally are no restrictions on the activities of a unitary holding company. If the Company were to acquire another thrift and operate it as a separate entity, it would become subject to the activities restrictions on multiple holding companies. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings association may commence, or continue after a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof, any business activity other than: (i) furnishing or performing management services for a subsidiary savings association; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple holding companies; or (vii) unless the Director of OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in (vii) above also must be approved by the Director of OTS prior to being engaged in by a multiple savings and loan holding company.

Transactions with Affiliates; Tying Arrangements Transactions between savings associations and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings association is any company or entity which controls, is controlled by or is under common control with the savings association. In a holding company context, the parent holding company of a savings association (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings association. Generally, Sections 23A and 23B (i) limit the extent to which the savings institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and limit the aggregate of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar types of transactions. In addition to the restrictions imposed by Sections 23A and 23B, no savings association may (i) lend or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings association. Savings associations are also subject to Section 106 of the Bank Holding Company Act of 1956 (the "BHCA") which prohibits a depository institution from extending credit, offering services, or fixing or varying the consideration for any extension of credit or service on the condition that the customer obtain some additional service from the institution or certain of its affiliates or that the customer not obtain services from a competitor of the institution, subject to certain limited exceptions.

Restrictions on Acquisitions. Savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of OTS, (i) control of any other savings association or savings and loan holding company or substantially all the assets thereof, or (ii) more than 5% of the voting shares of a savings association or holding company thereof which is not a subsidiary. Under certain circumstances, a savings and loan holding company is permitted to acquire, with the approval of the Director of OTS, up to 15% of the voting shares of an under-capitalized savings association pursuant to a "qualified stock issuance" without that savings association being deemed controlled by the holding company. Except with the prior approval of the Director of OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may also acquire control of any savings association, other than a subsidiary savings association, or of any other savings and loan holding company.

The Director of OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings associations in more than one state if: (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office in the state of the association to be acquired as of March 5, 1987; (ii) the acquirer is authorized to acquire control of the savings association pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act; or (iii) the statutes of the state in which the association to be acquired is located specifically permit institutions to be acquired by state-chartered associations or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

The laws of Delaware do not specifically authorize out-of-state savings associations or their holding companies to acquire Delaware-chartered savings associations.

The statutory restrictions on the formation of interstate multiple holding companies would not prevent the Bank from entering into other states by mergers or branching. OTS regulations permit federal associations to branch in any state or states of the United States and its territories. Except in supervisory cases or when interstate branching is otherwise permitted by state law or other statutory provision, a federal association may not establish an out-of-state branch unless (i) the federal association qualifies as a "domestic building and loan association" under ss.7701(a)(19) of the Internal Revenue Code or as a "qualified thrift lender" under the Home Owners' Loan Act and the total assets attributable to all branches of the association in the state would qualify such branches taken as a whole for treatment as a domestic building and loan association or qualified thrift lender and (ii) such branch would not result in the formation of a prohibited multi-state multiple savings and loan holding company. Federal associations generally may not establish new branches unless the association meets or exceeds minimum regulatory capital requirements. The OTS will also consider the association's record of compliance with the Community Reinvestment Act of 1977 in connection with any branch application.

The Bank Holding Company Act of 1956 has been amended to specifically authorize the Federal Reserve Board to approve an application by a bank holding company to acquire control of any savings association. Pursuant to rules promulgated by the Federal Reserve Board, owning, controlling or operating a savings association is a permissible activity for bank holding companies, if the savings association engages only in deposit-taking activities and lending and other activities that are permissible for bank holding companies. In approving such an application, the Federal Reserve Board may not impose any restriction on transactions between the savings association and its holding company affiliates except as required by Sections 23A and 23B of the Federal Reserve Act.

Regulation of the Bank

General. As a federally chartered savings institution, the Bank is subject to extensive regulation by the OTS. The lending activities and other investments of the Bank must comply with various federal regulatory requirements. The OTS periodically examines the Bank for compliance with regulatory requirements. The FDIC also has the authority to conduct special examinations of the Bank as the insurer of deposits. The Bank must file reports with OTS describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of depositors. Certain of these regulatory requirements are referred to below or appear elsewhere herein.

Regulatory Capital Requirements. Under OTS capital regulations, savings institutions must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 3% of adjusted total assets and "total" capital (a combination of core and "supplementary" capital) equal to 8% of risk-weighted assets. In addition, OTS regulations impose certain restrictions on savings associations that have a total risk-based capital ratio that is less than 8.0%, a ratio of Tier 1 capital to risk-weighted assets of less than 4.0% or a ratio of Tier 1 capital to adjusted total assets of less than 4.0% (or 3.0% if the institution is rated Composite 1 under the OTS examination rating system). For purposes of these regulations, Tier 1 capital has the same definition as core capital.

The OTS capital rule defines core capital as common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts and pledged deposits and "qualifying supervisory goodwill," less intangible assets other than certain supervisory goodwill and certain purchased mortgage servicing rights and purchased credit card relationships. Tangible capital is given the same definition as core capital but does not include qualifying supervisory goodwill and is reduced by the amount of all the savings institution's intangible assets except for certain mortgage servicing rights. The OTS capital rule requires that core and tangible capital be reduced by an amount equal to a savings institution's debt and equity investments in "nonincludable" subsidiaries engaged in activities not permissible to national banks, other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies.

Adjusted total assets for purposes of the core and tangible capital requirements are a savings institution's total assets as determined under generally accepted accounting principles, increased by certain goodwill amounts and by a prorated portion of

the assets of unconsolidated includable subsidiaries in which the savings institution holds a minority interest. Adjusted total assets are reduced by the amount of assets that have been deducted from capital, the savings institution's minority investments in unconsolidated includable subsidiaries and, for purposes of the core capital requirement, qualifying supervisory goodwill. At December 31, 1996, the Bank is in compliance with both the core and tangible capital requirements.

The risk-based capital requirement is measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight. Under the OTS risk-weighting system, cash and securities backed by the full faith and credit of the U.S. government are given a 0% risk weight. Mortgage-backed securities that qualify under the Secondary Mortgage Enhancement Act, including those issued, or fully guaranteed as to principal and interest, by the FNMA or FHLMC, are assigned a 20% risk weight. Single-family first mortgages not more than 90 days past due with loan-to-value ratios under 80%, multi-family mortgages (maximum 36 dwelling units) with loan-to-value ratios under 80% and average annual occupancy rates over 80%, and certain qualifying loans for the construction of one- to four-family residences pre-sold to home purchasers are assigned a risk weight of 50%. Consumer loans, non-qualifying residential construction loans and commercial real estate loans, repossessed assets and assets more than 90 days past due, as well as all other assets not specifically categorized, are assigned a risk weight of 100%. The portion of equity investments not deducted from core or supplementary capital is assigned a 100% risk-weight.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital is defined to include certain preferred stock issues, nonwithdrawable accounts and pledged deposits that do not qualify as core capital, certain approved subordinated debt, certain other capital instruments and a portion of the savings institution's general loan and lease loss allowances. The OTS risk-based capital requirements require savings institutions with more than a "normal" level of interest rate risk to maintain additional total capital. A savings institution's interest rate risk is measured in terms of the sensitivity of its "net portfolio value" to changes in interest rates. A savings association with more than normal interest rate risk is required to deduct an interest rate risk component equal to one-half of the excess of its measured interest rate risk over the normal level from its total capital for purposes of determining its compliance with the OTS risk-based capital guidelines. At December 31, 1996, the Bank was in compliance with the OTS risk-based capital requirements.

Loans to Directors, Officers and 10% Stockholders. Under Section 22(h) of the Federal Reserve loans to an executive officer or director or to a greater than 10% stockholder of a savings association and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the association's loans to one borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus) and all loans to all such persons may not exceed the institution's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and greater than 10% stockholders of a savings association, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the association with any "interested" director not participating in the voting. The Federal Reserve Board has prescribed the loan amount (which includes all other outstanding loans to such person), as to which such prior board of director approval is required, as being the greater of \$25,000 or 5% of capital and surplus (up to \$500,000). Further, the Federal Reserve Board pursuant to Section 22(h) requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loan is made pursuant to a compensation or benefit plan that is widely available to employees and does not discriminate in favor of insiders. Section 22(h) also prohibits a depository institution from paying the overdrafts of any of its executive officers or directors. Savings associations are subject to the requirements and restrictions of Section 22(g) of the Federal Reserve Act which requires that loans to executive officers of depository institutions not be made on terms more favorable than those afforded to other borrowers, requires approval for such extensions of credit by the board of directors of the institution, and imposes reporting requirements for and additional restrictions on the type, amount and terms of credits to such officers. Section 10G prohibits extensions of credit to executive officers, directors, and greater than 10% stockholders of a depository institution by any other institution which has a correspondent banking relationship with the institution, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

Dividend Restrictions. The Bank is prohibited from paying any dividend or making any other capital distribution if, after making the distribution, the Bank would be undercapitalized within the meaning of the OTS prompt corrective action

regulations. Pursuant to the Regulatory Capital Maintenance/Dividend Agreement, the Company may also be limited in its ability to receive dividends from the Bank in certain circumstances. OTS regulations impose additional limitations on the payment of dividends and other capital distributions (including stock repurchases and cash mergers) by the Bank. Under these regulations, a savings institution that, immediately prior to, and on a pro forma basis after giving effect to, a proposed capital distribution, has total capital (as defined by OTS regulation) that is equal to or greater than the amount of its fully phased-in capital requirements (a "Tier 1 Association") is generally permitted, after notice, to make capital distributions during a calendar year in the amount equal to the greater of: (a) 75% of its net income for the previous four quarters; or (b) up to 100% of its net income to date during the calendar year plus an amount that would reduce by one-half the amount by which its ratio of total capital to assets exceeded its fully phased-in risk-based capital ratio requirement at the beginning of the calendar year. A savings institution with total capital in excess of current minimum capital ratio requirements but not in excess of the fully phased-in requirements (a "Tier 2 Association") is permitted, after notice, to make capital distributions without OTS approval of up to 75% of its net income for the previous four quarters, less dividends already paid for such period. A savings institution that fails to meet current minimum capital requirements (a "Tier 3 Association") is prohibited from making any capital distributions without the prior approval of the OTS. A Tier 1 Association that has been notified by the OTS that it is in need of more than normal supervision will be treated as either a Tier 2 or Tier 3 Association. At December 31, 1996, the Bank was a Tier 1 Association. The OTS may prohibit any savings institution from making a capital distribution that would otherwise be permitted by the regulation, if the OTS determines that the distribution would constitute an unsafe or unsound practice.

Deposit Insurance. The Bank is charged an annual premium by the BIF for federal insurance on its insurable deposit accounts up to applicable regulatory limits. The FDIC may establish an assessment rate for deposit insurance premiums which protects the insurance fund and considers the fund's operating expenses, case resolution expenditures, income and effect of the assessment rate on the earnings and capital of members.

The FDIC has established a risk-based assessment system for insured depository institutions which became effective January 1, 1994. The assessment rate for an insured depository institution depends on the assessment risk classification assigned to the institution by the FDIC which is determined by the institution's capital level and supervisory evaluations. Based on the data reported to regulators for the date closest to the last day of the seventh month preceding the semi-annual assessment period using the same percentage criteria as in the prompt corrective action regulations. See "-- Prompt Corrective Action." Institutions are assigned to one of three capital groups -- well capitalized, adequately capitalized or undercapitalized. Undercapitalized institutions consist of institutions that do not qualify as either "well capitalized" or "adequately capitalized." Within each capital group, institutions will be assigned to one of three subgroups on the basis of supervisory evaluations by the institution's primary supervisory authority and such other information as the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance fund. Because the BIF achieved its statutory reserve ratio of 1.25% of insured deposits, the FDIC reduced the deposit insurance premium for most BIF members to the statutory minimum of \$1,000 per semi-annual period during 1996. Under the Deposit Insurance Funds Act of 1996, the statutory minimum assessment was eliminated. That statute, however, authorized the FDIC to assess BIF member institutions to fund interest payments on certain bonds issued by the Financing Corporation ("FICO"), an agency of the federal government established to help fund takeovers of insolvent thrifts. Until December 31, 1999, BIF members will be assessed at the rate of 1.3 basis points for FICO payments while SAIF members will be assessed at the rate of 6.5 basis points. After December 31, 1999, BIF and SAIF members will be assessed at the same rate.

Prompt Corrective Action. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), federal banking regulators are required to take prompt corrective action if an institution fails to satisfy certain minimum capital requirements, including a leverage limit, a risk-based capital requirement, and any other measure deemed appropriate by the federal banking regulators for measuring the capital adequacy of an insured depository institution. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees that would cause the institution to become undercapitalized. An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") generally is: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. "Significantly undercapitalized" institutions and their holding companies may become subject to more severe sanctions including limitations on asset growth, restrictions on capital distributions by the holding company and possible divestiture requirements. Institutions generally must be placed in receivership within specified periods of time after they become "critically undercapitalized".

Under the OTS regulations implementing the prompt corrective action provisions of FDICIA, the OTS measures a savings institution's capital adequacy on the basis of its total risk-based capital ratio (the ratio of its total capital to risk-weighted assets), Tier 1 risk-based capital ratio (the ratio of its core capital to risk-weighted assets) and leverage ratio (the ratio of its core capital to adjusted total assets). A savings institution that is not subject to an order or written directive to meet or maintain a specific capital level is deemed "well capitalized" if it also has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; and (iii) a leverage ratio of 5.0% or greater. An "adequately capitalized" savings institution is a savings institution that does not meet the definition of well capitalized and has: (i) a total risk-based capital ratio of 8.0% or greater; (ii) a Tier 1 capital risk-based ratio of 4.0% or greater; and (iii) a leverage ratio of 4.0% or greater (or 3.0% or greater if the savings institution has a composite 1 CAMEL rating). An "undercapitalized institution" is a savings institution that has (i) a total risk-based capital ratio less than 8.0%; or (ii) a Tier 1 risk-based capital ratio of less than 4.0%; or (iii) a leverage ratio of less than 4.0% (or 3.0% if the institution has a composite 1 CAMEL rating). A "significantly undercapitalized" institution is defined as a savings institution that has: (i) a total risk-based capital ratio of less than 6.0%; or (ii) a Tier 1 risk-based capital ratio of less than 3.0%; or (iii) a leverage ratio of less than 3.0%. A "critically undercapitalized" savings institution is defined as a savings institution that has a ratio of tangible equity to total assets of less than 2.0%.

Federal Home Loan Bank System. The Bank is a member of the FHLB System, which consists of 12 district FHLBs subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The FHLBs provide a central credit facility primarily for member institutions. As a member of the FHLB of Pittsburgh, the Bank is required to acquire and hold shares of capital stock in the FHLB of Pittsburgh in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the FHLB of Pittsburgh, whichever is greater. WSFS was in compliance with this requirement with an investment in FHLB of Pittsburgh stock at December 31, 1996, of \$16.1 million. The FHLB of Pittsburgh offers advances to members in accordance with policies and procedures established by the FHFB and the Board of Directors of the FHLB of Pittsburgh. Long term advances may only be made for the purpose of providing funds for residential housing finance.

Liquidity Requirements. The Bank is required to maintain average daily balances of liquid assets (cash, certain time deposits, bankers' acceptances, highly rated corporate debt and commercial paper, securities of certain mutual funds, and specified United States government, state or federal agency obligations) equal to the monthly average of not less than a specified percentage (currently 5%) of its net withdrawable savings deposits plus short-term borrowings. The Bank is also required to maintain average daily balances of short-term liquid assets at a specified percentage (currently 1%) of the total of its net withdrawable savings accounts and borrowings payable in one year or less. Monetary penalties may be imposed for failure to meet liquidity requirements. The Bank was in compliance with applicable liquidity requirements at December 31, 1996.

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, a savings institution must maintain average daily reserves equal to 3% on the first \$49.3 million of transaction accounts, plus 10% on the remainder. This percentage is subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets. As of December 31, 1996, the Bank met its reserve requirements.

TAXATION

Federal Income Taxation

The Company and its subsidiaries, as an affiliated group, file a consolidated corporate income tax return each year for federal income tax purposes. Among other things, a consolidated return allows the affiliated group to avoid or defer tax on certain intercompany distributions and transfers and, under certain circumstances, to reduce the taxable income of one member of the group using the loss generated by another member.

Thrift institutions such as the Bank are generally subject to the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), in the same general manner as other corporations. Further, in the past, thrift institutions which satisfied certain conditions, including the asset composition test under Section 7701(a)(19) of the Code, could determine their bad debt deduction based upon an annual addition to a bad debt reserve (the "reserve method") rather than upon the actual amount of worthless debts arising during the year (the "specific charge-off method"). This reserve method, however, was repealed for tax years beginning after January 1996. The Bank maintained a bad debt reserve for tax purposes through 1986 but failed to satisfy the asset composition test in fiscal year 1987 and therefore could not continue to use the thrift bad debt reserve method. Moreover, because the Bank at the time had total assets in excess of \$500 million, it could not use the reserve method available to commercial banks but instead was required to switch to the specific charge-off method. As a result of the change to the specific charge-off method, the Bank recaptured into income in 1987 the entire balance of its bad debt reserve.

For taxable years beginning after December 31, 1986, the Code imposes an alternative minimum tax at a rate of 20%. The alternative minimum tax generally applies to a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI") and is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. The other items of tax preference that constitute AMTI include (a) tax-exempt interest on newly-issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds, (b) for taxable years beginning after 1989, 75% of the excess (if any) of (i) 75% of adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses) and (c) depreciation for alternative minimum tax purposes versus depreciation for regular tax purposes. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum taxes may be used as credits against regular tax liabilities in future years. In addition, for taxable years after 1986 and before 1996, corporations, including thrift institutions, are also subject to an environmental tax equal to 0.12% of the excess of AMTI for the taxable year (determined without regard to net operating losses and the deduction for the environmental tax) over \$2.0 million.

As of December 31, 1996, the Company had available net operating loss ("NOL") carryforwards for federal and state tax purposes of approximately \$18.8 million and \$21.4 million, respectively, which may be used to reduce future income taxes. There are restrictions applicable to approximately \$18.8 million of the NOL carryforwards attributable to Providential Home Income Plan, Inc. ("Providential"), formerly a 100% wholly-owned subsidiary of WSFS. Because Section 382 of the Code restricts the annual amount of NOL carryforwards available for use, it could result in the loss of a portion of Providential's NOL due to expiration.

The Company's federal income tax returns for 1993 and 1994 are currently under audit. Furthermore, the 1994 federal tax return of a partnership in which a subsidiary of the Company is a 50% owner is currently under audit. At present, the Company is not aware of any present or pending federal or state tax examination adjustments nor any notice that would materially change the reported amount of tax due.

See Note 12 to the Consolidated Financial Statements, incorporated herein by reference, for further information regarding taxation.

State Income Taxation

As a Delaware corporation, the Company is subject to an annual franchise tax based on the number of shares of common and preferred stock authorized under its Certificate of Incorporation. The Bank is also subject to annual franchise taxes in Delaware based on its pretax net income.

The Bank and its subsidiaries each file separate state tax returns. An operating subsidiary of the bank, WSFS Credit Corporation, conduct business in several surrounding states and as such, is subject to taxation in these states.

Item 2. Properties

The following table sets forth the location and certain additional information regarding the Company's offices and other material properties at December 31, 1996.

| Location ----- | Owned/ Leased ----- | Date Lease Expires ----- | Net Book Value of Property or Leasehold Improvements(2) ----- | Deposits ----- |
|---|---------------------------|--------------------------------|---|-------------------|
| | | | (In Thousands) | |
| WSFS: | | | | |
| Main Office (1)* 9th & Market Streets Wilmington, DE 19899 | Owned | | \$1,711 | \$181,118 |
| Union Street Branch* 3rd & Union Streets Wilmington, DE 19805 | Leased | 1998 | 57 | 54,099 |
| Trolley Square Branch* 1711 Delaware Avenue Wilmington, DE 19806 | Leased | 2001 | 32 | 18,529 |
| Fairfax Shopping Center Branch* 2005 Concord Pike Wilmington, DE 19803 | Leased | 1998 | 22 | 71,265 |
| Branmar Plaza Shopping Center Branch* 1812 Marsh Road Wilmington, DE 19810 | Leased | 1998 | 17 | 58,566 |
| Prices Corner Shopping Center Branch* 3202 Kirkwood Highway Wilmington, DE 19808 | Leased | 1998 | 33 | 88,113 |
| Pike Creek Shopping Center Branch* New Linden Hill & Limestone Roads Wilmington, DE 19808 | Leased | 2000 | 14 | 54,029 |
| Tri-State Mall Branch I-95 & Naamans Road Claymont, DE 19803 | Leased | 1997 | 4 | 19,497 |
| Claymont Branch 3512 Philadelphia Pike Claymont, DE 19703 | Owned | | 72 | 23,725 |
| University Plaza Shopping Center Branch* I-95 & Route 273 Newark, DE 19712 | Leased | 1998 | 25 | 34,373 |
| College Square Shopping Center Branch* Route 273 & Liberty Avenue Newark, DE 19711 | Leased | 2007 | 88 | 57,127 |
| Airport Plaza Shopping Center Branch* 144 N. DuPont Hwy. New Castle, DE 19720 | Leased | 2013 | 113 | 59,536 |

| | | | | |
|---|--------|------|-------|--------------------|
| Stanton Inside ShopRite at First State Plaza 1600 W. Newport Pike Wilmington, DE 19804 | Leased | 2001 | 204 | 365 |
| Glasgow Inside Genaurdi's at Peoples Plaza (opening Spring of 1997) temporarily in Peoples Plaza, Suite 870 Routes 40 and 896, Newark, DE 19702 | Leased | 1997 | 56 | 159 |
| Middletown Square Shopping Center Inside Parkers Thriftway 701 N. Broad St. Middletown, DE 19709 | Leased | 1999 | 145 | 11,016 |
| Dover (3) Inside Metro Food Market Rt 13 & White Oak Road Dover, DE 19901 | Leased | 2000 | 252 | 13,369 |
| Operations Center 2400 Philadelphia Pike Wilmington, DE 19703 | Owned | | 1,072 | na |
| Community Credit Corporation ----- 10 Penn Mart Shopping Center New Castle, DE 19720 | Leased | 1998 | 10 | na |
| | | | | \$744,886 ===== |

* Represents locations with ATM.

- (1) Includes location of executive offices and approximately \$64.2 million in brokered deposits.
- (2) The net book value of all the Company's investment in premises and equipment totalled \$6.0 million at December 31, 1996.
- (3) In February 1996, the Bank acquired \$10.5 million of deposits from another financial institution located in Dover, Delaware. These deposits were transferred to the Bank's branch located inside the Metro Food Market in Dover.

Item 3. Legal Proceedings

There are no material legal proceedings to which the Company or the Bank is a party or to which any of its property is subject except as discussed in Note 14 to the Consolidated Financial Statements.

Item 4. Submissions of Matters To a Vote of Security Holders

No matter was submitted to a vote of the stockholders during the fourth quarter of the fiscal year ended December 31, 1996 through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

WSFS Financial Corporation's Common Stock is traded on the NASDAQ National Market System under the symbol WSFS. At December 31, 1996, the Corporation had 2,564 registered common stockholders of record. The following table sets forth the range of high and low sales prices for the Common Stock for each full quarterly period within the two most recent fiscal years. There have been no dividends declared or paid on the Common Stock since the first quarter of 1990. Payment of dividends by the Bank is subject to regulatory restrictions and the covenants of the Senior Notes. For additional information regarding such restrictions, see Note 9 to the Consolidated Financial Statements.

The closing market price of the common stock at December 31, 1996 was \$10 3/16.

| | | Stock Price Range | |
|------|-----|-------------------|----------|
| | | ----- | ----- |
| | | Low | High |
| | | --- | ---- |
| 1996 | 1st | \$7 1/8 | \$ 9 1/2 |
| | 2nd | 7 1/4 | 8 1/4 |
| | 3rd | 6 3/4 | 8 1/2 |
| | 4th | 8 1/4 | 10 5/8 |
| 1995 | 1st | \$3 1/2 | 4 1/4 |
| | 2nd | 4 | 5 7/8 |
| | 3rd | 5 5/8 | 8 5/8 |
| | 4th | 7 3/8 | 10 |

Item 6. Selected Financial Data

| | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|-------------|-------------|------------|-------------|
| | (Dollars in Thousands, Except Per Share Data) | | | | |
| At December 31, | | | | | |
| Total assets..... | \$1,357,635 | \$1,218,826 | \$1,195,686 | \$ 994,692 | \$1,010,079 |
| Net loans (1)..... | 824,883 | 792,184 | 710,776 | 687,492 | 763,799 |
| Investment securities (2)..... | 18,933 | 28,772 | 64,144 | 54,346 | 59,585 |
| Investment in reverse mortgages, net..... | 35,796 | 35,614 | 32,172 | 24,913 | |
| Other investments..... | 47,337 | 52,128 | 44,249 | 110,816 | 52,602 |
| Mortgage-backed securities (2)..... | 365,252 | 237,132 | 262,748 | 43,750 | 40,898 |
| Deposits..... | 744,886 | 724,030 | 809,707 | 806,605 | 859,147 |
| Borrowings (3)..... | 489,819 | 370,795 | 295,244 | 107,864 | 110,673 |
| Senior notes..... | 29,100 | 29,850 | 32,000 | 32,000 | |
| Stockholders' equity..... | 75,788 | 73,546 | 45,274 | 38,693 | 32,267 |
| Number of full-service branches (4)..... | 16 | 14 | 16 | 16 | 16 |
| For the Year Ended December 31, | | | | | |
| Interest income..... | \$104,594 | \$ 99,936 | \$ 80,666 | \$ 72,320 | \$ 85,711 |
| Interest expense..... | 58,862 | 58,067 | 44,652 | 38,508 | 55,039 |
| Other income | 8,150 | 22,615 | 7,210 | 7,970 | 8,157 |
| Other expenses | 32,345 | 37,341 | 34,483 | 34,485 | 33,650 |
| Income before taxes | 19,522 | 25,740 | 7,058 | 4,677 | 3,820 |
| Net income | 16,356 | 27,008 | 8,070 | 6,359 | 4,822 |
| Earnings per share: | | | | | |
| Primary | 1.16 | 1.84 | .55 | .88 | .89 |
| Fully diluted | 1.16 | 1.84 | .55 | .44 | .64 |
| Interest rate spread..... | 3.18% | 3.14% | 3.11% | 3.39% | 2.88% |
| Net interest margin..... | 3.71 | 3.57 | 3.39 | 3.64 | 3.02 |
| Return on average equity..... | 21.19 | 45.68 | 19.64 | 18.12 | 23.15 |
| Return on average assets..... | 1.28 | 2.21 | .73 | .65 | .44 |
| Average equity to average assets..... | 6.06 | 4.84 | 3.69 | 3.57 | 1.92 |

(1) Includes loans held-for-sale.

(2) Includes securities available-for-sale.

(3) Borrowings consist of FHLB advances, securities sold under agreement to repurchase and municipal bond repurchase obligations. The municipal bond repurchase was called in 1996.

(4) During 1995, WSFS's wholly-owned subsidiary, Fidelity Federal, sold the deposits of four branches. The remaining assets, liabilities and equity were merged into WSFS. Additionally, WSFS opened two new branches with deposits acquired from other institutions. During 1996, WSFS opened two more new branches.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

WSFS Financial Corporation (the "Corporation") is a savings and loan holding company headquartered in Wilmington, Delaware. Substantially, all of the Corporation's assets are held by its subsidiary, Wilmington Savings Fund Society, FSB (the "Bank" or "WSFS"), the largest thrift institution headquartered in Delaware and among the four largest financial institutions in the state on the basis of total deposits. The Corporation's primary market area is the Mid-Atlantic region of the United States which is characterized by a diversified manufacturing and service economy. The banking operations of WSFS are presently conducted from 16 retail banking offices located in the Wilmington and Dover, Delaware area. The Bank provides residential real estate, commercial real estate, commercial and consumer lending services and funds these activities primarily by attracting retail deposits and borrowings. Deposits are insured by the Federal Deposit Insurance Corporation.

Additional subsidiaries of the Bank include WSFS Credit Corporation ("WCC"), which is engaged primarily in motor vehicle leasing, and 838 Investment Group, Inc. which markets various insurance products and mutual funds through the Bank's branch system. In June 1994, the Bank formed a consumer finance subsidiary, Community Credit Corporation ("CCC") which opened its first office in August 1994. CCC specializes in consumer loans secured by first and second mortgages. An additional subsidiary, Star States Development Company ("SSDC") is currently inactive with the exception of one remaining parcel of land which is being marketed for sale. In November 1994, the Bank acquired Providential Home Income Plan, Inc. ("Providential"), a San Francisco, California-based reverse mortgage lender. The management and operations of Providential were merged into the Bank in November 1996.

The long-term goal of the Corporation is to be a high-performing financial services company focused on its core banking business while developing unique niche businesses. Beginning in 1994, the Corporation focused its efforts on developing new businesses and avenues for asset growth which are expected to yield returns in the future. Toward that end, the Corporation opened the consumer finance subsidiary, CCC, and acquired Providential. These retail investments, combined with the growth in the investment portfolios, have favorably impacted net interest income and earnings since 1994 and are expected to provide favorable returns on investments in the coming years. Such investments for the future were possible since the Bank became "well-capitalized" in the second quarter of 1994. This was largely due to continued operating earnings and the Corporation's capital infusion of \$25.2 million of the proceeds of a \$32.0 million debt offering which was completed in December 1993. In the third quarter of 1995, the Bank recognized a gain of \$12.4 million, net of taxes and a supplemental contribution to the Corporation's 401(k) Plan, from the sale of deposits and certain real estate of four branches of its former bank subsidiary, Fidelity Federal Savings and Loan Association (the "Association"), located in the northeast section of Philadelphia, Pennsylvania. This transaction has allowed the Corporation to focus on its primary market area while enhancing capital.

During the 1980's, the Corporation had pursued a business strategy of growth and diversification by engaging in such activities as real estate brokerage, vehicle and equipment leasing and real estate development. This prior strategy combined with a recession in the U.S. economy resulted in significant operating and asset quality problems. These problems culminated in a record net operating loss of \$85.5 million in 1990. From 1991 through 1993, the Corporation had focused on restructuring its operations to achieve compliance with regulatory capital requirements while reducing nonperforming assets. These efforts resulted in the Bank achieving full regulatory capital compliance by completing the previously discussed debt offering as well as twelve consecutive quarters of earnings. During 1994, earnings continued to improve as the Corporation recorded record earnings from operations of \$8.1 million.

The record earnings in 1994 were surpassed in 1995 as the Corporation recorded earnings of \$27.0 million of which \$14.6 million was from operations. Earnings for the year ended December 31, 1996 were \$16.4 million. Net income for 1994, 1995 and 1996 included the recognition of tax benefits. Excluding the one-time net gain on the sale of the Association's deposits, income before taxes increased from \$12.2 million in 1995 to \$19.5 million in 1996, a \$7.3 million or 60% increase.

The following discussion focuses on the major components of operations and presents an overview of the significant changes in the Corporation's results of operations for the past three fiscal years and financial condition during the past two fiscal years. This discussion should be reviewed in conjunction with the Consolidated Financial Statements and Notes thereto presented elsewhere in this Annual Report.

RESULTS OF OPERATIONS

The Corporation recorded net income of \$16.4 million in 1996 compared with \$27.0 million and \$8.1 million in 1995 and 1994, respectively. Earnings for 1995 were significantly impacted by a nonrecurring after tax gain of \$12.4 million on the sale of deposits of the Association. Excluding this gain, net income for 1996 was \$1.8 million higher than 1995 and \$8.3 million higher than 1994. This improvement in performance reflects lower operating expenses and growth in net interest income.

Net Interest Income. Net interest income is the most significant component of operating income to the Corporation. Net interest income is reliant upon the levels of interest-earning assets and interest-bearing liabilities and the difference or "spread" between the respective yields earned and rates paid. The interest rate spread is influenced by regulatory, economic and competitive factors that affect interest rates, loan demand and deposit outflows. The level of nonperforming loans can also impact the interest rate spread by reducing the yield on the loan portfolio.

Net interest income increased to \$45.7 million in 1996 compared with \$41.9 million and \$36.0 million in 1995 and 1994, respectively. During these three years, the growth in interest-earning assets outpaced interest-bearing liabilities and contributed to the rise in net interest income. Continued growth in consumer and residential loans as well as the reduction in nonperforming assets contributed favorably to the growth in net interest income.

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

Year Ended December 31,

| | 1996 vs. 1995 | | | 1995 vs. 1994 | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Volume | Rate | Net | Volume | Rate | Net |
| | (In Thousands) | | | | | |
| Interest income: | | | | | | |
| Real estate loans (1) | \$ 2,001 | \$ (857) | \$ 1,144 | \$ 2,970 | \$ 8,057 | \$ 11,027 |
| Commercial loans | 218 | (381) | (163) | 123 | 781 | 904 |
| Consumer loans | 2,809 | (652) | 2,157 | 2,079 | 539 | 2,618 |
| Loans held for sale | 158 | (14) | 144 | 91 | (2) | 89 |
| Mortgage-backed securities | 2,472 | 280 | 2,752 | 2,714 | 577 | 3,291 |
| Investment securities (2) | (1,169) | (30) | (1,199) | (240) | 511 | 271 |
| Other | (1,095) | 918 | (177) | 984 | 86 | 1,070 |
| | 5,394 | (736) | 4,658 | 8,721 | 10,549 | 19,270 |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| Money market and interest-bearing demand | (432) | (14) | (446) | (846) | 638 | (208) |
| Savings | (321) | 145 | (176) | (753) | 508 | (245) |
| Time | (1,061) | (1,161) | (2,222) | 1,460 | 5,701 | 7,161 |
| FHLB of Pittsburgh advances | 2,827 | (427) | 2,400 | 4,315 | (56) | 4,259 |
| Senior notes | (167) | | (167) | (146) | 10 | (136) |
| Other borrowed funds | 1,817 | (411) | 1,406 | 2,264 | 320 | 2,584 |
| | 2,663 | (1,868) | 795 | 6,294 | 7,121 | 13,415 |
| Net Change | \$ 2,731 | \$ 1,132 | \$ 3,863 | \$ 2,427 | \$ 3,428 | \$ 5,855 |

(1) Includes commercial mortgage loans.

(2) No adjustments have been made to restate the yields on tax-exempt obligations to a tax-equivalent basis. The income differential is not material.

The \$3.9 million increase in net interest income between 1996 and 1995 was attributable to both changes in rate of \$1.1 million and changes in volume of \$2.7 million. The changes in volume and rate reflect the various events and transactions which have occurred between periods. The increase in net interest income of \$5.9 million between 1995 and 1994 was attributable to changes in rate of \$3.4 million and changes in volume of \$2.4 million.

The following table, in thousands except yield and rate data, provides information regarding the balances of and yields and rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

Year Ended December 31,

| | 1996 | | | 1995 | | | 1994 | | |
|--|-----------------|-----------|------------|-----------------|-----------|------------|-----------------|-----------|------------|
| | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate |
| (Dollars in Thousands) | | | | | | | | | |
| Assets | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans (1) (2): | | | | | | | | | |
| Real estate loans (3)..... | \$ 584,711 | \$ 54,221 | 9.27% | \$ 563,172 | \$ 53,077 | 9.42% | \$ 527,781 | \$ 42,050 | 7.97% |
| Commercial loans..... | 26,678 | 2,674 | 10.02 | 24,687 | 2,837 | 11.49 | 23,276 | 1,933 | 8.30 |
| Consumer loans..... | 211,861 | 19,307 | 9.11 | 181,323 | 17,150 | 9.46 | 159,127 | 14,532 | 9.13 |
| Total loans..... | 823,250 | 76,202 | 9.26 | 769,182 | 73,064 | 9.50 | 710,184 | 58,515 | 8.24 |
| Mortgage-backed securities (4)..... | 289,158 | 19,446 | 6.73 | 252,269 | 16,694 | 6.62 | 210,301 | 13,403 | 6.37 |
| Loans held for sale (2)..... | 3,649 | 272 | 7.45 | 1,539 | 128 | 8.32 | 445 | 39 | 8.76 |
| Investment securities (4)..... | 31,504 | 2,168 | 6.88 | 48,514 | 3,367 | 6.94 | 52,365 | 3,096 | 5.91 |
| Other interest-earning assets..... | 86,104 | 6,506 | 7.56 | 101,542 | 6,683 | 6.58 | 87,909 | 5,613 | 6.39 |
| Total interest-earning assets..... | 1,233,665 | 104,594 | 8.48 | 1,173,046 | 99,936 | 8.52 | 1,061,204 | 80,666 | 7.60 |
| Allowance for loan losses..... | (24,527) | | | (23,201) | | | (22,077) | | |
| Cash and due from banks..... | 22,911 | | | 25,207 | | | 26,794 | | |
| Other noninterest-earning assets..... | 42,347 | | | 45,963 | | | 46,569 | | |
| Total assets..... | \$1,274,396 | | | \$1,221,015 | | | \$1,112,490 | | |
| Liabilities and Stockholders' Equity | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Money market and interest-bearing demand | \$ 54,582 | 1,419 | 2.60 | \$ 71,257 | 1,865 | 2.62 | \$ 91,767 | 2,073 | 2.26 |
| Savings..... | 156,337 | 4,077 | 2.61 | 168,507 | 4,253 | 2.52 | 200,103 | 4,498 | 2.25 |
| Time | 454,654 | 25,726 | 5.66 | 472,941 | 27,948 | 5.91 | 443,401 | 20,787 | 4.69 |
| Total interest-bearing deposits | 665,573 | 31,222 | 4.69 | 712,705 | 34,066 | 4.78 | 735,271 | 27,358 | 3.72 |
| FHLB of Pittsburgh advances..... | 307,180 | 18,079 | 5.89 | 259,071 | 15,679 | 6.05 | 187,946 | 11,420 | 6.08 |
| Senior notes..... | 29,251 | 3,332 | 11.39 | 30,710 | 3,499 | 11.39 | 32,000 | 3,635 | 11.39 |
| Other borrowed funds..... | 108,140 | 6,229 | 5.76 | 77,024 | 4,823 | 6.26 | 40,367 | 2,239 | 5.55 |
| Total interest-bearing liabilities.. | 1,110,144 | 58,862 | 5.30 | 1,079,510 | 58,067 | 5.38 | 995,584 | 44,652 | 4.49 |
| Noninterest-bearing demand deposits..... | 66,823 | | | 62,880 | | | 61,207 | | |
| Other noninterest-bearing liabilities... | 20,224 | | | 19,502 | | | 14,605 | | |
| Stockholders' equity..... | 77,205 | | | 59,123 | | | 41,094 | | |
| Total liabilities and stockholders' equity | \$1,274,396 | | | \$1,221,015 | | | \$1,112,490 | | |
| Excess of interest-earning assets over interest-bearing liabilities... | \$ 123,521 | | | \$ 93,536 | | | \$ 65,620 | | |
| Net interest and dividend income..... | \$ 45,732 | | | \$ 41,869 | | | \$ 36,014 | | |
| Interest rate spread..... | | | 3.18% | | | 3.14% | | | 3.11% |
| Interest rate margin..... | | | 3.71% | | | 3.57% | | | 3.39% |
| Net interest and dividend income to total average assets..... | | | 3.59% | | | 3.43% | | | 3.24% |

(1) Nonperforming loans are included in average balance computations.

(2) Balances are reflected net of unearned income.

(3) Includes commercial mortgage loans.

(4) Includes securities available for sale.

Interest income and expense increased \$4.7 million and \$795,000, respectively, between 1996 and 1995. In general, the growth in interest-earning assets and the continued reduction in the level of nonperforming assets were key factors contributing favorably to net interest income. The increase in net interest income year over year was also attributable to the implementation of an investment growth strategy in the first half of 1996 in which the Bank purchased \$93.9 million in mortgage-backed securities.

Between 1995 and 1994, interest income and expense increased \$19.3 million and \$13.4 million, respectively. These increases were due in part to the full year impact of an investment growth strategy which was implemented in 1994 and to acquisition of a \$47.5 million portfolio of discounted commercial loans and commercial mortgages in July 1995.

Provision for Loan Losses. The Corporation considers, among other things, identifiable and inherent risks in its loan portfolio in periodically establishing the amount of the provision for loan losses, and the amount of the allowance for loan losses. Such risks are determined based upon an ongoing review of the loan portfolio, which includes the identification and assessment of adverse situations that may affect borrowers' debt servicing ability, an analysis of overall portfolio quality and prior loan loss experience as well as an appraisal of current and expected economic trends and conditions. Accordingly, the allowance for loan losses is maintained at a level which management deems adequate to provide for potential losses.

The provision for loan losses increased from \$1.4 million in 1995 to \$2.0 million in 1996. The increase was due in part to loan growth, as well as the Corporation's assessment of the portfolio. The provision for loan losses decreased by \$280,000 between 1994 and 1995. The Corporation's continued efforts to resolve and collect problem loans, including nonaccrual and restructured loans should favorably impact provision requirements. The allowance for loan losses was \$24.7 million at December 31, 1996, a 2.37% increase from the level reported at December 31, 1995. The loan loss allowance as a percentage of total loans was 2.84% in 1996 versus 2.90% in 1995.

During 1997, the Corporation will continue to adjust the provision for loan losses periodically as necessary to maintain the allowance for loan losses at what is deemed to be an adequate level, based on the previously discussed criteria. As the provision is primarily a function of credit quality, changes in the provision for loan losses are contingent upon the economic conditions of the Corporation's market area and the economic prospects of borrowers.

Other Income. Other income decreased \$14.5 million during 1996 to \$8.2 million. This significant decline resulted predominantly from a nonrecurring pretax gain of \$14.2 million recognized on the sale of the Association's deposits during the third quarter of 1995. In addition, the reduction in other income was due to the Corporation's recognition of \$243,000 of losses on the disposition of securities in 1996 compared to gains of \$265,000 in 1995. This was offset in part by a \$239,000 increase in loan servicing fees between the same periods.

Other income grew \$15.4 million during 1995 to \$22.6 million. As discussed above, other income for 1995 included the \$14.2 million gain on the sale of deposits. In addition, other income was favorably impacted by growth in loan servicing fees and services charges on deposits which increased \$590,000 and \$288,000, respectively.

Other Expenses. Other expenses decreased \$5.0 million during 1996 to \$32.3 million. Reductions in salaries, the net costs of foreclosed assets, and federal deposit insurance premiums were the predominant factors contributing to this favorable performance. Other expenses increased by \$2.9 million to \$37.3 million between 1994 and 1995. Significant increases occurred in salaries, and the net costs of assets acquired through foreclosure. Reductions in the deposit insurance premium partially offset these increases.

Salaries decreased \$2.0 million during 1996. This decline resulted primarily from expenses associated with stock appreciation rights, which were \$1.1 million below 1995 levels, as well as lower staffing levels. In 1995, salaries increased \$3.7 million. This rise was primarily attributable to an increase of \$2.6 million in incentive related compensation. Included in such compensation were higher expenses associated with stock appreciation rights, resulting from the significant rise in the Corporation's stock price during 1995.

Federal deposit insurance premium decreased \$1.1 million between 1996 and 1995, and \$1.2 million between 1995 and 1994. Premiums in 1996 represent only the amount assessed on deposits acquired from SAIF insured institutions. The decrease between 1995 and 1994 reflects an approximately 80% reduction in premiums assessed by the FDIC during the second half of 1995. Since the Bank is currently considered "well-capitalized" by the OTS, FDIC premiums are expected to remain nominal in 1997.

The net costs of foreclosed assets declined \$1.5 million in 1996. This decrease was largely attributable to a \$1.2 million reduction in the provision for losses on foreclosed assets. Conversely, the \$924,000 increase in the net costs of foreclosed assets between 1995 and 1994 was due almost entirely to a \$927,000 increase in the provision for losses on foreclosed assets.

The Bank entered into a new contract with its data processing facilities management company in February 1997. Under the terms of the contract, the management of the Bank's "back office" functions of deposit and loan operations will be transferred to the data processing facilities management company. In addition, the Bank will implement new technology initiatives to expand product and delivery options, enhance customer service and improve productivity. As a result of this contract, data processing and equipment expense are expected to increase, offset by reduction in salaries and other employee related expenses. See Note 14 to the Consolidated Financial Statements for additional information regarding this contract.

Income Taxes. The Corporation recorded a \$3.2 million tax provision for the year ended December 31, 1996 compared to tax benefits of \$1.3 million and \$1.0 million for the years ended December 31, 1995 and 1994, respectively. The provision (benefit) for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The net tax benefits recorded in 1995 and 1994 were a result of the utilization of the Corporation's prior net operating loss carryforwards. The year 1996 included a \$3.4 million tax benefit resulting from the merger of Providential into WSFS. As a result of this merger, certain Providential tax benefits which were previously offset by a valuation allowance had become recognizable by WSFS, because of the ability to offset future taxable income of the Corporation with the tax net operating loss carryforwards of Providential. Previously, these tax net operating loss carryforwards were not recognized because of limitations imposed by the Internal Revenue Code of 1986, as amended (the Code), and it was deemed more likely than not that Providential would not have sufficient future taxable income to utilize the carryforwards before they expired. Approximately \$22 million of the Corporation's deferred tax assets are related to Providential's writedowns and income on its reverse mortgages. Management has assessed substantial valuation allowances on these deferred tax assets due to limitations imposed by the Code and uncertainties, including the timing of when these assets are realized. As time passes, management will have more information on which to base the recognition of these assets. As a result, management expects that the Corporation's effective tax rate for 1997 will be approximately 31%. (It should be understood that the foregoing is a forward-looking statement that involves considerable uncertainty. The Company's ability to reduce its 1997 tax rate to 31% is contingent on its ability to recognize the favorable tax attributes acquired from Providential which are in turn dependent on, among other things, the Company's future earnings levels and the timing of the realization of the tax attributes. Accordingly, the Company's actual tax rate for 1997 could differ materially from 31%).

The Corporation analyzes its projections of taxable income on an ongoing basis and makes adjustments to its provision (benefit) for income taxes accordingly. For additional information regarding the Corporation's tax provision and net operating loss carryforwards see Note 12 to the Consolidated Financial Statements.

FINANCIAL CONDITION

Consolidated assets grew \$138.8 million, or 11.4%, during 1996. Asset growth occurred primarily in mortgage-backed securities and loans offset in part by reductions in investments and other liquidity. Total liabilities increased \$136.6 million during the year. This increase occurred primarily in securities sold under agreements to repurchase, deposits and advances from the Federal Home Loan Bank of Pittsburgh. Stockholders' equity grew \$2.2 million to \$75.8 million at December 31, 1996. This increase was attributable to earnings offset in part by the acquisition of treasury stock.

Mortgage-backed securities. During 1996, mortgage-backed securities increased by \$128.1 million. The increase resulted from the purchase of \$154.3 million in high quality collateralized mortgage obligations and \$20.3 million in other mortgage-backed securities. These purchases were offset by principal repayments.

Investments. Investment securities decreased \$9.8 million between December 31, 1995 and 1996. This decrease resulted primarily from the disposition of a \$6.0 million investment in a fund which invested in adjustable-rate government securities. In addition, maturities and calls on corporate and municipal bonds totaled \$4.7 million in 1996.

Loans. Net loans grew \$36.3 million to \$824.1 million at December 31, 1996. This increase was attributable to growth in the Corporation's lease and consumer loan portfolios of \$23.1 million and \$21.3 million, respectively. Partially offsetting these increases was a \$15.0 million reduction in commercial mortgage loans.

Deposits. Deposits increased \$20.9 million during 1996 to \$744.9 million. This growth was largely attributable to the interest credited to deposits of \$22.9 million and the purchase of \$10.4 million in deposits from another Delaware financial institution. Partially offsetting these increases was an outflow of \$12.4 million in deposits. The table below depicts the changes in net deposits over the last three years:

| | Year Ended December 31, | | |
|------------------------------------|-------------------------|----------|----------|
| | 1996 | 1995 | 1994 |
| | ---- | ---- | ---- |
| | (In Millions) | | |
| Beginning balance..... | \$ 724.0 | \$ 809.7 | \$ 806.6 |
| Interest credited..... | 22.9 | 24.4 | 22.9 |
| Deposits (withdrawals), net..... | (12.4) | 79.1 | (19.8) |
| Deposits acquired (sold), net..... | 10.4 | (189.2) | |
| | ----- | ----- | ----- |
| Ending balance..... | \$ 744.9 | \$ 724.0 | \$ 809.7 |
| | ===== | ===== | ===== |

Borrowings. Total borrowings increased \$118.3 million during 1996. Approximately \$103.1 million in securities sold under agreements to repurchase and \$15.5 million in FHLB advances were added during the year to fund asset growth.

Stockholders' Equity. During the year, stockholders' equity increased \$2.2 million to \$75.8 million at December 31, 1996. This increase included \$16.4 million in net income offset in part by the acquisition of 1.7 million shares of treasury stock for \$14.7 million. At December 31, 1996, the Bank was in compliance with all regulatory capital requirements and met the regulatory classification of a "well-capitalized institution." Tangible, core, tier-1 risk-based and risk-based capital to asset ratios were 7.01%, 7.06%, 10.59% and 11.07%, respectively.

Asset/Liability Management. The primary asset/liability management goal of the Corporation is to manage and control its interest rate risk, thereby reducing its exposure to fluctuations in interest rates, and achieving sustainable growth in the interest margins over the long term. Other objectives of asset/liability management include: (1) ensuring adequate liquidity and funding, (2) maintaining a strong capital base and (3) maximizing net interest income opportunities.

In general, interest rate risk is mitigated by closely matching the maturities or repricing periods of interest-sensitive assets and liabilities to ensure a favorable interest rate spread. Management regularly reviews the Corporation's interest rate sensitivity, and uses a variety of strategies as needed to adjust that sensitivity within acceptable tolerance ranges established by management. Changing the relative proportions of fixed-rate and adjustable-rate assets and liabilities is one of the primary strategies utilized by the Corporation to accomplish this objective. The development of the Corporation's portfolio of adjustable-rate consumer loans in its primary market area has been one of the tactics utilized.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest-rate sensitive" and by monitoring an institution's interest-sensitivity gap. An interest-sensitivity gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income.

The repricing and maturities of the Corporation's interest-earning assets and interest-bearing liabilities at December 31, 1996 are set forth in the following table.

| | Less than One Year ----- | One to Five Years ----- | Over Five Years ----- | Total ----- |
|---|--------------------------------|-------------------------------|-----------------------------|----------------|
| (Dollars in Thousands) | | | | |
| Interest-earning assets: | | | | |
| Real estate loans (1)..... | \$ 371,588 | \$ 112,299 | \$ 100,391 | \$ 584,278 |
| Commercial loans..... | 25,290 | 2,737 | 575 | 28,602 |
| Consumer loans..... | 81,453 | 148,742 | 27,327 | 257,522 |
| Mortgage-backed securities..... | 139,374 | 149,418 | 76,460 | 365,252 |
| Loans held for sale..... | 773 | | | 773 |
| Investment in reverse mortgages..... | 1,654 | 6,857 | 27,285 | 35,796 |
| Investment securities..... | 4,270 | 3,789 | 10,874 | 18,933 |
| Other investments..... | 47,337 | | | 47,337 |
| | ----- | ----- | ----- | ----- |
| | 671,739 | 423,842 | 242,912 | 1,338,493 |
| | ----- | ----- | ----- | ----- |
| Interest-bearing liabilities: | | | | |
| Money market and interest-bearing demand deposits | 12,166 | | 44,938 | 57,104 |
| Savings deposits..... | 35,023 | | 121,381 | 156,404 |
| Time deposits..... | 327,280 | 124,454 | 3,193 | 454,927 |
| FHLB advances..... | 167,699 | 155,000 | | 322,699 |
| Senior notes..... | | | 29,100 | 29,100 |
| Other borrowed funds..... | 77,120 | 90,000 | | 167,120 |
| | ----- | ----- | ----- | ----- |
| | 619,288 | 369,454 | 198,612 | 1,187,354 |
| | ----- | ----- | ----- | ----- |
| Excess of interest-earning assets over interest-bearing liabilities ("interest-sensitive gap")..... | \$ 52,451 | \$ 54,388 | \$ 44,300 | \$ 151,139 |
| | ===== | ===== | ===== | ===== |
| Interest-sensitive assets/interest-sensitive liabilities..... | | 108.47% | | |
| Interest-sensitive gap as a percent of total assets..... | | 3.86% | | |

(1) Includes commercial mortgage loans.

To provide a more accurate one-year gap position of the Corporation, certain deposit classifications are based on the interest sensitive attributes and not on the repricing characteristics of these deposits. Management estimates, based on historical trends of the Bank's deposit accounts, that 30% of money market and interest-bearing demand deposits are sensitive to interest rate changes and that 12% of savings deposits are sensitive to interest rate changes. Accordingly, the interest sensitive portion is classified in the less than one year category with the remainder in the over five years category. However, deposit products with interest rates based on a particular index are classified according to the specific repricing characteristic of the index.

Deposit rates other than time deposit rates are variable, and changes in deposit rates are generally subject to management's discretion and not related to any particular index.

The Corporation's positive interest-sensitivity gap indicates that rising interest rates could favorably impact net interest income and falling interest rates could negatively impact net interest income. However, the interest sensitivity table does not provide a comprehensive representation of the impact of interest rate changes on net interest income. Each category of assets or liabilities will not be affected equally or simultaneously by changes in the general level of interest rates. Even assets and liabilities which contractually reprice within the same period may not, in fact, reprice at the same price or the same time. It is also important to consider that the table represents a specific point in time. Variations can occur daily as the Bank adjusts its interest sensitivity throughout the year. Accordingly, no assurance can be given that net interest income would benefit from a rise or fall in interest rates.

NONPERFORMING ASSETS

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

The following table sets forth the Corporation's nonperforming assets, restructured loans and past due loans at the dates indicated.

| | December 31, | | | | |
|--------------------------------------|------------------------|-----------|-----------|-----------|-----------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| | ----- | ----- | ----- | ----- | ----- |
| | (Dollars in Thousands) | | | | |
| Nonaccruing loans: | | | | | |
| Commercial..... | \$ 550 | \$ 563 | \$ 1,485 | \$ 1,595 | \$ 9,001 |
| Consumer..... | 224 | 291 | 593 | 674 | 923 |
| Commercial mortgages..... | 3,243 | 2,527 | 9,886 | 22,377 | 16,981 |
| Residential mortgages..... | 3,790 | 3,568 | 4,620 | 4,314 | 5,887 |
| Construction..... | 3,529 | 3,588 | 3,182 | 4,638 | 10,727 |
| | ----- | ----- | ----- | ----- | ----- |
| Total nonaccruing loans..... | 11,336 | 10,537 | 19,766 | 33,598 | 43,519 |
| Nonperforming investments in | | | | | |
| real estate..... | 1,500 | 1,252 | 2,738 | 2,901 | 3,394 |
| Assets acquired through | | | | | |
| foreclosure..... | 6,441 | 11,614 | 18,936 | 14,583 | 28,898 |
| | ----- | ----- | ----- | ----- | ----- |
| Total nonperforming assets..... | \$ 19,277 | \$ 23,403 | \$ 41,440 | \$ 51,082 | \$ 75,811 |
| | ===== | ===== | ===== | ===== | ===== |
| Restructured loans..... | \$ 10,967 | \$ 17,393 | \$ 13,775 | \$ 18,020 | \$ 10,874 |
| | ===== | ===== | ===== | ===== | ===== |
| Past due loans: | | | | | |
| Residential mortgages..... | \$ 328 | \$ 111 | \$ 152 | \$ 359 | \$ 518 |
| Commercial and | | | | | |
| commercial mortgages..... | 832 | 789 | 240 | 5,590 | 854 |
| Consumer..... | 510 | 143 | 102 | 205 | 376 |
| | ----- | ----- | ----- | ----- | ----- |
| Total past due loans..... | \$ 1,670 | \$ 1,043 | \$ 494 | \$ 6,154 | \$ 1,748 |
| | ===== | ===== | ===== | ===== | ===== |
| Ratio of nonaccruing loans | | | | | |
| to total loans (1)..... | 1.34% | 1.30% | 2.70% | 4.74% | 5.53% |
| Ratio of allowance for loan | | | | | |
| losses to total gross loans (1)..... | 2.84 | 2.90 | 2.89 | 3.26 | 3.28 |
| Ratio of nonperforming assets | | | | | |
| to total assets..... | 1.42 | 1.92 | 3.47 | 5.14 | 7.51 |
| Ratio of loan loss allowance | | | | | |
| to nonaccruing loans (2)..... | 197.04 | 201.84 | 97.79 | 63.23 | 60.35 |
| Ratio of loan and foreclosed | | | | | |
| asset allowance to total | | | | | |
| nonperforming assets (2)..... | 120.22 | 94.87 | 51.17 | 45.51 | 38.34 |

(1) Total loans exclude loans held for sale.

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

Total nonperforming assets decreased by \$4.1 million between 1996 and 1995 and by \$18.0 million between 1995 and 1994. In 1996, collections of such assets, which were \$7.6 million, as well as \$7.8 million in transfers to accrual/restructured status and to investment in real estate contributed to the reduction in nonperforming assets. Such decreases were offset by the addition of \$11.0 million of assets that were not previously classified as nonperforming assets. The decrease in the levels of nonperforming assets since 1992 reflects management's continued efforts to identify and resolve problem assets and, to a lesser extent, an improved economy.

An analysis of the change in the balance of nonperforming assets during the last three fiscal years is presented below.

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| | (In Thousands) | | |
| Beginning balance..... | \$ 23,403 | \$ 41,440 | \$ 51,082 |
| Additions..... | 11,010 | 8,224 | 16,732 |
| Collections | (7,631) | (12,247) | (17,884) |
| Transfers to accrual/restructured status..... | (2,194) | | |
| Transfers to investment in real estate..... | (5,619) | (10,424) | (3,151) |
| Charge-offs/write-downs..... | 308 | (3,590) | (5,339) |
| Ending balance..... | \$ 19,277 | \$ 23,403 | \$ 41,440 |

The most significant reduction in categories between 1996 and 1995 was in assets acquired through foreclosure which decreased \$4.1 million. This reduction was primarily the result of a \$5.6 million property which was transferred to investment in real estate. The level of nonaccruing loans to total loans ratio remained somewhat level between periods consistent with level of both nonaccruing and total loans. The nonperforming assets to total assets ratio decreased significantly as a result of the reduction in nonperforming assets, specifically assets acquired through foreclosure.

In 1995, nonaccruing loan reductions of \$7.4 million and \$1.1 million in the commercial mortgage and residential mortgage categories, respectively, a \$15 million decrease in nonperforming investments in real estate and a \$7.3 million decrease in assets acquired through foreclosure comprised the majority of the reduction in total nonperforming assets. During the first quarter of 1995, a \$4.4 million nonaccruing commercial mortgage loan was returned to accrual status and a \$2.8 million nonaccruing commercial mortgage loan was transferred to assets acquired through foreclosure after a \$744,000 partial charge-off was recorded to the allowance for loan loss. The property was subsequently sold during the third quarter of 1995.

At December 31, 1996, nonperforming assets with carrying values of \$1.0 million or more totalled approximately 51.1% of the Corporation's total nonperforming assets, as compared to 64.0% at December 31, 1995. The following table reflects the stratification of such assets by size at December 31, 1996 and 1995.

| | December 31, | | | |
|-------------------------------------|--------------|----------|--------------|------------------------|
| | 1996 | | 1995 | |
| | No. of Items | Balance | No. of Items | Balance |
| | | | | (Dollars in Thousands) |
| \$5 million and over..... | 1 | \$ 5,100 | 1 | \$ 5,950 |
| \$1 million - \$4.99 million..... | 3 | 4,743 | 4 | 9,021 |
| \$0.5 million - \$0.99 million..... | 1 | 585 | | |
| Under \$500,000..... | 175 | 8,849 | 150 | 8,432 |
| | | ----- | | ----- |
| Total nonperforming assets..... | 180 | \$19,277 | 155 | \$ 23,403 |
| | === | ===== | === | ===== |

The most significant reduction in categories between periods was in the "\$1 million - \$4.99 million" category. This reduction was due to the transfer of an asset acquired through foreclosure.

Allowance for Loan Losses. The Corporation maintains an allowance for loan losses and charges losses on loans to this allowance when such losses are considered probable. The allowance for loan losses is maintained at a level which management considers adequate to provide for potential loan losses based upon an evaluation of known and inherent risks in the loan portfolio. Management's evaluation is based upon a continuing review of the loan portfolio which includes factors such as identification of adverse situations which may affect the borrower's ability to repay, a review of overall portfolio quality, prior loan loss experience and an assessment of current and expected economic conditions. Changes in economic conditions and economic prospects of borrowers can occur quickly and, as a result, impact the estimates made by management.

Additionally, management evaluates the collectibility of each loan in the nonperforming portfolio and the fair value of each asset in the assets acquired through foreclosure category quarterly. The most frequent form of collateral for loans and foreclosed assets regardless of type are income-producing properties, business-owned real estate and personal residences. The value of such collateral is frequently verified through the use of outside appraisals. Appraisals of collateral, together with the value of guarantees and the worth of other collateral, are combined to recognize current loan losses, write-downs of foreclosed assets, and to reserve for potential future losses.

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

| | Year Ended December 31, | | | | |
|---|-------------------------|----------|----------|----------|----------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| | ---- | ---- | ---- | ---- | ---- |
| | (Dollars in Thousands) | | | | |
| Beginning balance..... | \$24,167 | \$21,700 | \$23,613 | \$26,263 | \$26,975 |
| Provision for loan losses..... | 2,015 | 1,403 | 1,683 | 2,620 | 1,359 |
| Balance at acquisition for discounted commercial mortgages..... | | 2,600 | | | |
| Transfer from lease residual reserves | 362 | | | | |
| Charge-offs: | | | | | |
| Residential real estate..... | 185 | 154 | 24 | 399 | 124 |
| Commercial real estate (1)..... | 416 | 814 | 3,168 | 3,599 | 1,799 |
| Commercial..... | 605 | 404 | 1,021 | 1,689 | 229 |
| Consumer (2)..... | 880 | 826 | 514 | 655 | 910 |
| Total charge-offs..... | 2,086 | 2,198 | 4,727 | 6,342 | 3,062 |
| Recoveries: | | | | | |
| Residential real estate..... | 15 | 1 | 29 | 42 | 49 |
| Commercial real estate (1)..... | 4 | 293 | 486 | 713 | 554 |
| Commercial..... | 15 | 169 | 322 | 46 | 171 |
| Consumer (2)..... | 248 | 199 | 294 | 271 | 217 |
| Total recoveries..... | 282 | 662 | 1,131 | 1,072 | 991 |
| Net charge-offs..... | 1,804 | 1,536 | 3,596 | 5,270 | 2,071 |
| Ending balance..... | \$24,740 | \$24,167 | \$21,700 | \$23,613 | \$26,263 |
| Net charge-offs to average gross loans outstanding, net of unearned income..... | .22% | .20% | .51% | .71% | .25% |

- (1) Includes commercial mortgage and construction loans.
(2) Includes lease financings.

The provision for loan losses increased \$612,000 between 1996 and 1995. This increase was due in part to loan growth and management's continuing review of the loan portfolio. A \$2.6 million allowance was established on a portfolio of discounted commercial loans which was purchased in the third quarter of 1995. The ratio of net charge-offs to average gross loans outstanding (net of unearned income) was .22% and .20% for the years ending December 31, 1996 and 1995, respectively.

The higher level of charge-offs in 1994 and 1993 were due to the deterioration in the credit quality of certain commercial and commercial real estate loans. During 1994, the most significant charge-off in the commercial real estate category was a \$2.7 million partial charge-off of a nonaccruing commercial mortgage loan which was subsequently transferred to assets acquired through foreclosure. The provision for loan losses during 1993 was increased primarily due to a \$9.3 million commercial real estate loan being placed on nonaccrual in the first quarter of 1993 when the borrower filed bankruptcy.

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

| | December 31, | | | | | | | | | |
|------------------------------|------------------------|---------|----------|---------|----------|---------|----------|---------|----------|---------|
| | 1996 | | 1995 | | 1994 | | 1993 | | 1992 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | | | | | |
| Residential real estate..... | \$ 326 | 31.9% | \$ 409 | 32.7% | \$ 506 | 34.7% | \$ 439 | 32.2% | \$ 774 | 31.5% |
| Commercial real estate..... | 12,697 | 35.2 | 13,663 | 38.8 | 14,273 | 37.9 | 15,967 | 41.8 | 17,052 | 41.1 |
| Commercial..... | 10,068 | 3.3 | 9,180 | 2.9 | 5,844 | 3.4 | 6,317 | 2.9 | 7,475 | 4.2 |
| Consumer (1)..... | 1,649 | 29.6 | 915 | 25.6 | 1,077 | 24.0 | 890 | 23.1 | 962 | 23.2 |
| Total..... | \$24,740 | 100.0% | \$24,167 | 100.0% | \$21,700 | 100.0% | \$23,613 | 100.0% | \$26,263 | 100.0% |

(1) Includes lease financings.

LIQUIDITY

The Corporation itself engages only in limited business operations independent of the Bank and its subsidiaries and therefore, does not require a substantial amount of liquid assets. The Corporation is required, however, to maintain a reserve at December 31, 1996 of 100% of the aggregate interest expense for 12 full calendar months on \$29.1 million of the 11% Senior Notes issued in December 1993. At December 31, 1996, the Corporation retained approximately \$3.2 million for the purpose of meeting this reserve requirement. The Corporation's ability to comply with this requirement is dependent upon its ability to obtain dividends from the Bank. The Corporation's principal asset is its investment in the capital stock of the Bank and its primary source of liquidity is dividends from the Bank. Under applicable federal regulations, the Bank may pay dividends within certain limits and only after notice to the Office of Thrift Supervision (OTS).

As required by the OTS, institutions under its supervision must maintain a 5.0% minimum liquidity ratio of cash and qualified assets to net withdrawable deposits and borrowings due within one year. The liquidity ratios of the Bank were 8.0% at both December 31, 1996 and 1995, respectively.

Management monitors liquidity daily and maintains funding sources to meet unforeseen changes in cash requirements. It is the policy of the Bank to maintain cash and investments slightly above required levels. The Corporation's primary financing sources are deposits, repayments of loans and investment securities, sales of loans and borrowings. In addition, the Corporation's liquidity requirements can be accomplished through the use of its borrowing capacity from the FHLB of Pittsburgh, the sale of certain securities under agreement to repurchase and the pledging of certain loans for other lines of credit. Management believes these sources are sufficient to maintain the required levels of liquidity.

At December 31, 1996 and 1995, the Bank had outstanding FHLB advances of \$322.7 and \$307.2 million, respectively. Additionally in March 1996, the Bank secured a \$48.8 million FHLB revolving line of credit of which none was outstanding at December 31, 1996. Another available funding source includes a \$15.0 million revolving line of credit with another institution, of which no balance was outstanding at December 31, 1996.

The Corporation routinely enters into commitments requiring the future outlay of funds. In February 1997, the Bank entered into a new agreement with its data processing facilities management company. Under the terms of this agreement, an average minimum payment of approximately \$4.4 million has been committed for each of the next five years. The above commitment, as well as loan commitments, are expected to be met through traditional funding sources, such as deposits, short-term borrowings, advances from the FHLB and principal repayments on loans.

During 1996, operating and financing activities provided cash and cash equivalents of \$17.4 and \$124.3 million, respectively, while investing activities used \$154.2 million. The cash provided by financing activities resulted primarily from additional borrowings from the FHLB and securities sold under agreement to repurchase. This cash was used to fund the purchase of mortgage-backed securities, as well as the repayment of other borrowings. Cash used for investment activities included a net increase in loans, as well as a net increase in investment securities and mortgage-backed securities.

In 1995, operating and financing activities provided \$12.3 million and \$4.0 million of cash and cash equivalents, respectively, while investing activities used \$8.6 million. The funds provided by financing activities reflect additional FHLB advances and a net increase in certificates of deposit and time deposits. These funds were utilized to fund the sale of deposits and for the repayment of other borrowings. During 1994, the financing and operating activities provided \$190.3 million and \$8.2 million of cash and cash equivalents, respectively, while investing activities used \$253.4 million. The funds provided by financing activities reflect the additional FHLB advances and reverse repurchase agreements resulting from the investment growth strategy implemented during 1994. These funds, supplemented with existing liquidity, were used to purchase mortgage-backed securities and were the major component of the cash and cash equivalents used for investment activities.

CAPITAL RESOURCES

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

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

At December 31, 1996, the Bank is classified as well-capitalized and is in compliance with all regulatory capital requirements. Management anticipates that the Bank will continue to be classified as well-capitalized. For additional information concerning the Bank's regulatory capital compliance see Note 10 to the Consolidated Financial Statements.

In March 1996, the Corporation initiated the first of two stock repurchase plans, approved by the Board of Directors during the year. A total of 725,300 shares, or approximately 5% of the common stock outstanding, were acquired in open market transactions for \$5.7 million. In October, the Corporation began a second stock repurchase program to acquire up to 10% of the outstanding common stock through open market repurchases and privately negotiated transactions. During the fourth quarter of 1996, the Corporation repurchased 929,900 shares, or 6.7% of common stock outstanding, under the second plan for approximately \$9.0 million. At December 31, 1996, the Corporation held 1,655,200 shares of common stock in its treasury at a cost of \$14.7 million. Subsequent to year end, the Corporation substantially completed the second stock repurchase program by acquiring 385,409 of additional shares of common stock in January for \$4.3 million.

IMPACT OF INFLATION AND CHANGING PRICES

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

ACCOUNTING DEVELOPMENTS

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished. The approach focuses on the assets and liabilities that exist after the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with pledge of collateral. The Corporation will adopt SFAS 125 prospectively, effective January 1, 1997, the required date of adoption, except for those types of transactions for which the effective date has been deferred by the issuance of SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125". The impact of the provisions of SFAS 125, which take effect January 1, 1997, is not expected to be material to operations, equity and financial condition. The Corporation has not yet determined the effect that the provisions deferred by SFAS 127 would have on its operations, equity and financial condition, but believes present accounting practices fairly depict the financial transactions and obligations of the Corporation.

Item 8. Financial Statements and Supplementary Data

(a) The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

Report of Independent Auditors 45
WSFS Financial Corporation (and Subsidiaries):
Management's Statement on Financial Reporting..... 46
Consolidated Statement of Operations 47
Consolidated Statement of Condition..... 48
Consolidated Statement of Changes in Stockholders' Equity..... 49
Consolidated Statement of Cash Flows..... 50
Notes to the Consolidated Financial Statements..... 52

(b) The following supplementary data is set forth in this Annual Report on form 10-K on the following pages:

Quarterly Financial Summary..... 81

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of WSFS Financial Corporation

We have audited the accompanying consolidated statement of condition of WSFS Financial Corporation and subsidiaries (the "Corporation") as of December 31, 1996 and 1995, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WSFS Financial Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

January 20, 1997
Philadelphia, Pennsylvania

MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

To Our Stockholders:

The management of WSFS Financial Corporation (the "Corporation") is responsible for the preparation, integrity and fair presentation of its published financial statements. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts that are based on judgments and estimates of management.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control structure can only provide reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the degree of effectiveness of an internal control structure may vary over time.

Management assessed the Corporation's internal control structure over financial reporting presented in conformity with generally accepted accounting principles. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes the Corporation maintained an effective internal control structure over financial data, presented in accordance with generally accepted accounting principles.

Management is also responsible for compliance with the federal laws and regulations concerning dividend restrictions and loans to insiders designated by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation as safety and soundness laws and regulations.

The Corporation assessed its compliance with the designated laws and regulations relating to safety and soundness. Based on this assessment, management believes that WSFS Financial Corporation complied, in all material respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 1996.

/s/ Marvin N. Schoenhals

Marvin N. Schoenhals
Chairman, President &
Chief Executive Officer

/s/ R. William Abbott

R. William Abbott
Executive Vice President
& Chief Financial Officer

CONSOLIDATED STATEMENT OF OPERATIONS

| | Year Ended December 31, | | |
|--|---------------------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| | (In Thousands, Except Per Share Data) | | |
| Interest income: | | | |
| Interest and fees on loans | \$ 76,474 | \$ 73,192 | \$ 58,554 |
| Interest on mortgage-backed securities | 19,446 | 16,694 | 13,403 |
| Interest and dividends on investment securities | 2,168 | 3,367 | 3,096 |
| Other interest income | 6,506 | 6,683 | 5,613 |
| | ----- | ----- | ----- |
| | 104,594 | 99,936 | 80,666 |
| | ----- | ----- | ----- |
| Interest expense: | | | |
| Interest on deposits | 31,222 | 34,066 | 27,358 |
| Interest on Federal Home Loan Bank advances | 18,079 | 15,679 | 11,420 |
| Interest on senior notes | 3,332 | 3,499 | 3,635 |
| Interest on federal funds purchased and securities sold under agreements to repurchase | 5,869 | 4,206 | 1,570 |
| Interest on other borrowed funds | 360 | 617 | 669 |
| | ----- | ----- | ----- |
| | 58,862 | 58,067 | 44,652 |
| | ----- | ----- | ----- |
| Net interest income | 45,732 | 41,869 | 36,014 |
| Provision for loan losses | 2,015 | 1,403 | 1,683 |
| | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 43,717 | 40,466 | 34,331 |
| | ----- | ----- | ----- |
| Other income: | | | |
| Gain on sale of deposits | | 14,247 | |
| Loan servicing fee income | 3,255 | 3,016 | 2,426 |
| Service charges on deposit accounts | 2,877 | 2,811 | 2,523 |
| Securities gains (losses) | (243) | 265 | 175 |
| Other income | 2,261 | 2,276 | 2,086 |
| | ----- | ----- | ----- |
| | 8,150 | 22,615 | 7,210 |
| | ----- | ----- | ----- |
| Other expenses: | | | |
| Salaries | 13,959 | 15,921 | 12,254 |
| Employee benefits and other personnel expenses | 3,518 | 4,380 | 3,283 |
| Equipment expense | 1,260 | 1,298 | 2,185 |
| Data processing expense | 2,346 | 2,269 | 2,051 |
| Occupancy expense | 2,493 | 2,430 | 2,392 |
| Marketing expense | 678 | 1,050 | 1,470 |
| Professional fees | 1,614 | 850 | 1,352 |
| Federal deposit insurance premium | 75 | 1,165 | 2,328 |
| Net costs of assets acquired through foreclosure | 1,375 | 2,871 | 1,947 |
| Other operating expenses | 5,027 | 5,107 | 5,221 |
| | ----- | ----- | ----- |
| | 32,345 | 37,341 | 34,483 |
| | ----- | ----- | ----- |
| Income before taxes | 19,522 | 25,740 | 7,058 |
| Income tax provision (benefit) | 3,166 | (1,268) | (1,012) |
| | ----- | ----- | ----- |
| Net income | \$ 16,356 | \$ 27,008 | \$ 8,070 |
| | ===== | ===== | ===== |
| Earnings per share | \$ 1.16 | \$ 1.84 | \$.55 |

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CONDITION

| | December 31, | |
|--|------------------------|-------------|
| | 1996 | 1995 |
| | (Dollars in thousands) | |
| Assets | | |
| Cash and due from banks..... | \$ 24,651 | \$ 31,135 |
| Federal funds sold and securities purchased under agreements to resell..... | 25,400 | 31,500 |
| Interest-bearing deposits in other banks..... | 5,802 | 4,768 |
| Investment securities held-to-maturity (market value: 1996 - \$17,587 and 1995 - \$22,492)..... | 17,680 | 22,378 |
| Investment securities available-for-sale..... | 1,253 | 6,394 |
| Mortgage-backed securities held-to-maturity (market value: 1996 - \$311,611 and 1995 - \$218,476)..... | 313,329 | 219,727 |
| Mortgage-backed securities available-for-sale..... | 51,923 | 17,405 |
| Investment in reverse mortgages, net..... | 35,796 | 35,614 |
| Loans held-for-sale..... | 758 | 4,345 |
| Loans, net of allowance for loan losses of \$24,740 in 1996 and \$24,167 in 1995. | 824,125 | 787,839 |
| Stock in Federal Home Loan Bank of Pittsburgh, at cost..... | 16,135 | 15,860 |
| Assets acquired through foreclosure..... | 6,441 | 11,614 |
| Premises and equipment..... | 5,966 | 6,372 |
| Accrued interest and other assets..... | 28,376 | 23,875 |
| | ----- | ----- |
| Total assets..... | \$1,357,635 | \$1,218,826 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing demand..... | \$ 76,451 | \$ 70,242 |
| Money market and interest-bearing demand..... | 57,104 | 57,312 |
| Savings..... | 156,404 | 153,931 |
| Time..... | 454,927 | 442,545 |
| | ----- | ----- |
| Total deposits..... | 744,886 | 724,030 |
| Federal funds purchased and securities sold under agreements to repurchase | 159,304 | 56,159 |
| Federal Home Loan Bank advances..... | 322,699 | 307,206 |
| Senior notes..... | 29,100 | 29,850 |
| Other borrowed funds..... | 7,816 | 7,430 |
| Accrued expenses and other liabilities..... | 18,042 | 20,605 |
| | ----- | ----- |
| Total liabilities..... | 1,281,847 | 1,145,280 |
| | ----- | ----- |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Serial preferred stock \$.01 par value, 7,500,000 shares authorized; 10% Convertible Preferred Stock, Series 1,2,000,000 shares authorized; issued and outstanding, none | | |
| Common stock \$.01 par value, 20,000,000 shares authorized; issued and outstanding, 14,567,498 at December 31, 1996 and 14,509,298 at December 31, 1995 | 146 | 145 |
| Capital in excess of par value..... | 57,289 | 57,136 |
| Net unrealized gains (losses) on securities available-for-sale, net of tax..... | 166 | (242) |
| Retained earnings | 32,863 | 16,507 |
| Treasury stock at cost, 1,655,200 shares at December 31, 1996 | (14,676) | |
| | ----- | ----- |
| Total stockholders' equity..... | 75,788 | 73,546 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$1,357,635 | \$1,218,826 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Serial Preferred stock | Common stock | Capital in excess of par value (In Thousands) | Net unrealized losses on securities | Retained earnings | Treasury stock | Total stockholders' equity |
|---|------------------------------|-----------------|--|--|----------------------|-------------------|----------------------------------|
| Balance, January 1, 1994 | \$ 14 | \$ 53 | \$ 57,197 | \$ | (18,571) | \$ | \$ 38,693 |
| Reclassification of preferred stock to common stock | (14) | 92 | (79) | | | | (1) |
| Exercise of common stock options | | | 13 | | | | 13 |
| Net changes in unrealized gains(losses) on securities available for sale, net of tax | | | | (1,501) | | | (1,501) |
| Net income | | | | | 8,070 | | 8,070 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1994 | | 145 | 57,131 | (1,501) | (10,501) | | 45,274 |
| Exercise of common stock options | | | 5 | | | | 5 |
| Net changes in unrealized gains(losses) on securities available for sale, net of tax | | | | 1,259 | | | 1,259 |
| Net income | | | | | 27,008 | | 27,008 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1995 | | 145 | 57,136 | (242) | 16,507 | | 73,546 |
| Exercise of common stock options | | 1 | 153 | | | | 154 |
| Treasury stock purchases | | | | | | (14,676) | (14,676) |
| Net changes in unrealized gains(losses) on securities available for sale, net of tax | | | | 408 | | | 408 |
| Net income | | | | | 16,356 | | 16,356 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1996 | \$ | \$ 146 | \$ 57,289 | \$ 166 | \$ 32,863 | \$(14,676) | \$ 75,788 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, | | |
|---|-------------------------|------------------------|-----------|
| | 1996 | 1995 (In Thousands) | 1994 |
| Operating activities: | | | |
| Net income | \$ 16,356 | \$ 27,008 | \$ 8,070 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 2,015 | 1,403 | 1,683 |
| Provision for losses on assets acquired through foreclosure | 400 | 1,570 | 643 |
| Depreciation, accretion and amortization | (376) | (1,304) | 1,371 |
| Decrease in accrued interest receivable and other assets | (108) | (3,718) | (6,019) |
| Origination of loans held for sale | (27,766) | (37,105) | (10,818) |
| Proceeds from sales of loans held for sale | 31,262 | 33,151 | 12,512 |
| Increase (decrease) in accrued interest payable and other liabilities | (3,204) | 5,882 | 522 |
| Gain on sale of deposits | | (16,553) | |
| Other, net | (1,192) | 1,928 | 204 |
| Net cash provided by operating activities | 17,387 | 12,262 | 8,168 |
| Investing activities: | | | |
| Net (increase) decrease of interest-bearing deposits in other banks | (1,034) | 5,069 | 16,494 |
| Maturities of investment securities | 4,595 | 12,816 | 4,444 |
| Sales of investment securities available-for-sale | 60,328 | 63,493 | 35,413 |
| Purchases of investment securities held-to-maturity | | (39,773) | (10,049) |
| Purchases of investment securities available-for-sale | (54,615) | (387) | (39,858) |
| Repayments of mortgage-backed securities held-to-maturity | 44,382 | 23,903 | 37,706 |
| Repayments of mortgage-backed securities available-for-sale | 2,123 | 2,243 | 1,736 |
| Purchases of mortgage-backed securities held-to-maturity | (135,809) | | (260,105) |
| Purchases of mortgage-backed securities available-for-sale | (38,763) | | |
| Repayments on reverse mortgages | 13,151 | 12,701 | 7,180 |
| Disbursements for reverse mortgages | (11,091) | (14,619) | (7,300) |
| Sales of loans | 6,456 | 4,111 | 747 |
| Purchase of loans | (13,351) | (54,271) | (5,846) |
| Net increase in loans | (34,989) | (27,118) | (32,727) |
| Net increase in stock of Federal Home Loan Bank of Pittsburgh | (275) | (4,546) | (5,435) |
| Sales of investments in real estate | 505 | 1,481 | 1,082 |
| Payments made for investments in real estate | (1,362) | (5) | (1,090) |
| Sales of assets acquired through foreclosure, net | 6,263 | 7,816 | 10,758 |
| Premises and equipment, net | (764) | (1,053) | (1,457) |
| Purchase of Providential Home Income Plan, Inc., net of cash acquired | | | (2,031) |
| Other, net | | (417) | (3,065) |
| Net cash used for investing activities | (154,250) | (8,556) | (253,403) |

(Continued on next page)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| | ----- | ----- | ----- |
| | (In Thousands) | | |
| Financing activities: | | | |
| Net increase (decrease) in demand and savings deposits | 11,518 | (13,527) | (14,624) |
| Net increase in certificates of deposit and time deposits | 12,084 | 122,701 | 19,381 |
| Sale of deposits, net | | (180,758) | |
| Repayment of municipal bond repurchase obligations | (2,689) | (2,690) | (1,122) |
| Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | 103,145 | (549) | 56,708 |
| Receipts from additional other borrowed funds | 125,000 | 150,970 | 260,000 |
| Repayments of other borrowed funds | (109,507) | (70,047) | (130,045) |
| Issuance of common stock | 154 | 5 | 13 |
| Extinguishment of senior notes | (750) | (2,150) | |
| Purchase treasury stock | (14,676) | | |
| | ----- | ----- | ----- |
| Net cash provided by financing activities | 124,279 | 3,955 | 190,311 |
| | ----- | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | (12,584) | 7,661 | (54,924) |
| Cash and cash equivalents at beginning of period | 62,635 | 54,974 | 109,898 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 50,051 | \$ 62,635 | \$ 54,974 |
| | ===== | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 58,864 | \$ 53,689 | \$ 41,969 |
| Income taxes, net | 4,820 | 2,184 | 745 |
| Loans transferred to assets acquired through foreclosure | 5,885 | 6,264 | 12,729 |
| Net change in unrealized gains (losses) on securities available-for-sale, net of tax | 408 | (1,259) | 1,501 |
| Assets acquired through foreclosure transferred to investment in real estate, net .. | 4,806 | | |

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

WSFS Financial Corporation (Corporation) is a thrift holding company organized under the laws of the State of Delaware. The Corporation's principal wholly owned subsidiary, Wilmington Savings Fund Society, FSB (Bank), is a federal savings bank organized under the laws of the United States which conducts operations from 16 retail banking offices located in the Wilmington and Dover, Delaware area.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. The material estimates that are particularly susceptible to significant change in the near term relate to the determination of the adequacy of the allowance for possible loan losses and the valuations of other real estate owned, deferred tax assets, investment in reverse mortgages and contingencies.

Basis of Presentation

The consolidated financial statements include the accounts of the parent company, the Bank and its wholly owned subsidiaries, WSFS Credit Corporation (WCC), 838 Investment Group, Inc., Community Credit Corporation (CCC) and Star States Development Company (SSDC). Also included in the consolidated financial statements are the operations of Providential Home Income Plan, Inc. (Providential), a subsidiary until November 1996 when the management and operations were merged into WSFS. Providential was a California-based reverse mortgage lender which was acquired by the Bank in 1994. In addition, Star States Pennsylvania Corporation (SSPA) and its subsidiary, Fidelity Federal Savings and Loan Association (Association), a federally-chartered stock savings and loan association, are included in the consolidated financial statements until November 1995. This was the result of the sale of the Association's deposits in July 1995 and the subsequent merger of the Association's remaining operations into the Bank in November 1995.

WCC is engaged primarily in motor vehicle leasing. The related leases are accounted for as either direct financing or operating leases. 838 Investment Group, Inc. markets various insurance and mutual fund products to Bank customers through the Bank's branch system. CCC is a consumer finance subsidiary specializing in consumer loans primarily secured by first and second mortgages. SSDC was originally formed to acquire, develop and market improved and unimproved real estate either through wholly owned subsidiaries or investments in joint ventures. SSDC activities are currently inactive with the exception of one parcel of land which is being marketed for sale. All significant intercompany transactions are eliminated in consolidation. Certain reclassifications have been made to the prior years' financial statements to conform them to the current year's presentation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and federal funds sold and securities purchased under agreements to resell. Generally, federal funds are purchased and sold for periods ranging up to ninety days.

Debt and Equity Securities

Effective January 1, 1994, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement requires that investments in

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

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

The cumulative effect of this change in accounting principle was immaterial at adoption. There were no investment or mortgage-backed securities classified as "trading" during 1996 or 1995.

Debt and equity securities include investment and mortgage-backed securities, corporate bonds, notes, debentures and certain equity securities. Premiums and discounts on debt and equity securities held-to-maturity and available-for-sale are recognized in interest income using a level yield over the period to expected maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. The specific identification method is used to determine realized gains and losses on sales of investment and mortgage-backed securities. All sales are made without recourse.

Loans

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

In the first quarter of 1995, the Corporation adopted SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," and its amendment, SFAS No. 118 "Accounting by Creditors for Impairment of a Loan- Income Recognition and Disclosures," which require that impaired loans be measured based on the present value of expected future discounted cash flows, the market price of the loan or the fair value of the underlying collateral if the loan is collateral dependent. Impaired loans as defined in SFAS No. 114 include loans within the Corporation's commercial, commercial mortgage and commercial construction portfolios. The adoption of SFAS No. 114 had no effect on the results of operations or the financial position of the Corporation since a portion of the allowance for credit losses was allocated to the allowance for impairment losses.

Nonaccrual Loans

Nonaccrual loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and collateral is insufficient to cover principal and interest. Interest accrued, but not collected at the date a loan is placed on nonaccrual status, is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal or recorded as interest income, depending on management's assessment of ultimate collectibility of principal and interest. Loans are returned to an accrual status when the borrower's ability to make periodic principal and interest payments has returned to normal (i.e. - brought current with respect to principal or interest or restructured) and the

paying capacity of the borrower and/or the underlying collateral is deemed sufficient to cover principal and interest in accordance with the Corporation's previously established loan-to-value policies.

Allowances for Loss

The allowance for loan losses is maintained at a level which management considers adequate to provide for potential loan losses based upon an evaluation of known and inherent risks in the loan portfolio. Management's evaluation is based upon a continuing review of the loan portfolio which includes factors such as identification of adverse situations which may affect the borrower's ability to repay, a review of overall portfolio quality, prior loan loss experience and an assessment of current and expected economic conditions. Allowances for estimated losses on investments in real estate and assets acquired through foreclosure are provided if the carrying value exceeds the fair value less estimated disposal costs. Consideration is also given to examinations performed by regulatory authorities.

Changes in economic conditions and economic prospects of borrowers can occur quickly and, as a result, impact the estimates made by management. These estimates are continually reviewed and, as adjustments become necessary, are included in operations in the period which they become known. Identified losses on specific loans, investments in real estate or assets acquired through foreclosure are charged against the applicable allowance.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market as determined on a net aggregate basis.

Assets Acquired Through Foreclosure

Assets acquired through foreclosure are recorded at the lower of the recorded investment in the loan or fair value less estimated disposal costs. Costs subsequently incurred to improve the assets are included in the carrying value provided that the resultant carrying value does not exceed fair value less estimated disposal costs. Costs relating to holding the assets are charged to expense in the current period. An allowance for estimated losses is provided when declines in fair value below the carrying value are identified. Net costs of assets acquired through foreclosure includes costs of holding and operating the assets, net gains or losses on sales of the assets and provisions for losses to reduce such assets to fair value less estimated disposal costs.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Costs of major replacements, improvements and additions are capitalized. Depreciation expense is computed on the straight-line basis over the estimated useful lives of the assets or, for leasehold improvements, over the life of the related lease if less than the estimated useful life. Accelerated methods are used in depreciating certain assets for income tax purposes.

Securities Sold Under Agreements to Repurchase

The Corporation enters into sales of securities under agreements to repurchase. Reverse repurchase agreements are treated as financings with the obligation to repurchase securities sold reflected as a liability in the Consolidated Statement of Condition. The securities underlying the agreements remain in the asset accounts.

Income Taxes

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

Earnings per Share

Primary earnings per share is computed by dividing income applicable to common stockholders by the weighted average number of common stock and common stock equivalents outstanding during the periods presented. Common stock equivalents represent the dilutive effect of the assumed exercise of certain outstanding stock options using the treasury stock method. The weighted average number of shares used in computing earnings per share were 14,077,617, 14,676,071 and 14,608,579 for the years ended December 31, 1996, 1995 and 1994, respectively.

2. DISPOSITION OF CERTAIN ASSETS AND LIABILITIES

On July 28, 1995, the Corporation's wholly-owned subsidiary, Fidelity Federal Savings and Loan Association, completed the sale of deposits and certain real estate at four of its branches to another institution. Approximately \$197.3 million of deposit liabilities were assumed by this institution in exchange for certain branch related assets, loans and cash. The premium paid of the deposit base was 8.52%, subject to certain adjustments at closing. The Corporation reported a gain of approximately \$12.4 million, net of taxes and a supplemental contribution to the Corporation's 401(k) Plan, or \$.84 per outstanding share from this sale. The Corporation funded the \$177.6 million cash outflow through long-term borrowings of \$70.0 million and \$63.8 million in brokered CD's. This transaction allowed the Corporation to focus on its primary market area while enhancing capital.

3. INVESTMENT SECURITIES

| | Amortized Cost ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- | Fair Value ----- |
|------------------------------------|----------------------------|---------------------------------------|--|------------------------|
| | (In Thousands) | | | |
| Available-for-sale securities: | | | | |
| December 31, 1996: | | | | |
| State and political subdivisions . | \$ 1,291 | \$ | \$ 38 | \$ 1,253 |
| | ===== | ===== | ===== | ===== |
| December 31, 1995: | | | | |
| State and political subdivisions | \$ 757 | \$ 134 | \$ | \$ 891 |
| Other investments | 5,786 | | 283 | 5,503 |
| | ----- | ----- | ----- | ----- |
| | \$ 6,543 | \$ 134 | \$ 283 | \$ 6,394 |
| | ===== | ===== | ===== | ===== |
| Held-to-maturity: | | | | |
| December 31, 1996: | | | | |
| Corporate bonds | \$15,038 | \$ 51 | \$ 148 | \$14,941 |
| State and political subdivisions | 2,642 | 4 | | 2,646 |
| | ----- | ----- | ----- | ----- |
| | \$17,680 | \$ 55 | \$ 148 | \$17,587 |
| | ===== | ===== | ===== | ===== |
| December 31, 1995: | | | | |
| Corporate bonds | \$16,748 | \$ 154 | \$ 50 | \$16,852 |
| State and political subdivisions | 5,542 | 54 | 41 | 5,555 |
| Other investments | 88 | | 3 | 85 |
| | ----- | ----- | ----- | ----- |
| | \$22,378 | \$ 208 | \$ 94 | \$22,492 |
| | ===== | ===== | ===== | ===== |

Securities with book values aggregating \$4,870,000 at December 31, 1996 are pledged as collateral for the Bank's treasury, tax and loan account with the Federal Reserve. Accrued interest receivable relating to investment securities was \$314,000 and \$696,000 at December 31, 1996 and 1995, respectively. Substantially all of the interest and dividends on investment securities represented taxable income.

The scheduled maturities of securities held-to-maturity and securities available-for-sale at December 31, 1996 were as follows:

| | Held-to-Maturity ----- | | Available-for-Sale ----- | |
|---|----------------------------|------------------------|-----------------------------|------------------------|
| | (In Thousands) | | | |
| | Amortized Cost ----- | Fair Value ----- | Amortized Cost ----- | Fair Value ----- |
| Within one year | \$ 4,270 | \$ 4,272 | \$ | \$ |
| After one year but within five years..... | 3,789 | 3,789 | | |
| After five but within ten years..... | 4,789 | 4,788 | | |
| After ten years..... | 4,832 | 4,738 | 1,291 | 1,253 |
| | ----- | ----- | ----- | ----- |
| | \$17,680 | \$17,587 | \$ 1,291 | \$ 1,253 |
| | ===== | ===== | ===== | ===== |

Proceeds from the sales of investments available-for-sale during 1996 were \$60,328,000. Gains of \$218,000 and losses of \$353,000 were realized on these sales. There were no sales of securities classified as held-to-maturity nor transfers between categories of investment securities during 1996 and 1995.

Proceeds from the sale of investments during 1995 and 1994 were \$63,403,000 and \$35,497,000, respectively. Gains of \$333,000 and \$70,000 in 1995 and 1994, respectively, and losses of \$87,000 and \$42,000 in 1995 and 1994, respectively, were realized on these sales.

4. MORTGAGE-BACKED SECURITIES

| | Amortized Cost ----- | Gross Unrealized Gains ----- | Gross Unrealized Losses ----- | Fair Value ----- |
|---|----------------------------|---------------------------------------|--|------------------------|
| | (In Thousands) | | | |
| Available-for-sale securities: | | | | |
| December 31, 1996: | | | | |
| Collateralized mortgage obligations | \$ 37,238 | \$ 244 | \$ | \$ 37,482 |
| GNMA | 14,391 | 50 | | 14,441 |
| | ----- | ----- | ----- | ----- |
| | \$ 51,629 | \$ 294 | \$ | \$ 51,923 |
| | ===== | ===== | ===== | ===== |
| Weighted average yield | 7.08% | | | |
| December 31, 1995: | | | | |
| GNMA | \$ 17,586 | \$ | \$ 181 | \$ 17,405 |
| | ===== | ===== | ===== | ===== |
| Weighted average yield | 6.44% | | | |
| Held-to-maturity securities: | | | | |
| December 31, 1996: | | | | |
| Collateralized mortgage obligations | \$165,516 | \$ 927 | \$ 2 | \$166,441 |
| FNMA | 62,754 | | 1,276 | 61,478 |
| GNMA | 1,496 | 41 | | 1,537 |
| FHLMC | 63,223 | 60 | 1,470 | 61,813 |
| Other | 20,340 | 2 | | 20,342 |
| | ----- | ----- | ----- | ----- |
| | \$313,329 | \$ 1,030 | \$ 2,748 | \$311,611 |
| | ===== | ===== | ===== | ===== |
| Weighted average yield | 6.96% | | | |
| December 31, 1995: | | | | |
| Collateralized mortgage obligations | \$ 72,222 | \$ 1,280 | \$ 39 | \$ 73,463 |
| FNMA | 72,590 | | 1,310 | 71,280 |
| GNMA | 1,697 | 44 | | 1,741 |
| FHLMC | 73,197 | 82 | 1,309 | 71,970 |
| Other | 21 | 1 | | 22 |
| | ----- | ----- | ----- | ----- |
| | \$219,727 | \$ 1,407 | \$ 2,658 | \$218,476 |
| | ===== | ===== | ===== | ===== |
| Weighted average yield | 6.75% | | | |

At December 31, 1996, mortgage-backed securities with book values aggregating \$170,194,000 were pledged as collateral for retail customer repurchase agreements and securities sold under agreements to repurchase. Accrued interest receivable relating to mortgage-backed securities was \$2,149,000 and \$1,372,000 at December 31, 1996 and 1995, respectively. There were no sales of mortgage-backed securities classified as held-to-maturity or available-for-sale, nor transfers between categories of mortgage-backed securities during 1996 and 1995.

5. LOANS

| | December 31, | |
|-------------------------------------|----------------|-----------|
| | 1996 | 1995 |
| | ----- | ----- |
| | (In Thousands) | |
| Real estate mortgage loans: | | |
| Residential (1-4 family) | \$278,287 | \$272,525 |
| Other | 282,748 | 296,884 |
| Real estate construction loans..... | 32,134 | 36,486 |
| Commercial loans..... | 30,369 | 26,620 |
| Consumer loans | 135,552 | 114,265 |
| Lease financings..... | 121,970 | 98,840 |
| | ----- | ----- |
| | 881,060 | 845,620 |
| Less: | | |
| Loans in process | 10,658 | 12,158 |
| Unearned income | 21,537 | 21,456 |
| Allowance for loan losses | 24,740 | 24,167 |
| | ----- | ----- |
| | \$824,125 | \$787,839 |
| | ===== | ===== |

At December 31, 1996, the Corporation has impaired loans totaling approximately \$16.0 million, all of which had a related allowance for impairment. The average recorded investment in the loans was \$16.3 million in 1996. The allowance for losses on impaired loans totalled \$2.4 million at December 31, 1996. A charge-off of \$495,000 was recorded in June 1996. The Corporation recognizes interest income on a cash basis method on impaired loans. Total interest income recognized on impaired loans totalled \$1.3 million for the year ended December 31, 1996.

The total amounts of loans serviced for others were \$196,415,000, \$229,144,000 and \$179,562,000 at December 31, 1996, 1995 and 1994, respectively. Accrued interest receivable on loans outstanding was \$4,546,000, \$4,965,000 and \$4,318,000 at December 31, 1996, 1995 and 1994, respectively.

Nonaccruing loans aggregated \$11,336,000, \$10,537,000 and \$19,766,000 at December 31, 1996, 1995 and 1994, respectively. If interest on all such loans had been recorded, net interest income would have increased by \$993,000 in 1996, \$735,000 in 1995, \$1,191,000 in 1994.

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

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 1996 | 1995 | 1994 |
| | (In Thousands) | | |
| Beginning balance | \$24,167 | \$21,700 | \$23,613 |
| Balance at acquisition for discounted commercial mortgages | | 2,600 | |
| Transfer from lease residual reserve | 362 | | |
| Provision for loan losses..... | 2,015 | 1,403 | 1,683 |
| Loans charged-off | (2,086) | (2,198) | (4,727) |
| Recoveries..... | 282 | 662 | 1,131 |
| Ending balance | \$24,740 | \$24,167 | \$21,700 |

6. ASSETS ACQUIRED THROUGH FORECLOSURE

| | December 31, | |
|---------------------------|----------------|----------|
| | 1996 | 1995 |
| | (In Thousands) | |
| Real estate | \$ 7,648 | \$13,802 |
| Other | 718 | 568 |
| | 8,366 | 14,370 |
| Less: | | |
| Allowance for losses..... | 1,925 | 2,756 |
| | \$ 6,441 | \$11,614 |

A summary of changes in the allowance for losses follows:

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 1996 | 1995 | 1994 |
| | (In Thousands) | | |
| Beginning balance..... | \$ 2,756 | \$ 5,677 | \$ 5,570 |
| Provision for loan losses | 400 | 1,570 | 643 |
| Net charge-offs | (231) | (4,491) | (536) |
| Transfer to investment in real estate..... | (1,000) | | |
| Ending balance | \$ 1,925 | \$ 2,756 | \$ 5,677 |

7. PREMISES AND EQUIPMENT

| | December 31, | |
|--------------------------------|----------------|---------------|
| | ----- 1996 | 1995 ----- |
| | (In Thousands) | |
| Land | \$ 720 | \$ 720 |
| Buildings | 6,112 | 6,088 |
| Leasehold improvements | 2,259 | 2,269 |
| Furniture and equipment | 7,292 | 7,208 |
| | ----- | ----- |
| | 16,383 | 16,285 |
| Less: | | |
| Accumulated depreciation | 10,417 | 9,913 |
| | ----- | ----- |
| | \$ 5,966 | \$ 6,372 |
| | ===== | ===== |

The Corporation occupies certain premises and operates certain equipment under noncancelable leases with terms ranging from 1 to 18 years. These leases are accounted for as operating leases. Accordingly, lease costs are expensed as incurred. Rent expense was \$965,000 in 1996, \$921,000 in 1995, and \$806,000 in 1994. Future minimum payments under these leases at December 31, 1996 are (in thousands):

| | |
|------------------------------------|---------|
| 1997 | \$ 908 |
| 1998 | 785 |
| 1999 | 536 |
| 2000 | 513 |
| 2001 | 413 |
| Thereafter | 2,882 |
| | ----- |
| Total minimum lease payments | \$6,037 |
| | ===== |

8. DEPOSITS

Time deposits include certificates of deposit in denominations of \$100,000 or more which aggregate \$39,586,000 and \$37,520,000 at December 31, 1996 and 1995, respectively.

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

| | December 31, | |
|--|----------------|-----------|
| | 1996 | 1995 |
| | ----- | |
| | (In Thousands) | |
| Money market and demand: | | |
| Noninterest-bearing demand | \$ 76,451 | \$ 70,242 |
| Money market and interest-bearing demand | 57,104 | 57,312 |
| Total money market and demand | ----- | ----- |
| | 133,555 | 127,554 |
| | ----- | ----- |
| Savings | 156,404 | 153,931 |
| | ----- | ----- |
| Time certificates by maturity (1): | | |
| Less than one year | 300,114 | 260,826 |
| One year to two years | 63,279 | 81,132 |
| Two years to three years | 29,053 | 36,597 |
| Three years to four years | 30,424 | 32,108 |
| Four years to five years | 28,864 | 28,906 |
| Over five years | 3,193 | 2,976 |
| Total time certificates | ----- | ----- |
| | 454,927 | 442,545 |
| | ----- | ----- |
| Total deposits | \$744,886 | \$724,030 |
| | ===== | ===== |

(1) Includes \$64.2 and \$63.8 million of brokered certificates of deposits at December 31, 1996 and 1995, respectively.

Interest expense by deposit category follows:

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| | ----- | | |
| | (In Thousands) | | |
| Money market and interest-bearing demand | \$ 1,419 | \$ 1,865 | \$ 2,074 |
| Savings | 4,084 | 4,261 | 4,498 |
| Time | 25,719 | 27,940 | 20,786 |
| | ----- | ----- | ----- |
| | \$ 31,222 | \$ 34,066 | \$ 27,358 |
| | ===== | ===== | ===== |

9. BORROWED FUNDS

| | Balance End of Period ----- | Weighted Average Interest Rate ----- | Maximum Amount Outstanding at Month End During the Period ----- | Average Amount Outstanding During the Period ----- | Weighted Average Interest Rate During the Period ----- |
|---|--------------------------------------|--|--|---|--|
| (Dollars in Thousands) | | | | | |
| 1996 | | | | | |
| FHLB advances..... | \$322,699 | 5.85% | \$322,699 | \$307,180 | 5.89% |
| Senior notes..... | 29,100 | 11.39 | 29,850 | 29,251 | 11.39 |
| Municipal bond repurchase obligations..... | | | 2,666 | 648 | 11.57 |
| Federal funds purchased and securities sold under agreements to repurchase | 159,304 | 5.70 | 159,304 | 100,965 | 5.81 |
| Other collateralized borrowings..... | 7,816 | 4.25 | 9,497 | 6,527 | 4.35 |
| 1995 | | | | | |
| FHLB Advances..... | \$307,206 | 6.03% | \$317,210 | \$259,071 | 6.05% |
| Senior notes..... | 29,850 | 11.39 | 32,000 | 30,710 | 11.39 |
| Municipal bond repurchase obligations..... | 2,658 | 11.71 | 4,632 | 4,180 | 9.43 |
| Federal funds purchased and securities sold under agreements to repurchase | 56,159 | 5.96 | 87,951 | 67,383 | 6.24 |
| Other collateralized borrowings..... | 4,772 | 4.40 | 7,253 | 5,461 | 4.08 |

Federal Home Loan Bank Advances

Advances from the Federal Home Loan Bank (FHLB) of Pittsburgh with fixed rates ranging from 4.79% to 7.03% at December 31, 1996 are due as follows (dollars in thousands):

| | Amount | Weighted Average Rate |
|------------|------------|-----------------------------|
| 1997 | \$ 137,000 | 6.12% |
| 1998..... | 80,000 | 5.40 |
| 1999..... | 65,000 | 5.70 |
| 2001..... | 10,000 | 5.82 |
| | ----- | |
| | \$ 292,000 | |
| | ===== | |

Also outstanding at December 31, 1996 is a \$30,000,000 advance from the FHLB with a variable rate based on prime rate less 2.05% which matures in 1997. The Bank also has FHLB advances of \$699,000 maturing in 1997, with fixed rates of 2.25%. These low rate advances are part of the FHLB of Pittsburgh's Affordable Housing Program.

In March 1996, the Bank secured a \$48,807,000 FHLB revolving line of credit, of which none was outstanding at December 31, 1996. This line expires on March 25, 1997 and is expected to be renewed at that time. Pursuant to collateral agreements with the FHLB, advances are secured by qualifying first mortgage loans, collateralized mortgage obligations, FHLB stock and an interest-bearing demand deposit account with the FHLB.

Senior Notes

In December 1993, the Corporation completed the private placement of \$32.0 million of 11% Senior Notes (the Notes). The net proceeds totalled \$30.4 million, after issuance costs of \$1.6 million. Issuance costs are being amortized on a straight line basis over the life of the Notes as a yield adjustment. Net proceeds equal to two semi-annual interest payments are retained by the Corporation. The remainder of the net proceeds were invested in the common stock of the Bank, the Corporation's principal subsidiary. The Corporation repurchased and canceled \$750,000 and \$2,150,000 of the bonds outstanding during 1996 and 1995, respectively.

The Notes mature on December 31, 2005. All outstanding principal will be due and payable at maturity. There is no sinking fund requiring principal payments prior to maturity. The Corporation may elect to redeem the Notes, in whole or in part, at any time on or after December 31, 1998 at 105% of par plus accrued interest, declining ratably (but not below par) over the remaining term to maturity. Semi-annual interest payments are due each January 1 and July 1 until maturity.

The covenants of the Notes require the Corporation to maintain specified amounts of investment grade securities (in an amount equal to two semi-annual interest payments), restrict the ability of the Corporation to pay dividends or to make other capital distributions, limits the creation of liens and guarantees with respect to certain other indebtedness, restricts the Corporation's ability to dispose of the capital stock of the Bank, and limits the creation of additional senior debt. The maturity of the Notes may also be accelerated in the event of a default.

Municipal Bond Repurchase Obligations

In December 1984, the Bank conveyed municipal bonds with a book value of \$28,959,000 to a unit investment trust in exchange for \$22,604,000. Holders of units in the trust had the option of requiring the trust to redeem their units and the trust had the option of reselling the units or requiring the Bank to repurchase any or all of the bonds at stated amounts. The price to be paid by the Bank to repurchase individual bonds increases on each anniversary of the conveyance and the Bank's obligation to repurchase individual bonds was to cease one year prior to the final maturity of such bonds. Given the historical relationships of short- and long-term yields on municipal bonds and the coupon rates of the bonds conveyed to the trust, it was assumed that the trust would require the Bank to repurchase the bonds prior to the expiration of the repurchase obligations. Consequently, the transaction had been accounted for as a financing arrangement with the bonds included in investment securities at book value and the proceeds received by the Bank recorded as a liability. This liability was increased annually to reflect the increase in the amounts the Bank was obligated to pay to repurchase individual bonds with a corresponding charge to interest expense (\$75,000, \$394,000, and \$514,000 for the years ended December 31, 1996, 1995 and 1994, respectively).

During 1996, the Bank's participation in the unit trust was dissolved and recorded as a sale resulting in the recognition of a \$108,000 loss.

Securities Sold Under Agreements to Repurchase

During 1996, the Bank sold securities under agreements to repurchase as a short-term funding source. At December 31, 1996, securities sold under agreements to repurchase had fixed rates ranging from 5.45% to 6.12%. The underlying securities are mortgage-backed securities with book and market values aggregating \$170.2 million and \$168.8 million, respectively, at December 31, 1996.

Other Collateralized Borrowings

Collateralized borrowings of \$7,816,000 and \$4,772,000 at December 31, 1996 and 1995, respectively, consisted of outstanding retail repurchase agreements, contractual arrangements under which portions of certain securities are sold on an overnight basis to retail customers under agreements to repurchase. At December 31, 1996 such borrowings were collateralized by collateralized mortgage obligations. Rates on these borrowings during 1996 ranged from 4.25% to 4.40%.

10. STOCKHOLDERS' EQUITY

Under Office of Thrift Supervision (OTS) capital regulations, savings institutions, such as the Bank, must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4.0% of adjusted total assets and "total" or "risk-based" capital (a combination of core and "supplementary" capital) equal to 8.0% of risk-weighted assets and Tier 1 capital equal to 4.0% of risk-weighted assets. At December 31, 1996, the Bank was in compliance with all such requirements and is deemed a "well-capitalized" institution for regulatory purposes.

A table presenting the Bank's consolidated capital position relative to the minimum regulatory requirements as of December 31, 1996 follows (dollars in thousands):

| | Consolidated Bank Capital | | Regulatory Requirement | | Excess | |
|-------------------------|------------------------------|----------------------|---------------------------|----------------------|-----------|----------------------|
| | Amount | Percent of Assets | Amount | Percent of Assets | Amount | Percent of Assets |
| Tangible Capital..... | \$ 95,057 | 7.01% | \$ 10,336 | 1.50% | \$ 74,721 | 5.51% |
| Core Capital..... | 95,801 | 7.06 | 54,258 | 4.00 | 41,543 | 3.06 |
| Tier 1 Capital..... | 95,801 | 10.59 | 36,174 | 4.00 | 59,627 | 6.59 |
| Risk-based Capital..... | 100,122 | 11.07 | 72,348 | 8.00 | 27,774 | 3.07 |

Treasury Stock

In March 1996, the Corporation initiated the first of two stock repurchase plans, approved by the Board of Directors during the year. A total of 725,300 shares, or approximately 5% of the common stock outstanding, were acquired in open market transactions for \$5.7 million. In October, the Corporation began a second stock repurchase program to acquire up to 10% of the outstanding common stock through open market repurchases and privately negotiated transactions. During the fourth quarter of 1996, the Corporation repurchased 929,900 shares, or 6.7% of common stock outstanding, under the second plan for approximately \$9.0 million. At December 31, 1996, the Corporation held 1,655,200 shares of common stock in its treasury at a cost of \$14.7 million. Subsequent to year end, the Corporation substantially completed the second stock repurchase program by acquiring 385,409 additional shares of common stock in January 1997 for \$4.3 million.

The Holding Company

Although the holding company does not have significant assets or engage in significant operations separate from the banking subsidiary, the Corporation has agreed to cause the Bank's required regulatory capital level to be maintained by infusing sufficient additional capital as necessary. To that end, the Corporation issued the 11% Senior Notes described in Note 9.

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

11. EMPLOYEE BENEFIT PLANS

Employee 401(k) Savings Plan

Certain subsidiaries of the Corporation maintain a qualified plan in which employees may participate. The Corporation's contributions to the plan on behalf of its employees resulted in an expense of \$704,000, \$1,417,000 and \$480,000 in 1996, 1995 and 1994, respectively. The plan purchased 55,000, 161,000 and 59,000 shares of common stock of the Corporation during 1996, 1995 and 1994, respectively. The significant increase in expense and shares purchased in 1995 resulted from a special supplemental contribution of \$734,000 related to the sale of the Association's deposits.

Postretirement Benefits

The Corporation shares certain costs of providing health and life insurance benefits to retired employees (and their eligible dependents). Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Corporation.

The Corporation accounts for its obligations under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires that the costs of these benefits be recognized over an employee's active working career.

Net periodic postretirement benefit costs for the years ended December 31, 1996, 1995 and 1994 included the following components (in thousands):

| | 1996 ---- | 1995 ---- | 1994 ---- |
|---|--------------|--------------|--------------|
| Service cost for benefits during the period..... | \$ 30 | \$ 62 | \$ 35 |
| Interest cost on accumulated postretirement benefit obligation..... | 97 | 108 | 104 |
| Amortization of unrecognized transition obligation..... | 65 | 70 | 78 |
| Actual gain on plan assets..... | (2) | - | (7) |
| | ----- | ----- | ----- |
| Net postretirement benefit cost..... | \$ 190 | \$ 240 | \$ 210 |
| | ===== | ===== | ===== |

The Corporation's unrecorded accumulated postretirement benefit obligation (APBO) at adoption was \$1.4 million. As permitted, this liability is being amortized through charges to earnings over a 20-year period. The following summarizes the APBO at each year ended December 31 (dollars in thousands):

| | 1996 ---- | 1995 ---- |
|---|--------------|--------------|
| Accumulated Postretirement Benefit Obligation: | | |
| Retirees..... | \$1,032 | \$1,312 |
| Future retirees..... | 300 | 279 |
| | ----- | ----- |
| Total obligation..... | 1,332 | 1,591 |
| Market value of plan assets..... | - | - |
| Unrecognized net loss..... | (42) | (162) |
| Unrecognized transition liability..... | (981) | (1,196) |
| | ----- | ----- |
| Postretirement benefit liability recognized in the balance sheet..... | \$ 309 | \$ 233 |
| | ===== | ===== |
| Assumptions used to value the APBO: | | |
| Discount rate..... | 7.3% | 7.0% |
| Health care cost trend rate..... | 9.5% | 9.5% |

The Corporation assumes that the average annual rate of increase for medical benefits will decrease by one-half of 1% per year to 5% in the tenth and all future years. The costs incurred for retirees health care are limited since certain current and all future retirees are limited to an annual medical premium cap of \$1,664 indexed by the lesser of 4% or the actual increase in medical premiums paid by the Corporation. During 1996, the benefit for Medicare Part B Premium reimbursement payments were also included in the cap noted above. This change decreased the APBO by \$150,000. A 1% increase in the annual health care trend rates would not have a material impact on the APBO or postretirement benefit expense at or for the years ended December 31, 1996, 1995 and 1994.

12. TAXES ON INCOME

The Corporation and its subsidiaries file a consolidated federal income tax return and separate state income tax returns. The income tax provision (benefit) consists of the following:

| | Year Ended December 31, | | |
|-----------------------------|-------------------------|-----------|-----------|
| | 1996 | 1995 | 1994 |
| | ---- | ---- | ---- |
| | (In Thousands) | | |
| Current income taxes: | | | |
| Federal taxes | \$ 1,062 | \$ 514 | \$ 226 |
| State and local taxes..... | 846 | 1,730 | 816 |
| Deferred income taxes: | | | |
| Federal taxes | 1,197 | (3,668) | (2,056) |
| State and local taxes | 61 | 156 | 2 |
| | ----- | ----- | ----- |
| | \$ 3,166 | \$(1,268) | \$(1,012) |
| | ===== | ===== | ===== |

Current federal income taxes include taxes on income which cannot be offset by net operating loss carryforwards. For 1995 and 1994, this is due to the limitation on the amount of alternative minimum taxable income that can be offset by net operating loss carryforwards (NOL's) as provided in the Internal Revenue Code of 1986, as amended (the Code).

Based on the Corporation's history of prior earnings and its expectations of the future, management believes that operating income will more likely than not be sufficient to recognize a net deferred tax asset of \$7.9 million and \$9.3 million at December 31, 1996 and 1995, respectively. Adjustments to the valuation allowance were made in 1996, 1995 and 1994 as a result of continued operating earnings and the merger of Providential into WSFS.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Corporation's deferred tax assets and liabilities as of December 31, 1996 and December 31, 1995 (in thousands):

| | 1996 | 1995 |
|---|-----------|-----------|
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Accelerated depreciation..... | \$(7,149) | \$(1,552) |
| Other..... | (204) | (215) |
| | ----- | ----- |
| Total deferred tax liabilities..... | (7,353) | (1,767) |
| | ----- | ----- |
| Deferred tax assets: | | |
| Bad debt deductions..... | 8,398 | 9,711 |
| Tax credit carryforwards..... | 1,768 | 79 |
| Net operating loss carryforwards..... | 7,656 | 7,507 |
| Loan fees..... | 640 | 1,034 |
| Provisions for losses on reverse mortgages..... | 15,606 | 20,317 |
| Other..... | 2,807 | 3,006 |
| | ----- | ----- |
| Total deferred tax assets..... | 36,875 | 41,654 |
| | ----- | ----- |
| Valuation allowance..... | (21,628) | (30,557) |
| | ----- | ----- |
| Net deferred tax assets..... | \$7,894 | \$ 9,330 |
| | ===== | ===== |

Approximately \$22 million of the Corporation's deferred tax assets are related to Providential's write-downs and income on its portfolio of reverse mortgages. Management has assessed substantial valuation allowances on these deferred tax assets due to limitations imposed by the Code and uncertainties, including the timing of when these assets are realized.

Included in the table above is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized. Such items consisted primarily of unrealized gains and losses on certain investments in debt and equity securities accounted for under SFAS No. 115.

Net operating loss carryforwards of \$40.3 million remain at December 31, 1996. There are also alternative minimum tax credit carryforwards and general business credit carryforwards of approximately \$1.8 million at December 31, 1996 which can be offset against regular taxes in future years. The expiration dates and amounts of such carryforwards and credits are listed below (in thousands):

| | NOL's | | Credit Carryforwards |
|----------------|----------|----------|-------------------------|
| | Federal | State | |
| 1998..... | \$ | \$ 928 | \$ 40 |
| 1999..... | | 5,215 | 36 |
| 2000..... | | | 27 |
| 2001..... | | | 51 |
| 2002..... | | 4,929 | 83 |
| 2003..... | | 10,372 | |
| 2004..... | 968 | | |
| 2005..... | 3,850 | | |
| 2006..... | 1,098 | | |
| 2008..... | 6,157 | | |
| 2009..... | 6,755 | | |
| Unlimited..... | | | 1,531 |
| | ----- | ----- | ----- |
| | \$18,828 | \$21,444 | \$ 1,768 |
| | ===== | ===== | ===== |

The Corporation's ability to use its NOL's to offset future income is subject to restrictions enacted in Section 382 of the Code. These restrictions would limit the Corporation's future use of its NOL's if there are significant Ownership Changes in or acquisitions of the Corporation's stock (referred to herein as an "Ownership Change"). The utilization of approximately \$18.8 million of net operating loss carryforwards is limited to approximately \$1.5 million each year as a result of such "Ownership Changes" in Providential's stock.

A reconciliation setting forth the differences between the effective tax rate of the Corporation and the U.S. Federal Statutory tax rate is as follows:

| | Year Ended December 31, | | |
|---|-------------------------|--------|---------|
| | 1996 | 1995 | 1994 |
| Statutory federal income tax rate | 35.0% | 35.0% | 34.0% |
| State tax net of federal tax benefit..... | 3.0 | 4.8 | 7.6 |
| Amortization of intangibles..... | | | 1.8 |
| Utilization of loss carryforwards and valuation allowance adjustments..... | (21.3) | (42.3) | (61.6) |
| Tax credits utilized..... | | (4.2) | |
| Other..... | (.5) | 1.8 | 3.9 |
| | ----- | ----- | ----- |
| Effective tax rate | 16.2% | (4.9)% | (14.3)% |
| | ===== | ===== | ===== |

13. STOCK OPTION PLANS

During 1996, the Corporation had a stock option plan (1986 Option Plan) for officers, directors and employees of the Corporation and its subsidiaries. The 1986 Option Plan was amended and restated effective January 1, 1992 and expired on November 26, 1996, the tenth anniversary of its effective date. As a result, no future awards may be granted under the 1986 Option Plan. The Option Plan provided for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as nonincentive stock options and stock appreciation rights (SARs). All options were awarded at not less than the market price of the Corporation's common stock on the date of grant and expire no later than the tenth anniversary of the date on which the option was granted. Options granted under the 1986 Option Plan before 1996 are exercisable one year from the date of grant. Substantially all options granted under this plan in 1996 are exercisable one year from grant date and vest in 20% per annum increments.

The 1986 Option Plan also provided for the granting of SARs which allow an optionee to surrender the SARs in consideration for payment by the Corporation of an amount equal to the excess of the fair market value of the common stock over the option price of the SARs. SARs granted are exercisable one year from the date of grant and vest in 20% per annum increments. Such payments shall be made in cash; however, no SARs are exercisable unless at the time of surrender the Corporation has the ability to pay dividends and the Bank has sufficient capital to exceed its federal regulatory capital requirements. The SARs expire seven years from the date of grant. The Corporation recorded salary expense related to such SAR's of \$433,000, \$1,573,000, and \$137,000 in 1996, 1995 and 1994, respectively.

A second stock option plan (1997 Option Plan) was proposed during the year to replace the expired 1986 Option Plan. The effectiveness of this plan and any grants made under the plan are subject to shareholder approval at the April 1997 shareholders' meeting. The terms of the 1997 Option Plan, as proposed, are substantially the same as the 1986 Option Plan except that the 1997 Option Plan allows for the grant of Phantom Stock Awards and all awards made under the plan vest in 20% per annum increments. The options generally become immediately exercisable in the event of a change in control of the Corporation, generally defined as the acquisition of beneficial ownership of 25% or more of the Corporation's voting securities by any person or group of persons. The 1997 Option Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. A total of 625,000 awards may be granted under the 1997 Option Plan. At December 31, 1996 there were 608,600 shares available for future grants under the 1997 Option Plan.

A summary of the status of the Corporation's 1986 and 1997 Stock Option Plans as of December 31, 1994, 1995 and 1996, and changes during the years then ending is presented below:

| | 1996 | | 1995 | | 1994 | |
|---|----------|---------------------------------|---------|---------------------------------|---------|---------------------------------|
| | Shares | Weighted average Exercise Price | Shares | Weighted average Exercise Price | Shares | Weighted average Exercise Price |
| Stock Options: | | | | | | |
| Outstanding at beginning of year | 267,505 | \$ 2.33 | 269,705 | \$ 2.36 | 253,705 | \$ 2.22 |
| Granted | 106,700 | 9.50 | | | 22,000 | 3.94 |
| Exercised | (58,200) | 2.64 | (2,200) | 2.19 | (6,000) | 2.19 |
| Canceled | | | | | | |
| Outstanding at end of year | 316,005 | 4.72 | 267,505 | 2.33 | 269,705 | 2.36 |
| Exercisable at end of year | 209,305 | | 267,505 | | 247,705 | |
| Weighted-average fair value of awards granted during 1996 | \$ 3.84 | | | | | |
| SARs: | | | | | | |
| Outstanding at beginning of year | 329,995 | 2.00 | 329,995 | 2.00 | 329,995 | 2.00 |
| Granted | | | | | | |
| Exercised | (51,582) | 2.13 | | | | |
| Canceled | (5,338) | 1.65 | | | | |
| Outstanding at end of year | 273,075 | \$ 1.99 | 329,995 | \$ 2.00 | 329,995 | \$ 2.00 |
| Exercisable at end of year | 208,260 | | 192,581 | | 121,998 | |

The Black-Scholes option-pricing model was used to determine the grant-date fair-value of options in 1996. Significant assumptions used in the model included a weighted average risk free rate of return of 6.2%; expected option life of 6 years; expected stock price volatility of 27% and no future cash dividends expected.

In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"). This statement encourages, but does not require, the adoption of fair-value accounting for stock-based compensation to employees. The Company, as permitted, has elected not to adopt the fair value accounting provisions of SFAS 123, and has instead continued to apply APB Opinion 25 and related Interpretations in accounting for plans and provide the required proforma disclosures of SFAS 123. Had the grant-date fair-value provisions of SFAS 123 been adopted, the Corporation would have recognized \$30,000 in compensation expense related to its Option Plans in 1996. As a result, proforma net income of the Corporation would have been \$16,326,000 and proforma earnings per share would have remained \$1.16 in 1996.

The effects on proforma net income and EPS of applying the disclosure requirement of SFAS 123 in 1996 may not be representative of the future proforma effects on net income and EPS due to the vesting provisions of the options and future awards that are available to be granted.

The following tables summarizes all stock options and SARs outstanding and exercisable for both the 1986 and 1997 Stock Option Plans as of December 31, 1996:

| Grant Year | Outstanding | | | Exercisable | |
|----------------|-------------|---------------------------------|---|-------------|---------------------------------|
| | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number | Weighted Average Exercise Price |
| Stock Options: | | | | | |
| 1990 Awards | 95,350 | \$ 2.19 | 3.8 years | 95,350 | \$ 2.19 |
| 1991 Awards | 106,955 | 2.27 | 4.2 years | 106,955 | 2.27 |
| 1994 Awards | 7,000 | 3.94 | 7.8 years | 7,000 | 3.94 |
| 1996 Awards | 106,700 | 9.50 | 9.8 years | | |
| | ----- | | | ----- | |
| Total | 316,005 | \$4.72 | 6.1 years | 209,305 | \$2.29 |
| | ===== | | | ===== | |
| SARs: | | | | | |
| 1992 Awards | 233,075 | \$1.73 | 2.8 years | 184,260 | \$1.73 |
| 1993 Awards | 40,000 | 3.50 | 3.3 years | 24,000 | 3.50 |
| | ----- | | | ----- | |
| Total | 273,075 | \$1.99 | 2.9 years | 208,260 | \$1.93 |
| | ===== | | | ===== | |

14. COMMITMENTS

Lending Operations

At December 31, 1996, outstanding letters of credit were \$3,373,460 and outstanding commitments to make or acquire mortgage loans aggregated \$7,409,000, of which approximately \$4,200,000 were at fixed rates ranging from 6.00% to 7.50% and approximately \$3,209,000 were at variable rates ranging from 4.75% to 8.50%. All mortgage commitments are expected to have closing dates within a six month period.

Computer Operations

In 1988, the Bank entered into an agreement with a data processing facilities management company. The Bank's operations were fully converted to this computer system in November 1989 and SSPA was converted in February 1991. Certain costs for both conversions were capitalized during the conversion period. The Bank amortized such costs over the original remaining term of the agreement. These costs were fully amortized by November 1994. Amortization for 1994 totalled \$965,000. In February 1997, the Bank entered into a new five-year contract expiring in March 2002. Under the terms of the contract, this data processing facilities management company will manage the on-site "back office" functions of deposit and loan operations for the Bank. The projected amount of future minimum payments contractually due, is as follows:

| | |
|------------|-------------|
| 1997..... | \$4,515,000 |
| 1998 | 4,455,000 |
| 1999..... | 4,357,000 |
| 2000 | 4,357,000 |
| 2001 | 4,357,000 |
| 2002..... | 726,000 |

Legal Proceedings

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

In February 1994, a class-action complaint was filed against the Corporation's former subsidiary, Providential, in the United States District Court, Northern District of California. The class-action complaint was amended in April 1994 to add as defendants Providential's President and Executive Vice President, as well as additional claims. The action was purportedly filed on behalf of a class of persons who acquired Providential's Lifetime Reverse Mortgage products and alleges violations of the federal Truth in Lending Act and Regulation Z promulgated thereunder, fraud and deceit, negligent misrepresentation, unlawful, unfair or fraudulent business practices and violations of the Consumers Legal Remedies Act based upon alleged misrepresentations in connection with the sale of reverse mortgages. It seeks unspecified compensatory and punitive damages and penalties, an accounting of all loan portfolios, an injunction barring further alleged violations, interest, costs, expert witness fees and attorneys' fees.

Providential and the individual defendants have moved to compel arbitration on an individual basis. In July 1994, the District Court issued an Order Granting Motion to Compel Arbitration, which also dismissed the case and held that the Court was without authority to order that arbitration proceed as a class action. In August 1994, the plaintiffs served a notice of appeal to the

United States Court of Appeals for the Ninth Circuit from the Order Granting Motion to Compel Arbitration. A hearing was held in December 1995 and a decision is pending.

The Corporation believes that all such actions are without merit and intends to defend itself vigorously.

Providential's loan documents provide for the arbitration of disputes that may arise in connection with Lifetime Reverse Mortgages. Providential may from time-to-time be involved in arbitration or litigation with the borrowers or with the heirs of borrowers. Some kinds of disputes may delay or impair Providential's ability to liquidate its collateral promptly after maturity of a loan. Because reverse mortgages are a relatively new product, there can be no assurances regarding how courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of Providential's reverse mortgage loans.

Financial Instruments With Off-Balance Sheet Risk

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

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Corporation generally requires collateral to support such financial instruments in excess of the contractual amount of those instruments and essentially uses the same credit policies in making commitments as it does for on-balance sheet instruments.

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

| December 31, | |
|----------------|------|
| 1996 | 1995 |
| ----- | |
| ----- | |
| (In Thousands) | |

Financial instruments whose contract amounts represent potential credit risk:

| | | |
|---|----------|----------|
| Construction loan commitments | \$10,929 | \$10,526 |
| Commercial mortgage loan commitments | 3,840 | 3,127 |
| Commercial loan commitments | 13,744 | 10,290 |
| Commercial standby letters of credit | 3,373 | 3,968 |
| Residential mortgage loan commitments | 7,409 | 11,573 |
| Consumer lines of credit | 62,303 | 65,342 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit written are conditional commitments issued to guarantee the performance of a customer to a third party. The Corporation evaluates each customer's creditworthiness and obtains collateral based on management's credit evaluation of the counterparty.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 119 requires disclosure about derivative financial instruments and the fair values of financial instruments. The Corporation does not presently invest in such derivative financial instruments and thus has no disclosure regarding such investments. The other provisions of SFAS No. 119 and 107 require disclosure of estimated fair values about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. 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 which are discounted to reflect varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year end or that will be realized in the future.

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.

Investment and mortgage-backed securities: Fair value for investment securities are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted prices for similar securities.

Investment in reverse mortgages: The fair value of the Corporation's investment in reverse mortgages is based on discounted net cash flows. The discount rate utilized in determining such fair value is based on current rates of similar instruments with comparable maturities.

Loans: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, construction, residential mortgages, consumer and direct financing leases. The fair value of residential mortgage loans are estimated using quoted market prices for sales of whole loans with similar characteristics such as repricing dates, product type and size. For residential loans that reprice frequently, the carrying amount approximates fair value. The fair value of direct financing leases is based upon recent market prices of sales of similar receivables. The fair value of other types of loans for which quoted market prices are not available is estimated by discounting expected future 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. Estimated cash flows, discounted using a rate commensurate with the risk associated with the estimated cash flow, are utilized if appraisals are not available.

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

Borrowed funds: Rates currently available to the Corporation for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

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

The carrying amount and estimated fair value of the Corporation's financial instruments are as follows (in thousands):

| | December 31, | | | |
|--------------------------------------|-----------------|------------|-----------------|------------|
| | 1996 | | 1995 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and short-term investments..... | \$ 55,853 | \$ 55,853 | \$ 67,403 | \$ 67,403 |
| Investment securities..... | 18,933 | 18,840 | 28,772 | 28,886 |
| Mortgage-backed securities..... | 365,252 | 363,534 | 237,132 | 235,881 |
| Investment in reverse mortgages..... | 35,796 | 31,856 | 35,614 | 31,087 |
| Loans, net..... | 824,883 | 823,621 | 792,184 | 801,989 |
| Financial liabilities: | | | | |
| Deposits..... | 744,886 | 741,846 | 724,030 | 721,700 |
| Borrowed funds..... | 518,919 | 507,349 | 400,645 | 403,013 |

The estimated fair value of the Corporation's off-balance sheet financial instruments are as follows (in thousands):

| | December 31, | |
|---------------------------------------|--------------|-------|
| | 1996 | 1995 |
| Off-balance sheet instruments: | | |
| Commitments to extend credit..... | \$359 | \$355 |
| Standby letters of credit..... | 34 | 40 |

16. PARENT COMPANY FINANCIAL INFORMATION

Condensed Statement of Financial Condition

| | December 31, | |
|---|------------------|------------------|
| | 1996 | 1995 |
| | (In Thousands) | |
| Assets: | | |
| Cash | \$ 6,548 | \$ 8,299 |
| Investment in the Bank | 97,996 | 95,605 |
| Other assets..... | 1,976 | 1,167 |
| | <u>\$106,520</u> | <u>\$105,071</u> |
| | ===== | ===== |
| Liabilities and stockholders' equity: | | |
| Senior notes..... | \$ 29,100 | \$ 29,850 |
| Interest payable senior notes..... | 1,600 | 1,642 |
| Other liabilities..... | 32 | 33 |
| | <u>30,732</u> | <u>31,525</u> |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common stock | 146 | 145 |
| Capital in excess of par value | 57,289 | 57,136 |
| Unrealized loss on securities available- for-sale, net of tax..... | 166 | (242) |
| Retained earnings | 32,863 | 16,507 |
| Treasury stock | (14,676) | ----- |
| | <u>75,788</u> | <u>73,546</u> |
| | ----- | ----- |
| | <u>\$106,520</u> | <u>\$105,071</u> |
| | ===== | ===== |

Condensed Statement of Operations

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|----------------|
| | 1996 | 1995 | 1994 |
| | (In Thousands) | | |
| Income: | | | |
| Interest | \$ 659 | \$ 178 | \$ 196 |
| Loss on extinguishment of debt..... | (44) | (90) | ----- |
| Loss on sale of investment | ----- | (31) | (36) |
| Other income..... | 67 | ----- | ----- |
| | <u>682</u> | <u>57</u> | <u>160</u> |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Interest..... | 3,333 | 3,499 | 3,635 |
| Other operating expenses..... | (856) | 32 | 133 |
| | <u>2,477</u> | <u>3,531</u> | <u>3,768</u> |
| | ----- | ----- | ----- |
| Loss before equity in undistributed income of the Bank..... | (1,795) | (3,474) | (3,608) |
| Equity in undistributed income of the Bank | 18,151 | 30,482 | 11,678 |
| | <u>\$16,356</u> | <u>\$27,008</u> | <u>\$8,070</u> |
| | ===== | ===== | ===== |

Condensed Statement of Cash Flows

| | Year Ended December 31, | | |
|--|-------------------------|-----------|----------|
| | 1996 | 1995 | 1994 |
| | (In Thousands) | | |
| Operating activities: | | | |
| Net income | \$ 16,356 | \$ 27,008 | \$8,070 |
| Adjustments to reconcile net income to net cash used for operating activities: | | | |
| Equity in undistributed income of the Bank | (18,151) | (30,482) | (11,678) |
| Amortization | 114 | 132 | 125 |
| Loss on sale of investments..... | | 31 | 36 |
| Increase (decrease) in liabilities | (43) | (173) | 285 |
| Decrease (increase) in other assets..... | (923) | 113 | (22) |
| Net cash used for operating activities | (2,647) | (3,371) | (3,184) |
| Investing activities: | | | |
| Decrease in investment in Bank..... | 16,168 | 9,340 | 725 |
| Decrease (increase) in investment securities..... | | 3,585 | (3,665) |
| Net cash provided by (used for) investing activities..... | 16,168 | 12,925 | (2,940) |
| Financing activities: | | | |
| Issuance of common stock | 154 | 5 | 13 |
| Repurchase of senior notes..... | (750) | (2,150) | |
| Purchase of treasury stock | (14,676) | | |
| Net cash provided by (used for) financing activities | (15,272) | (2,145) | 13 |
| Increase (decrease) in cash | (1,751) | 7,409 | (6,111) |
| Cash at beginning of period | 8,299 | 890 | 7,001 |
| Cash at end of period | \$ 6,548 | \$ 8,299 | \$ 890 |

17. INVESTMENT IN AND ACQUISITION OF REVERSE MORTGAGES

Reverse mortgage loans are contracts that require the lender to make monthly advances throughout the borrower's life or until the borrower relocates, prepays or the home is sold, at which time the loan becomes due and payable. 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 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.

The Corporation accounts for its investment in reverse mortgages in accordance with instructions provided by the staff of the Securities and Exchange Commission entitled "Accounting for Pools of Uninsured Residential Reverse Mortgage Contracts" which requires grouping the individual reverse mortgages into "pools" and recognizing income based on the estimated effective yield of the pool. In computing the effective yield, the Corporation must project the cash inflows and outflows of the pool including actuarial projections of the life expectancy of the individual contract holder and changes in the collateral values of the residence. At each reporting date, a new economic forecast is made of the cash inflows and outflows of each pool of reverse mortgages and the effective yield of each pool is recomputed and income is adjusted to reflect the revised rate of return.

In November 1994, the Corporation purchased Providential Home Income Plan, Inc., a California-based reverse mortgage lender, for approximately \$24.4 million. Providential's assets at acquisition primarily consisted of cash and its investment in reverse mortgages (the "1994 Pool"). Providential's available liquidity was utilized to fund the purchase price. The acquisition was accounted for by the purchase method of accounting; accordingly, Providential's results have been included in the Corporation's consolidated statement of operations since the acquisition date. The carrying value of the reverse mortgages was \$9.9 million and \$9.8 million at December 31, 1996 and December 31, 1995, respectively. Of the 840 loans which comprise the 1994 pool at December 31, 1996, all are located in California. The Corporation acquired Providential since it has previously purchased other portfolios of reverse mortgages and believes such investments provide a fair return on investment while providing income to elderly homeowners.

In 1993, the Corporation acquired a pool of reverse mortgages (the "1993 Pool") from the FDIC and another lender. The Corporation's investment in this pool of reverse mortgages totalled \$25.9 million and \$25.8 million at December 31, 1996 and December 31, 1995, respectively. Of the 591 loans which comprise the 1993 Pool at December 31, 1996, 483 loans, or 82%, are located in Delaware, New Jersey, Pennsylvania and Maryland.

At December 31, 1996, the Corporation's actuarial estimate of net cash flows from each pool of reverse mortgages was as follows:

| Year ending: | Inflows (outflows) | | |
|-----------------|--------------------|-----------|----------|
| | 1994 Pool | 1993 Pool | Total |
| | (In Thousands) | | |
| 1997..... | \$1,334 | \$ 3,543 | \$ 4,877 |
| 1998..... | 807 | 1,871 | 2,678 |
| 1999..... | 1,396 | 2,084 | 3,480 |
| 2000..... | 1,847 | 2,251 | 4,098 |
| 2001..... | 2,224 | 2,346 | 4,570 |
| 2002-2006..... | 15,904 | 11,731 | 27,635 |
| 2007-2011..... | 18,924 | 9,320 | 28,244 |
| 2012-2016..... | 16,536 | 5,602 | 22,138 |
| Thereafter..... | 16,386 | 3,658 | 20,044 |

The effective yield used to accrue investment income on the Corporation's investment in reverse mortgages is sensitive to changes in collateral values and other actuarial and prepayment assumptions. Future estimated changes in collateral values in 1996 are as follows for each pool:

| | 1994 Pool | 1993 Pool |
|-----------------------------------|--------------|--------------|
| | ---- | ---- |
| Year ended December 31, 1997..... | 1.00% | 1.00% |
| Year ended December 31, 1998..... | 2.00 | 2.00 |
| Thereafter..... | 3.00 | 3.00 |

The changes in collateral values and actuarial assumptions resulted in an effective yield of approximately 21.2% on the 1994 Pool and increased income by \$334,000 during 1996. Included in this increase was a cumulative catch-up adjustment of \$455,000. The effective yield on the 1993 Pool was 6.30% in 1996, reflecting a \$979,000 reduction in income which includes a cumulative catch-up adjustment of \$567,000.

In making these estimates of current and expected collateral values, the Corporation considers its own experience on reverse mortgages which have matured, expected rates of future inflation and housing indices published by the Bureau of Labor Statistics and the Department of Housing and Urban Development. The projections also incorporate actuarial estimates of contract terminations using mortality tables published by the Office of the Actuary of the United States Bureau of Census adjusted for expected prepayments and relocations.

The effect on the yield and income assuming no changes in collateral values or a 1% annual reduction in the projected future changes of collateral values is presented below for the year ended December 31, 1996 (dollars in thousands):

| | 94 Pool | | 1993 Pool | |
|--|--|--|--|--|
| | No future changes in collateral values | 1% annual reduction in the projected future changes in collateral values | No future changes in collateral values | 1% annual reduction in the projected future changes in collateral values |
| Effective yield | 16.52% | 20.30% | 3.96% | 5.95% |
| Effect on income of reverse mortgages..... | \$(869) | \$ (169) | \$ (2,194) | \$ (345) |

The cumulative catch-up adjustments included in the above decreases in income are \$1,563,000 and \$243,000, respectively, at January 1, 1996 for the 1993 Pool. The cumulative catch-up adjustments for the 1994 Pool are \$353,000 and \$67,000, respectively, at January 1, 1995.

QUARTERLY FINANCIAL SUMMARY

| | Three Months Ended | | | | | | | |
|--|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| | 12/31/96 | 9/30/96 | 6/30/96 | 3/31/96 | 12/31/95 | 9/30/95 | 6/30/95 | 3/31/95 |
| | (In Thousands, Except Per Share Data) | | | | | | | |
| Interest income..... | \$26,334 | \$26,352 | \$26,501 | \$25,407 | \$26,161 | \$24,266 | \$25,712 | \$23,797 |
| Interest expense..... | 14,811 | 15,055 | 14,771 | 14,225 | 14,493 | 14,921 | 14,972 | 13,681 |
| Net interest income | 11,523 | 11,297 | 11,730 | 11,182 | 11,668 | 9,345 | 10,740 | 10,116 |
| Provision for loan losses | 730 | 477 | 490 | 318 | 349 | 47 | 653 | 354 |
| Net interest income after provision for loan losses | 10,793 | 10,820 | 11,240 | 10,864 | 11,319 | 9,298 | 10,087 | 9,762 |
| Other income | 2,330 | 1,884 | 2,100 | 1,836 | 2,122 | 16,530 | 2,045 | 1,918 |
| Other expenses..... | 7,835 | 8,140 | 8,241 | 8,129 | 8,711 | 9,818 | 9,544 | 9,268 |
| Income before taxes | 5,288 | 4,564 | 5,099 | 4,571 | 4,730 | 16,010 | 2,588 | 2,412 |
| Income tax provision (benefit) | 1,514 | (1,668) | 1,778 | 1,542 | (1,188) | 985 | (588) | (477) |
| Net income | \$3,774 | \$6,232 | \$3,321 | \$3,029 | \$5,918 | \$15,025 | \$3,176 | \$2,889 |
| Earnings per share | \$.28 | \$.45 | \$.24 | \$.21 | \$.40 | \$ 1.02 | \$.22 | \$.20 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Items 10 through 13 are incorporated by the following references from the indicated pages of the Proxy Statement for the 1997 Annual Meeting of Stockholders:

| | Page |
|---|---------------|
| ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT | 4, 5, 6, 7, 8 |
| ITEM 11. EXECUTIVE COMPENSATION | 9-13 |
| ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT | 1, 2, 5, 6 |
| ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 14, 15 |

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The financial statements listed on the index set forth in Item 8 of this Annual Report on Form 10-K are filed as part of this Annual Report.

Financial statement schedules are not required under the related instructions of the Securities and Exchange Commission or are inapplicable and, therefore, have been omitted.

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

| Exhibit Number | Description of Document |
|----------------|--|
| 3.1 | Registrant's Certificate of Incorporation, as amended is incorporated herein by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994. |
| 3.2 | Bylaws of WSFS Financial Corporation is incorporated herein by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form S-1 File No. 33-45762) filed with the Commission on February 24, 1992. |
| 4 | Indenture, dated June 15, 1994, by and between WSFS Financial Corporation and Wilmington Trust Company, Trustee for the 11% Senior Notes, Series B, due 2005 is incorporated herein by reference to Exhibit 4 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994. |
| 10.1 | Employment Agreement between WSFS Financial Corporation and Wilmington Savings Fund Society, Federal Savings Bank and Marvin N. Schoenhals is incorporated herein by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-4 (File No. 33-76470) filed with the Commission on March 15, 1994. |
| 10.2 | Wilmington Savings Fund Society, Federal Savings Bank 1986 Stock Option Plan, as amended is incorporated herein by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-8 (File No. 33-56108) filed with the Commission on December 21, 1992. |
| 10.3 | Employment Agreement, dated March 24, 1993, by and between Wilmington Savings Fund Society, Federal Savings Bank and R. William Abbott is incorporated herein by reference to Exhibit 10.8 of Registrant's Registration Statement on Form S-4 (File No. 33-76470) filed with the Commission on March 15, 1994. |

- 10.4 WSFS Financial Corporation, 1994 Short Term Management Incentive Plan Summary Plan Description is incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
- 10.5 Exhibit 1 Employment Agreement dated September 20, 1996 by and between Wilmington Savings Fund Society, Federal Savings Bank and Thomas E. Stevenson.
- 10.6 Exhibit 2 Employment Agreement dated November 8, 1996 by and between Wilmington Savings Fund Society, Federal Savings Bank and Joseph M. Murphy.
- 21 Exhibit 3 Subsidiaries of Registrant.
- 23 Exhibit 4 Consent of KPMG Peat Marwick LLP.
- 27 Exhibit 5 Financial Data Schedule

(b) The following was reported under Other Events on Form 8-K filed on November 4, 1996:

On October 28, 1996, the Registrant announced that its Board of Directors had approved a second stock repurchase program to purchase up to 10% of the Registrant's outstanding common stock, \$.01 par value per share (the "Common Stock"). Under the new repurchase program, stock repurchases may be effected through open-market repurchases and privately negotiated transactions. As previously announced, the Registrant completed a stock repurchase program during the first half of 1996 in which 5% of the Common Stock was repurchased.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WSFS FINANCIAL CORPORATION

Date: March 27, 1997 BY: /s/ MARVIN N. SCHOENHALS

Marvin N. Schoenhals
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 27, 1997 BY: /s/ MARVIN N. SCHOENHALS

Marvin N. Schoenhals
Chairman, President and Chief Executive Officer

Date: March 27, 1997 BY: /s/ CHARLES G. CHELEDEN

Charles G. Cheleden
Vice Chairman and Director

Date: March 27, 1997 BY: /s/ DAVID E. HOLLOWELL

David E. Hollowell
Director

Date: March 27, 1997 BY: /s/ JOSEPH R. JULIAN

Joseph R. Julian
Director

Date: March 27, 1997 BY: /s/ RANDALL T. MURRILL, JR .

Randall T. Murrill, Jr.
Director

Date: March 27, 1997 BY: /s/ THOMAS P. PRESTON

Thomas P. Preston
Director

Date: March 27, 1997 BY: -----
Michele M. Rollins
Director

Date: March 27, 1997 BY: /s/ CLAIRBOURNE D. SMITH

Claibourne D. Smith
Director

Date: March 27, 1997 BY: /s/ R. TED WESCHLER

R. Ted Weschler
Director

Date: March 27, 1997 BY: /s/ DALE E. WOLF

Dale E. Wolf
Director

Date: March 27, 1997 BY: /s/ R. WILLIAM ABBOTT

R. William Abbott
Executive Vice President and
Chief Financial Officer

Date: March 27, 1997 BY: /s/ MARK A. TURNER

Mark A. Turner
Vice President and Controller

EXHIBIT 1

EMPLOYMENT AGREEMENT DATED SEPTEMBER 20, 1996 BETWEEN
WILMINGTON SAVINGS FUND SOCIETY,
FEDERAL SAVINGS BANK AND THOMAS E. STEVENSON.

WSFS bank
YOUR HOME TEAM

September 20, 1996

Mr. Thomas E. Stevenson
308 Old Kennett Road
Centreville, DE 19807

Dear Tom:

We are pleased to confirm our offer and your acceptance of the position of Executive Vice President, Technology and Operations. Your salary in this position will be \$10,416.67 per month; your anticipated start date is Monday, October 14, 1996.

Stock Options

You will receive options on ten thousand (10,000) shares of WSFS Financial Corporation stock, issued at the average of the bid and ask on your date of hire. These options will be vested over a period of three years (one-third vested at the end of each service year).

Bonus Program

You have the potential to earn up to a \$15,000.00 bonus for 1996, based upon your performance. Your eligibility for a 1997 bonus will be in accordance with the Executive Bonus Plan as approved by the WSFS Board of Directors for 1997.

Benefits

You will be eligible for WSFS benefits on the first of the month following thirty days of service. Approximately three weeks before that eligibility date, you will receive further details and Lescena Tew, Benefits / Training Specialist, will contact you to answer questions and assist you with enrollment prior to your eligibility date.

Change in Control Protection

In the event of a change in control leading to the elimination of your position or significant change in your responsibilities, you would be entitled to salary continuation for a period of eighteen (18) months. (Under other circumstances, you might be eligible to receive benefits under our regular WSFS Severance Pay Plan; however, you could not receive benefits under both that Plan and this Agreement.)

Other

Per your discussion with M.N. Schoenhals, it is understood that Mrs. Stevenson will resign her current position within 90 days of your date of hire and that

WSFS will provide job placement assistance if desired. We appreciate your and Mrs. Stevenson's sensitivity to our concerns regarding your respective employment situations.

On October 14, please plan to arrive at the Human Resources Department at 8:30 a.m. to complete the necessary paperwork. As part of that paperwork, the Immigration Reform and Control Act of 1986 requires WSFS to verify your employment eligibility. Therefore, please be prepared to present a driver's license and a Social Security card (or U.S. birth certificate).

Please call me at (302) 571-7227 if we can be of any further assistance. I look forward to seeing you on the 14th.

Sincerely,

/s/ Vicki L. Myoda

Vicki L. Myoda
Vice President
Human Resources

EXHIBIT 2

EMPLOYMENT AGREEMENT DATED NOVEMBER 8, 1996 BY AND BETWEEN
WILMINGTON SAVINGS FUND SOCIETY,
FEDERAL SAVINGS BANK AND JOSEPH M. MURPHY

WSFS bank

Marvin N. Schoenhals
Chairman and President
(302) 571-7294

November 8, 1996

Mr. Joseph M. Murphy
5 Mountain View Drive
West Hartford, Connecticut 06117

Dear Joe:

I am pleased and excited to extend an offer to you to join Wilmington Savings Fund Society, FSB in the capacity of Executive Vice President responsible for the Retail Banking function of the Company.

In addition to the normal employment policies and practices governing Associates of WSFS, the following additional factors are contained in this offer:

- o Salary of \$13,333.34 per month for the years 1997 and 1998. Your salary would be reviewed during the first quarter of 1999 and an adjustment made, as deemed appropriate, under the Executive Management Compensation Program as defined by the Personnel and Compensation Committee of the Board. The goal of our Executive Compensation Program is to pay base salaries that are approximately equal to (but generally not above) the average being paid by our "peer group," coupled with a Bonus Program that provides for "substantially above average" payouts based upon the performance of the Bank; and a long term incentive program in the form of stock options.
- o The size of the Executive Bonus Pool, while not guaranteed, is generally determined by taking 20% of the increase in pretax income of the company over the preceding year. An individual executive's share in the pool is determined by their level of responsibility and individual accomplishments and contributions during the year.
- o You would receive a bonus of \$20,000 to be paid during March of 1997. This is based upon the understanding that you would be joining WSFS mid-to-late December, 1996.
- o For 1997 and beyond you would be eligible to participate in the Executive Bonus Program as determined by the Board of Directors. Based upon the Bank's expected performance in 1997, your 1997 Bonus (to be paid in March 1998) should be no less than \$50,000 and, more likely, approximately \$75,000. These statements as to amounts are for informational purposes only and can not be construed as a guarantee that the bonuses will actually be paid. The actual amount of the bonus is dependent upon the Bank's performance and your contributions during 1997.

- o You would be issued Options on 16,400 shares of WSFS Financial Corporation stock at a strike price based upon the average between the bid and ask price of the stock at the close of business on your first day of employment with WSFS. The Options would vest 20% per year over five years with the first 20% vesting on the one year anniversary of the issuance of the Option. In the event of a "change of control" of the Bank, the vesting of all previously granted options would be accelerated. The Board will review the issuance of additional Options to you annually.
- o The Bank will arrange for your present home in West Hartford, to be purchased by a national relocation service at a "fair market appraised price." The Bank will assume all costs of this purchase (assuming the house is not presently listed which would cause a commission to be paid to a broker upon sale to the relocation service). In the event that the "fair market value" determined by the relocation service is unacceptable to you, the Bank would agree to order two additional independent appraisals of the property and then average the resulting three appraisals. If that average was higher than the appraised value determined by the relocation service, the Bank would agree to pay you the higher amount for your property. If the average was lower, the house would be purchased by the relocation service at their appraised value. The Bank will provide for you a mutually agreeable residence for up to 60 days of temporary living accommodations here in Wilmington and any commuting expenses, if required. The Bank will pay the cost of relocating your household goods from West Hartford to Wilmington and for up to 60 days of storage, if required.
- o If WSFS Financial Corporation is sold and/or merged with another institution that results in a significant change in your responsibilities, you will receive the benefit of the acceleration of the vesting of the Options as described above. In the event that the value of the acceleration does not equal two times your base salary at that time, the Bank will make up the difference between the value of acceleration and the two years salary. If the value of acceleration of the vesting of the Options is greater than two times your base salary you will receive that benefit in full.
- o If you are released from employment with WSFS for a reason other than "for cause" you will receive as severance the amount of one times your base salary at the time of the release; to be paid in accordance with the Bank's Severance Policy. You will also be entitled to any other benefits which are provided for in the Severance Policy at that time.
- o The Bank will underwrite your membership in a "luncheon club" and in a country club to be mutually determined.

Mr. Joseph M. Murphy
November 8, 1996
Page three

Joe, as you know, this offer is the culmination of a very lengthy process. It is my belief that you are the right person for this job; that you will make a significant contribution to the organization. I look forward to working with you to turn WSFS into a consistently high performing financial services institution.

If the arrangements described above are acceptable to you, please sign where indicated below and return a copy to me.

Sincerely,

/s/ Marvin N. Schoenhals

Marvin N. Schoenhals
Chairman and President

MNS/bkr

Accepted: /s/ Joseph M. Murphy

Date: 11-11-96

EXHIBIT 3

SUBSIDIARIES OF THE REGISTRANT

Exhibit 3

Subsidiaries of the Registrant

| Parent Company ----- | Subsidiary ----- | Percent Owned ----- | State or Other Jurisdiction of Incorporation ----- |
|---|--|---------------------------|---|
| WSFS Financial Corporation | Wilmington Savings Fund Society Federal Savings Bank | 100% | United States |
| Wilmington Savings Fund Society, Federal Savings Bank | Star States Development Company 838 Investment Group, Inc. WSFS Credit Corporation Community Credit Corporation | 100 100 100 100 | Delaware Delaware Delaware Delaware |

EXHIBIT 4

CONSENT OF KPMG PEAT MARWICK LLP.

Consent of Independent Auditors

The Board of Directors
WSFS Financial Corporation:

We consent to incorporation by reference in the Registration Statement (No. 33-56108) on Form S-8 of WSFS Financial Corporation of our report dated January 20, 1997, relating to the consolidated statement of condition of WSFS Financial Corporation and subsidiaries as of December 31, 1996, and 1995, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996, which report appears in the December 31, 1996 annual report on Form 10-K of WSFS Financial Corporation.

/s/ KPMG Peat Marwick LLP

Philadelphia, Pennsylvania
March 21, 1997

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DEC-31-1996
JAN-01-1996
DEC-31-1996
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